



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

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

Commission File Number: 1-14267

**REPUBLIC SERVICES, INC.**

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

DELAWARE  
*(State of Incorporation)*

65-0716904  
*(IRS Employer Identification No.)*

110 S.E. 6TH STREET, 28TH FLOOR  
FT. LAUDERDALE, FLORIDA  
*(Address of Principal Executive Offices)*

33301  
*(Zip Code)*

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

On April 30, 2007, the registrant had outstanding 193,569,160 shares of Common Stock, par value \$.01 per share.

REPUBLIC SERVICES, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2007 (Unaudited)	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 20.3	\$ 29.1
Accounts receivable, less allowance for doubtful accounts of \$18.2 and \$18.8, respectively	297.7	293.8
Prepaid expenses and other current assets	65.1	60.5
Deferred tax assets	25.6	10.0
Total Current Assets	408.7	393.4
RESTRICTED CASH	142.0	153.3
PROPERTY AND EQUIPMENT, NET	2,140.5	2,163.8
GOODWILL, NET	1,562.7	1,562.9
INTANGIBLE ASSETS, NET	29.5	31.0
OTHER ASSETS	127.2	125.0
	<u>\$ 4,410.6</u>	<u>\$ 4,429.4</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 108.8	\$ 161.5
Accrued liabilities	145.6	188.2
Deferred revenue	110.6	107.0
Notes payable and current maturities of long-term debt	2.5	2.6
Other current liabilities	167.4	142.9
Total Current Liabilities	534.9	602.2
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,549.7	1,544.6
ACCRUED LANDFILL AND ENVIRONMENTAL COSTS	277.2	260.7
DEFERRED INCOME TAXES AND OTHER LONG-TERM TAX LIABILITIES	466.2	419.7
OTHER LIABILITIES	182.0	180.1
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, par value \$.01 per share; 50,000,000 shares authorized; none issued	—	—
Common stock, par value \$.01 per share; 750,000,000 shares authorized; 194,355,614 and 193,711,579 issued, including shares held in treasury, respectively	1.9	1.9
Additional paid-in capital	1.2	1,617.5
Retained earnings	1,419.9	1,602.6
Treasury stock, at cost (874,042 and 0 shares, respectively)	(26.2)	(1,800.8)
Accumulated other comprehensive income, net of tax	3.8	.9
Total Stockholders' Equity	1,400.6	1,422.1
	<u>\$ 4,410.6</u>	<u>\$ 4,429.4</u>

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	
	March 31,	
	2007	2006
REVENUE	\$ 765.6	\$ 737.5
EXPENSES:		
Cost of operations	486.7	456.4
Depreciation, amortization and depletion	79.0	73.1
Accretion	4.1	3.8
Selling, general and administrative	81.1	81.8
OPERATING INCOME	114.7	122.4
INTEREST EXPENSE	(24.0)	(22.1)
INTEREST INCOME	3.3	3.3
OTHER INCOME (EXPENSE), NET	.4	.6
INCOME BEFORE INCOME TAXES	94.4	104.2
PROVISION FOR INCOME TAXES	40.5	39.6
NET INCOME	<u>\$ 53.9</u>	<u>\$ 64.6</u>
BASIC EARNINGS PER SHARE	<u>\$ .28</u>	<u>\$ .32</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>193.7</u>	<u>202.1</u>
DILUTED EARNINGS PER SHARE	<u>\$ .28</u>	<u>\$ .31</u>
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	<u>195.6</u>	<u>205.1</u>
CASH DIVIDENDS PER COMMON SHARE	<u>\$ .1067</u>	<u>\$ .0933</u>

The accompanying notes are an integral part of these statements.

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

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Comprehensive Income</u>
	<u>Shares, Net</u>	<u>Par Value</u>					
<b>BALANCE AT</b>							
DECEMBER 31, 2006	194.5	\$ 1.9	\$ 1,617.5	\$ 1,602.6	\$(1,800.8)	\$ .9	
Net income	—	—	—	53.9	—	—	\$ 53.9
Adoption of FIN 48	—	—	—	(5.6)	—	—	—
Stock split	—	—	(1,635.0)	(210.3)	1,845.3	—	—
Cash dividends declared	—	—	—	(20.7)	—	—	—
Issuances of common stock	.6	—	15.6	—	—	—	—
Issuances of restricted stock and deferred stock units	.1	—	—	—	—	—	—
Compensation expense for restricted stock and deferred stock units	—	—	1.6	—	—	—	—
Compensation expense for stock options	—	—	1.5	—	—	—	—
Purchases of common stock for treasury	(1.7)	—	—	—	(70.7)	—	—
Changes in value of derivative instruments, net of tax	—	—	—	—	—	2.9	2.9
Total comprehensive income	—	—	—	—	—	—	\$ 56.8
<b>BALANCE AT MARCH 31, 2007</b>	<u>193.5</u>	<u>\$ 1.9</u>	<u>\$ 1.2</u>	<u>\$ 1,419.9</u>	<u>\$ (26.2)</u>	<u>\$ 3.8</u>	

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31,	
	2007	2006
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	\$ 53.9	\$ 64.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	46.9	44.1
Landfill depletion and amortization	30.2	27.2
Amortization of intangible and other assets	1.9	1.8
Accretion	4.1	3.8
Restricted stock and deferred stock unit compensation expense	1.6	3.1
Stock option compensation expense	1.5	1.9
Deferred tax provision	2.9	(.9)
Provision for doubtful accounts	1.1	2.4
Income tax benefit from stock option exercises	4.3	7.0
(Gains) losses, net on sales of businesses	—	(.2)
Other non-cash items	4.8	.1
Changes in assets and liabilities, net of effects from business acquisitions and dispositions:		
Accounts receivable	(5.0)	(.6)
Prepaid expenses and other assets	(3.9)	(7.8)
Accounts payable and accrued liabilities	(93.8)	(83.5)
Federal income taxes payable	25.6	(67.5)
Other liabilities	23.1	8.7
	<u>99.2</u>	<u>4.2</u>
<b>CASH USED IN INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(44.1)	(90.5)
Proceeds from sales of property and equipment	1.0	7.5
Cash used in business acquisitions, net of cash acquired	—	(3.2)
Cash proceeds from business dispositions, net of cash disposed	.3	2.4
Change in amounts due and contingent payments to former owners	—	(.4)
Change in restricted cash	11.3	(13.8)
	<u>(31.5)</u>	<u>(98.0)</u>
<b>CASH USED IN FINANCING ACTIVITIES:</b>		
Proceeds from notes payable and long-term debt	55.0	125.0
Payments of notes payable and long-term debt	(51.4)	(41.3)
Issuances of common stock	10.7	45.7
Excess income tax benefit from stock option exercises	.7	7.5
Purchases of common stock for treasury	(70.7)	(140.6)
Cash dividends paid	(20.8)	(19.4)
	<u>(76.5)</u>	<u>(23.1)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8.8)</b>	<b>(116.9)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>29.1</b>	<b>131.8</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>\$ 20.3</u></b>	<b><u>\$ 14.9</u></b>

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 U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, these Unaudited Condensed Consolidated Financial Statements reflect all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. These interim financial statements should be read in conjunction with the Company's audited Consolidated Financial Statements and notes thereto appearing in the Company's Form 10-K for the year ended December 31, 2006.

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

In January 2007, the Company's Board of Directors approved a 3-for-2 stock split in the form of a stock dividend, effective on March 16, 2007, to stockholders of record as of March 5, 2007. The Company's shares, per share data and weighted average common and common equivalent shares outstanding have been retroactively adjusted for all periods to reflect the stock split.

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

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

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



## New Accounting Pronouncements

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

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

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

## 2. LANDFILL AND ENVIRONMENTAL COSTS

### Accrued Landfill and Environmental Costs

A summary of landfill and environmental liabilities is as follows:

	March 31, 2007	December 31, 2006
Landfill final capping, closure and post-closure liabilities	\$ 269.7	\$ 257.6
Remediation	59.8	45.1
	329.5	302.7
Less: Current portion (included in other current liabilities)	(52.3)	(42.0)
Long-term portion	\$ 277.2	\$ 260.7

### Life Cycle Accounting

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

### Total Available Disposal Capacity

As of March 31, 2007, the Company owned or operated 58 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 to be probable expansion airspace and, therefore, is included in the Company's calculation of total available disposal capacity, the following criteria must be met:

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

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

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

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

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

### **Capitalized Landfill Costs**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

These estimated costs are then discounted to their present value using a credit-adjusted, risk-free rate. The Company's credit-adjusted, risk-free rate for liability recognition was determined to be 6.4% and 6.1% for the three months ended March 31, 2007 and 2006, respectively, based on the estimated all-in yield the Company believes it would need to offer to sell thirty-year debt in the public market. Changes in asset retirement obligations due to the passage of time are measured by recognizing accretion expense in a manner that results in a constant effective interest rate being applied to the average carrying amount of the liability. The effective interest rate used to calculate accretion expense is the Company's credit-adjusted, risk-free rate in effect at the time the liabilities were recorded.

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

The Company reviews its calculations with respect to landfill asset retirement obligations at least annually. If there is a significant change in the facts and circumstances related to a landfill during the year, the Company will review its calculations for the landfill as soon as practical after the significant change has occurred. During the three months ended March 31, 2007, the Company reviewed its landfill retirement obligations for certain of its landfills and recorded an increase of \$5.0 million in amortization expense. The Company intends to conduct annual reviews of its landfill asset retirement obligations during the fourth quarter of each year.

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The following table summarizes the activity in the Company's asset retirement obligation liabilities for the three months ended March 31, 2007 and 2006:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Asset retirement obligation liability, beginning of year	\$ 257.6	\$ 239.5
Non-cash asset additions	4.5	5.6
Revisions in estimates of future cash flows	5.6	—
Amounts settled during the period	(2.1)	(.4)
Accretion expense	4.1	3.8
Asset retirement obligation liability, end of period	269.7	248.5
Less: Current portion (included in other current liabilities)	(26.9)	(26.6)
Long-term portion	<u>\$ 242.8</u>	<u>\$ 221.9</u>

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure obligations was \$9.6 million at March 31, 2007 and is included in restricted cash in the Company's Unaudited Condensed Consolidated Balance Sheets.

### **Remediation**

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

During the three months ended March 31, 2007, the Company recorded a pre-tax charge of \$22.0 million, of which \$19.9 million was recorded for remediation costs related to costs to comply with Final Findings and Orders (the "F&Os") issued by the Ohio Environmental Protection Agency in response to environmental conditions at the Company's Countywide Recycling and Disposal Facility in East Sparta, Ohio ("Countywide"). The remaining \$2.1 million of the pre-tax charge consists of landfill amortization expense related to changes in estimates and assumptions concerning the cost and timing of future final capping, closure and post-closure activities in accordance with SFAS 143. The Company will adjust this charge, if necessary, to reflect the effects of new or additional information, to the extent that such information impacts the costs, timing or duration of the required actions. While the Company intends to vigorously pursue financial contribution from third parties for its costs to comply with the F&Os, the Company has not recorded any receivables for potential recoveries.

No other significant amounts were charged to income for remediation costs during the three months ended March 31, 2007 and 2006.

### **Environmental Operating Costs**

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

### **3. PROPERTY AND EQUIPMENT**

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

The Company revises the estimated useful lives of property and equipment acquired through business acquisitions to conform with its policies regarding property and equipment. Depreciation is provided over the estimated useful lives of the assets involved using the straight-line method. The estimated useful lives are seven to forty years for buildings and

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improvements, five to twelve years for vehicles, seven to ten years for most landfill equipment, three to fifteen years for all other equipment, and five to twelve years for furniture and fixtures.

Landfill development costs are stated at cost and are amortized or depleted based on consumed airspace. Landfill development costs include direct costs incurred to obtain landfill permits and direct costs incurred to acquire, construct and develop sites as well as final capping, closure and post-closure assets accrued in accordance with SFAS 143. These costs are amortized or depleted based on consumed airspace. All indirect landfill development costs are expensed as incurred. (For further information, see Note 2, Landfill and Environmental Costs.)

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

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

Interest is capitalized on qualified assets while they undergo activities to ready them for their intended use. Capitalization of interest ceases once an asset is placed into service or if construction activity is suspended for more than a brief period of time. The interest capitalization rate is based on the Company's weighted average cost of indebtedness. Interest capitalized was \$.6 million and \$.3 million for the three months ended March 31, 2007 and 2006, respectively.

A summary of property and equipment is as follows:

	March 31, 2007	December 31, 2006
Other land	\$ 105.9	\$ 105.9
Non-depletable landfill land	52.7	52.7
Landfill development costs	1,750.6	1,722.2
Vehicles and equipment	1,909.9	1,886.8
Buildings and improvements	307.8	307.5
Construction-in-progress — landfill	54.1	61.1
Construction-in-progress — other	10.6	12.3
	<u>4,191.6</u>	<u>4,148.5</u>
Less: Accumulated depreciation, depletion and amortization — Landfill development costs	(960.8)	(930.6)
Vehicles and equipment	(996.7)	(963.5)
Buildings and improvements	(93.6)	(90.6)
	<u>(2,051.1)</u>	<u>(1,984.7)</u>
Property and equipment, net	<u>\$ 2,140.5</u>	<u>\$ 2,163.8</u>

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,

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- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group, or
- A current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

There are certain indicators listed above that require significant judgment and understanding of the waste industry when applied to landfill development or expansion. For example, a regulator may initially deny a landfill expansion permit application though the expansion permit is ultimately granted. In addition, management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace. Therefore, certain events could occur in the ordinary course of business and not necessarily be considered indicators of impairment due to the unique nature of the waste industry.

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

#### **4. BUSINESS COMBINATIONS**

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

The Company acquired various solid waste businesses during the three months ended March 31, 2006. The aggregate purchase price paid for these transactions was \$3.2 million.

#### **5. GOODWILL AND OTHER INTANGIBLE ASSETS**

Intangible assets consist of the cost of acquired businesses in excess of the fair value of net assets acquired (goodwill) and other intangible assets. Other intangible assets include values assigned to customer relationships, long-term contracts and covenants not to compete and are amortized generally over periods ranging from 6 to 10 years.

The following table summarizes the activity in the intangible asset and the related accumulated amortization accounts for the three months ended March 31, 2007 and 2006:

	<u>Gross Intangible Assets</u>		
	<u>Goodwill</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2006	\$ 1,704.6	\$ 66.6	\$ 1,771.2
Acquisitions	(.1)	—	(.1)
Divestitures	(.1)	—	(.1)
Balance, March 31, 2007	<u>\$ 1,704.4</u>	<u>\$ 66.6</u>	<u>\$ 1,771.0</u>
	<u>Accumulated Amortization</u>		
	<u>Goodwill</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2006	\$ (141.7)	\$ (35.6)	\$ (177.3)
Amortization expense	—	(1.5)	(1.5)
Balance, March 31, 2007	<u>\$ (141.7)</u>	<u>\$ (37.1)</u>	<u>\$ (178.8)</u>

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	Gross Intangible Assets		
	Goodwill	Other	Total
Balance, December 31, 2005	\$ 1,705.6	\$ 56.8	\$ 1,762.4
Acquisitions	1.2	—	1.2
Divestitures	(.5)	—	(.5)
Balance, March 31, 2006	<u>\$ 1,706.3</u>	<u>\$ 56.8</u>	<u>\$ 1,763.1</u>

  

	Accumulated Amortization		
	Goodwill	Other	Total
Balance, December 31, 2005	\$ (141.8)	\$ (29.8)	\$ (171.6)
Amortization expense	—	(1.5)	(1.5)
Divestitures	.1	—	.1
Balance, March 31, 2006	<u>\$ (141.7)</u>	<u>\$ (31.3)</u>	<u>\$ (173.0)</u>

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

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

- A significant adverse change in legal factors or in the business climate,
- An adverse action or assessment by a regulator,
- A more likely than not expectation that a segment or a significant portion thereof will be sold, or
- The testing for recoverability under Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets," of a significant asset group within the segment.

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



**6. DEBT**

Notes payable and long-term debt are as follows:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
\$99.3 million unsecured notes; interest payable semi-annually in May and November at 7.125%; principal due at maturity in 2009	\$ 99.3	\$ 99.3
\$450.0 million unsecured notes, net of unamortized discount of \$1.3 million and \$1.4 million, and including \$4.7 million and \$6.0 million of adjustments to fair market value related to the interest rate swap as of March 31, 2007 and December 31, 2006, respectively; interest payable semi-annually in February and August at 6.75%; principal due at maturity in 2011	444.0	442.6
\$275.7 million unsecured notes, net of unamortized discount of \$.2 million and including unamortized premium of \$27.1 million as of March 31, 2007 and December 31, 2006; interest payable semi-annually in March and September at 6.086%; principal due at maturity in 2035	248.4	248.4
\$750.0 million unsecured revolving credit facility; interest payable using LIBOR-based rates; maturing in 2010	50.0	45.0
Tax-exempt bonds and other tax-exempt financing; fixed and floating interest rates based on prevailing market rates; maturities ranging from 2012 to 2037	673.3	674.2
Other debt; unsecured and secured by real property, equipment and other assets	37.2	37.7
	<u>1,552.2</u>	<u>1,547.2</u>
Less: Current portion	(2.5)	(2.6)
Long-term portion	<u>\$ 1,549.7</u>	<u>\$ 1,544.6</u>

As of March 31, 2007, the Company had \$50.0 million of LIBOR-based borrowings and \$442.7 million of letters of credit outstanding under its \$750.0 million unsecured revolving credit facility, leaving \$257.3 million of availability under the facility. The unsecured revolving credit facility requires the Company to maintain certain financial ratios and comply with certain financial covenants. The Company has the ability under its loan covenants to pay dividends and repurchase its common stock under the condition that it is in compliance with the covenants. At March 31, 2007, the Company was in compliance with the financial covenants under these agreements. During April 2007, the Company increased its unsecured revolving credit facility to \$1.0 billion and extended the term to 2012.

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

As of March 31, 2007, the Company had \$142.0 million of restricted cash, of which \$53.9 million represents proceeds from the issuance of tax-exempt bonds and other tax-exempt financings that will be used to fund capital expenditures. Restricted cash also includes amounts held in trust as a financial guarantee of the Company's performance.

Interest paid was approximately \$31.7 million (net of capitalized interest of \$.6 million) and \$30.7 million (net of capitalized interest of \$.3 million) for the three months ended March 31, 2007 and 2006, respectively.

Other debt includes a \$35.9 million capital lease liability as of March 31, 2007 related to a landfill.

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

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This maturity is identical to the Company's public notes that were sold in 2001. Under the swap agreements, the Company pays interest at floating rates based on changes in LIBOR and receives interest at fixed rates of 6.75%. The Company has designated these agreements as hedges in changes in the fair value of the Company's hedged fixed-rate debt and accounts for them in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The Company has determined that these agreements qualify for the short-cut method under SFAS 133 and, therefore, changes in the fair value of the agreements are assumed to be perfectly effective in hedging changes in the fair value of the Company's hedged fixed rate debt due to changes in interest rates.

As of March 31, 2007, the interest rate swap agreements are reflected at a fair market value of \$4.7 million and are included in other liabilities and as an adjustment to long-term debt in the accompanying Unaudited Condensed Consolidated Balance Sheets. During the three months ended March 31, 2007 and 2006, the Company recorded net interest expense of \$6 million and \$5 million, respectively, related to its interest rate swap agreements which is included in interest expense in the accompanying Unaudited Condensed Consolidated Statements of Income.

## **7. INCOME TAXES**

Income taxes have been provided for the three months ended March 31, 2007 and 2006 based on the Company's anticipated annual effective income tax rate. Income tax expense for the three months ended March 31, 2007 also includes a \$4.2 million charge related to the resolution of various income tax matters. Income taxes paid (net of refunds received) were \$4 million and \$92.2 million for the three months ended March 31, 2007 and 2006, respectively.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and transition, and requires expanded disclosure with respect to the uncertainty in income taxes. The Company adopted the provisions of FIN 48 effective January 1, 2007. The cumulative effect of the adoption of the recognition and measurement provisions of FIN 48 resulted in a \$5.6 million reduction to the January 1, 2007 balance of retained earnings.

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

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

The Company and its subsidiaries are subject to U.S. federal income tax as well as to income tax in multiple state jurisdictions. The Company has effectively concluded all U.S. federal income tax matters for years through 2000. The Internal Revenue Service is currently examining the Company's consolidated tax returns for fiscal years 2001 through 2004. All significant state and local income tax matters have been effectively concluded for years through 2000.

To date, the Internal Revenue Service has proposed, and management has agreed to, certain adjustments related to tax returns under examination that management expects will not have a material impact on the Company's financial position or results of operations. Unrecognized tax benefits for the examinations in progress were \$10.3 million as of January 1, 2007. Based on the outcome of these examinations, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken in previously filed tax returns will materially change from those recorded as liabilities for uncertain tax positions in the Company's financial statements. However, based on the status of these examinations, and the protocol of finalizing audits by the relevant taxing authorities, it is not possible to estimate the impact of any amount of such changes. Any such changes will be recorded prospectively. It is expected that the unrecognized tax benefits related to the examinations will be settled in 2007. The unrecognized tax benefits that are expected to be settled primarily relate to depreciation and tax credits.

## 8. EMPLOYEE BENEFIT PLANS

In July 1998, the Company adopted the 1998 Stock Incentive Plan (“Stock Incentive Plan”) to provide for grants of options to purchase shares of common stock, restricted stock and other equity-based compensation to employees and non-employee directors of the Company who are eligible to participate in the Stock Incentive Plan. The Company believes that such awards better align the interests of its employees with those of its stockholders. As of March 31, 2007, there were 3.4 million shares reserved for future grants under the Stock Incentive Plan.

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

A summary of stock option activity for the three months ended March 31, 2007 is as follows:

	<u>Stock Options</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at December 31, 2006.	8.6	\$ 16.76
Granted	1.3	29.31
Exercised (a)	(.8)	12.73
Outstanding at March 31, 2007	<u>9.1</u>	<u>\$ 19.02</u>
Exercisable at March 31, 2007 (b)	<u>6.7</u>	<u>\$ 15.83</u>

- (a) The aggregate intrinsic value of stock options exercised during the three months ended March 31, 2007 was \$13.2 million.
- (b) Stock options exercisable as of March 31, 2007 have a weighted-average contractual term remaining of 5.6 years and an aggregate intrinsic value of \$80.4 million based on the market value of the Company’s common stock as of March 30, 2007.

As a result of adopting Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”), effective January 1, 2006, the Company recorded \$1.5 million and \$.9 million of equity-based compensation expense for stock options during the three months ended March 31, 2007 and 2006, respectively. Prior to the adoption of SFAS 123(R), the Company accelerated the vesting of all of its outstanding stock options previously awarded to employees as approved by the Company’s Board of Directors effective December 30, 2005. Consequently, no additional compensation expense will be recognized under SFAS 123(R) for these options.

SFAS 123(R) requires that cash flows resulting from tax benefits related to tax deductions in excess of those recorded for compensation expense (either on a pro forma or an actual basis) be classified as cash flows from financing activities. As a result, the Company classified \$.7 million and \$7.5 million of its excess tax benefits as cash flows from financing activities for the three months ended March 31, 2007 and 2006, respectively. All other tax benefits related to stock options have been presented as a component of cash flows from operating activities.

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The Company uses a lattice binomial option-pricing model to value its stock option grants. The Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award, or to the employee's retirement eligible date, if earlier. The weighted-average estimated fair values of stock options granted during the three months ended March 31, 2007 and 2006 was \$6.49 and \$6.23 per option, respectively, which were calculated using the following weighted-average assumptions:

	Three Months Ended March 31,	
	2007	2006
Expected volatility	23.5%	26.7%
Risk-free interest rate	4.8%	4.6%
Dividend yield	1.5%	1.4%
Expected life	4.0 years	4.2 years
Contractual life	7 years	7 years
Estimated forfeiture rate	5.0%	5.0%

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

As of March 31, 2007, there was \$11.4 million of total unrecognized compensation expense related to outstanding stock options that will be recognized over a weighted average period of 1.9 years.

During the three months ended March 31, 2007 and 2006, the Company awarded 36,000 deferred stock units to its non-employee directors under its Stock Incentive Plan. These stock units vest immediately, but the directors receive the underlying shares only after their Board service ends. The stock units do not carry any voting or dividend rights, except the right to receive additional stock units in lieu of dividends.

Also during the three months ended March 31, 2007 and 2006, the Company awarded 186,000 and 127,500 shares of restricted stock, respectively, to its executive officers. 21,000 and 19,500 of the shares awarded during 2007 and 2006, respectively, vest effective January 1 of the subsequent year. 135,000 and 108,000 of the shares awarded vest in four equal annual installments beginning on the anniversary date of the original grant except that vesting may be accelerated if certain performance targets are achieved. The remaining shares awarded during 2007 vest effective December 31, 2008. During the vesting period, the participants have voting rights and receive dividends declared and paid on the shares, but the shares may not be sold, assigned, transferred or otherwise encumbered. Additionally, granted but unvested shares are forfeited in the event the participant resigns employment with the Company for other than good reason.

The fair value of stock units and restricted stock on the date of grant is amortized ratably over the vesting period, or the accelerated vesting period if certain performance targets are achieved. During the three months ended March 31, 2007 and 2006, compensation expense related to stock units and restricted stock of \$1.6 million and \$3.1 million, respectively, was recorded in the Company's Unaudited Condensed Consolidated Statements of Income. The compensation expense for restricted stock recorded during the three months ended March 31, 2006 includes \$1.8 million of incremental expense for accelerating the expense recognition period for grants to employees that are or will become retirement-eligible during the stated vesting period of the restricted stock as required under SFAS 123(R).

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A summary of deferred stock unit and restricted stock activity for the three months ended March 31, 2007 is as follows:

	Deferred Stock Units and Restricted Stock (in thousands)	Weighted-Average Grant Date Fair Value per Share
Unissued at December 31, 2006	289.0	\$ 23.42
Granted	235.9	29.31
Vested and issued	(127.5)	23.71
Unissued at March 31, 2007	<u>397.4</u>	<u>\$ 26.82</u>
Vested and unissued at March 31, 2007	<u>107.9</u>	<u>\$ 21.80</u>

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

From 2000 through March 31, 2007, the Board of Directors authorized the repurchase of up to \$2,050.0 million of the Company's common stock. As of March 31, 2007, the Company had paid \$1,871.5 million to repurchase 65.4 million shares of its common stock of which 1.7 million shares were acquired during the three months ended March 31, 2007 for \$70.7 million.

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

In July 2003, the Company announced that its Board of Directors initiated a quarterly cash dividend of \$.04 per share. The dividend was increased to \$.08 per share in the third quarter of 2004, to \$.0933 per share in the third quarter of 2005 and to \$.1067 per share in the third quarter of 2006. In January 2007, the Company paid a dividend of \$20.8 million to stockholders of record as of January 2, 2007. As of March 31, 2007, the Company recorded a dividend payable of \$20.7 million to stockholders of record at the close of business on April 2, 2007. In April 2007, the Company's Board of Directors declared a regular quarterly dividend of \$.1067 per share payable to stockholders of record as of July 2, 2007.

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

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Earnings per share for the three months ended March 31, 2007 and 2006 is calculated as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2007	2006
<b>Numerator:</b>		
Net income	\$ 53,900	\$ 64,600
<b>Denominator:</b>		
Denominator for basic earnings per share	193,660	202,083
Effect of dilutive securities —		
Options to purchase common stock	1,976	2,966
Unvested restricted stock awards	1	7
Denominator for diluted earnings per share	195,637	205,056
Basic earnings per share	\$ .28	\$ .32
Diluted earnings per share	\$ .28	\$ .31
<b>Antidilutive securities not included in the diluted earnings per share calculation:</b>		
Options to purchase common stock	1,399	1,389
Weighted-average exercise price	\$ 29.27	\$ 26.00

## 10. OTHER COMPREHENSIVE INCOME

During January 2007, the Company entered into option agreements related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges of changes in the prices of forecasted diesel fuel purchases. These option agreements commence on January 1, 2008 and settle each month in equal notional amounts of 500,000 gallons through December 31, 2010. In accordance with SFAS 133, \$2.0 million representing the effective portion of the change in fair value as of March 31, 2007, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the Company's Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2007.

During September 2006, the Company entered into option agreements related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges of changes in the prices of forecasted diesel fuel purchases. These option agreements commenced on October 2, 2006 and settle each month in equal notional amounts of 500,000 gallons through December 31, 2007. In accordance with SFAS 133, \$.5 million representing the effective portion of the change in fair value as of March 31, 2007, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the Company's Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2007. Realized losses of \$.9 million related to these option agreements are included in cost of operations in the Company's Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2007.

During October 2005, the Company entered into option agreements related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges of changes in the prices of forecasted diesel fuel purchases. These option agreements commenced on January 1, 2006 and settled each month in equal notional amounts of 500,000 gallons through December 31, 2006. In accordance with SFAS 133, \$.3 million representing the effective portion of the change in fair value as of March 31, 2006, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the Company's Unaudited Condensed Consolidated Statements of Income. Realized losses of \$.2 million related to these option agreements are included in cost of operations in the Company's Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2006.

**11. SEGMENT INFORMATION**

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

Summarized financial information concerning the Company's reportable segments for the respective three months ended March 31 is shown in the following table:

<u>2007</u>	<u>Gross Revenue</u>	<u>Intercompany Revenue (b)</u>	<u>Net Revenue</u>	<u>Depreciation, Amortization, Depletion and Accretion</u>	<u>Operating Income (Loss)</u>	<u>Capital Expenditures</u>	<u>Total Assets</u>
Eastern Region (c) (d)	\$ 159.9	\$ (22.3)	\$ 137.6	\$ 14.2	\$ 6.7	\$ 5.2	\$ 877.3
Central Region	189.5	(40.1)	149.4	21.3	23.4	4.6	1,112.6
Southern Region	227.0	(23.3)	203.7	17.9	43.7	12.5	891.9
Southwestern Region	96.8	(11.5)	85.3	8.3	15.5	6.1	446.2
Western Region (c)	238.7	(49.3)	189.4	19.6	43.9	8.7	855.1
Corporate Entities (a)	.2	—	.2	1.8	(18.5)	7.0	227.5
<b>Total</b>	<b>\$ 912.1</b>	<b>\$ (146.5)</b>	<b>\$ 765.6</b>	<b>\$ 83.1</b>	<b>\$ 114.7</b>	<b>\$ 44.1</b>	<b>\$ 4,410.6</b>

  

<u>2006</u>	<u>Gross Revenue</u>	<u>Intercompany Revenue (b)</u>	<u>Net Revenue</u>	<u>Depreciation, Amortization, Depletion and Accretion</u>	<u>Operating Income (Loss)</u>	<u>Capital Expenditures</u>	<u>Total Assets</u>
Eastern Region	\$ 158.4	\$ (22.8)	\$ 135.6	\$ 10.8	\$ 25.3	\$ 5.6	\$ 877.5
Central Region	190.1	(42.0)	148.1	22.9	26.2	6.7	1,118.2
Southern Region	216.1	(22.3)	193.8	18.2	36.9	9.5	886.4
Southwestern Region	92.5	(10.4)	82.1	8.8	13.5	6.9	453.7
Western Region	222.5	(44.2)	178.3	14.8	39.1	7.6	823.2
Corporate Entities (a)	(.4)	—	(.4)	1.4	(18.6)	54.2	312.5
<b>Total</b>	<b>\$ 879.2</b>	<b>\$ (141.7)</b>	<b>\$ 737.5</b>	<b>\$ 76.9</b>	<b>\$ 122.4</b>	<b>\$ 90.5</b>	<b>\$ 4,471.5</b>

- (a) Corporate functions include legal, tax, treasury, information technology, risk management, human resources, corporate accounts and other typical administrative functions. Capital expenditures for Corporate Entities primarily include vehicle inventory acquired but not yet assigned to operating locations.
- (b) Intercompany operating revenue reflects transactions within and between segments that are generally made on a basis intended to reflect the market value of such services.
- (c) Depreciation, amortization, depletion and accretion includes an increase in amortization expense of \$5.0 million recorded during the three months ended March 31, 2007 related to changes in estimates and assumptions concerning the cost and timing of future final capping, closure and post-closure activities for certain landfills in accordance with SFAS 143.
- (d) Operating income includes a charge of \$21.3 million recorded during the three months ended March 31, 2007 related to estimated costs to comply with Final Findings & Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at the Company's Countywide facility.

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Total revenue of the Company by revenue source for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31,	
	2007	2006 (a)
Collection:		
Residential	\$ 195.8	\$ 183.5
Commercial	230.4	214.0
Industrial	155.7	157.6
Other	4.8	6.1
Total collection	586.7	561.2
Transfer and disposal	278.8	277.9
Less: Intercompany	(145.0)	(140.5)
Transfer and disposal, net	133.8	137.4
Other	45.1	38.9
Revenue	\$ 765.6	\$ 737.5

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

## 12. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

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

### Lease Commitments

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

### Unconditional Purchase Commitments

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

### Liability Insurance

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

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

The Company's liabilities for unpaid and incurred but not reported claims at March 31, 2007 (which includes claims for worker's compensation, general liability, vehicle liability and employee health care benefits) were \$161.3 million under its current risk management program and are included in other current and other liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. While the ultimate amount of claims incurred is dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future payment of claims. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded



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resulting from ultimate claim payments will be reflected in the Unaudited Condensed Consolidated Statements of Income in the periods in which such adjustments are known.

### **Guarantees of Subsidiary Debt**

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

### **Restricted Cash and Other Financial Guarantees**

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

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Letters of credit	\$ 643.5	\$ 638.4
Surety bonds	475.1	463.4

As of March 31, 2007, \$442.7 million of the above letters of credit were outstanding under the Company's revolving credit facility. Also, as of March 31, 2007, surety bonds expire on various dates through 2014.

The Company's restricted cash deposits include restricted cash held for capital expenditures under certain debt facilities and other amounts held in trust as a financial guarantee of the Company's performance as follows:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Restricted cash:		
Financing proceeds	\$ 53.9	\$ 65.6
Other	88.1	87.7
	<u>\$ 142.0</u>	<u>\$ 153.3</u>

### **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.

During the first quarter of 2007, the Company received F&Os from the Ohio Environmental Protection Agency in response to environmental conditions at the Company's Countywide facility. During the three months ended March 31, 2007, the Company recorded a pre-tax charge of \$22.0 million related to estimated costs to comply with the F&Os. The estimated costs were based on current information and engineering analyses. The Company will adjust this charge, if necessary, to reflect the effects of new or additional information, to the extent that such information impacts the costs, timing or duration of the required actions. In addition, the Stark County Health Department, in connection with the annual issuance of Countywide's operating license, is evaluating the environmental conditions that are the subject of the F&Os. The Company expects that the Health Department will make a decision regarding the renewal of Countywide's operating license in May 2007.

The Company is subject to various federal, state and local tax rules and regulations. The Company's compliance with such rules and regulations is periodically audited by tax authorities. These authorities may challenge the positions taken in

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

The Internal Revenue Service is auditing the Company's consolidated tax returns for fiscal years 2001 through 2004. Management believes that the liabilities for uncertain tax positions recorded are adequate. However, a significant assessment against the Company in excess of the liabilities recorded could have a material adverse effect on the Company's financial position, results of operations or cash flows.

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

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Form 10-K for the year ended December 31, 2006.

**Overview of Our Business**

We are a leading provider of non-hazardous solid waste collection and disposal services in the United States. We provide solid waste collection services for commercial, industrial, municipal and residential customers through 136 collection companies in 21 states. We also own or operate 93 transfer stations, 58 solid waste landfills and 33 recycling facilities.

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

The following table reflects our revenue by source for the three months ended March 31, 2007 and 2006 (in millions):

	Three Months Ended March 31,			
	2007		2006 (a)	
<b>Collection:</b>				
Residential	\$ 195.8	25.6%	\$ 183.5	24.9%
Commercial	230.4	30.1	214.0	29.0
Industrial	155.7	20.3	157.6	21.4
Other	4.8	.6	6.1	.8
Total collection	<u>586.7</u>	<u>76.6</u>	<u>561.2</u>	<u>76.1</u>
Transfer and disposal	278.8		277.9	
Less: Intercompany	<u>(145.0)</u>		<u>(140.5)</u>	
Transfer and disposal, net	133.8	17.5	137.4	18.6
Other	45.1	5.9	38.9	5.3
Revenue	<u>\$ 765.6</u>	<u>100.0%</u>	<u>\$ 737.5</u>	<u>100.0%</u>

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

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

The cost of our collection operations is primarily variable and includes disposal, labor, self-insurance, fuel and equipment maintenance costs. It also includes capital costs for equipment and facilities. We seek operating efficiencies by controlling the movement of waste from the point of collection through disposal. During the three months ended March 31, 2007 and 2006, approximately 57% of the total volume of waste we collected was disposed of at landfills we own or operate.

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

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landfill costs related to cell development. In life cycle accounting, certain direct costs are capitalized, and charged to expense based on the consumption of cubic yards of available airspace. These costs include all costs to acquire and construct a site including excavation, natural and synthetic liners, construction of leachate collection systems, installation of methane gas collection and monitoring systems, installation of groundwater monitoring wells, and other costs associated with the acquisition and development of the site. Obligations associated with final capping, closure and post-closure are capitalized and amortized on a units-of-consumption basis as airspace is consumed.

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

Summarized financial information concerning our reportable segments for the respective three months ended March 31, 2007 and 2006 is shown in the following table:

	Net Revenue	Depreciation, Amortization, Depletion and Accretion Before SFAS 143 Adjustments	SFAS 143 Adjustments to Amortization Expense for Changes in Estimates and Assumptions	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss)	Operating Margin
<b>2007</b>						
Eastern Region	\$ 137.6	\$ 12.1	\$ 2.1	\$ 14.2	\$ 6.7	4.9%
Central Region	149.4	21.3	—	21.3	23.4	15.7
Southern Region	203.7	17.9	—	17.9	43.7	21.5
Southwestern Region	85.3	8.3	—	8.3	15.5	18.2
Western Region	189.4	16.7	2.9	19.6	43.9	23.2
Corporate Entities	.2	1.8	—	1.8	(18.5)	—
<b>Total</b>	<b>\$ 765.6</b>	<b>\$ 78.1</b>	<b>\$ 5.0</b>	<b>\$ 83.1</b>	<b>\$ 114.7</b>	<b>15.0</b>
<b>2006</b>						
Eastern Region	\$ 135.6	\$ 10.8		\$ 10.8	\$ 25.3	18.7%
Central Region	148.1	22.9		22.9	26.2	17.7
Southern Region	193.8	18.2		18.2	36.9	19.0
Southwestern Region	82.1	8.8		8.8	13.5	16.4
Western Region	178.3	14.8		14.8	39.1	21.9
Corporate Entities	(.4)	1.4		1.4	(18.6)	—
<b>Total</b>	<b>\$ 737.5</b>	<b>\$ 76.9</b>		<b>\$ 76.9</b>	<b>\$ 122.4</b>	<b>16.6</b>

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

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

Operating margins in the Eastern Region decreased because of a \$21.3 million increase in operating expenses associated with environmental conditions at our Countywide facility. Excluding these expenses, operating margins increased from 18.7% in 2006 to 20.3% in 2007. This increase in operating margins is primarily due to higher revenue, lower disposal costs, and lower truck and equipment maintenance expense.

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

Operating margins in our Central Region decreased primarily due to increased third-party hauling costs associated with our company assuming responsibility for hauling waste from the city of Toronto to one of our landfills in Michigan. This hauling service is provided to the city at a rate that approximates our cost. Increases in risk insurance and landfill operating costs also lowered margins. These increases in costs were partially offset by lower disposal costs and lower truck and equipment maintenance costs.

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

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

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

The increase in operating margins in our Southwestern Region is primarily due to higher revenue and lower landfill depletion costs.

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

Operating margins in our Western Region increased primarily due to higher revenue, lower disposal costs and lower landfill operating costs.

### **Business Combinations**

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

We acquired various solid waste businesses during the three months ended March 31, 2006. The aggregate purchase price we paid in these transactions was \$3.2 million in cash.

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

[Table of Contents](#)**Consolidated Results of Operations**

Our net income was \$53.9 million, or \$.28 per diluted share, for the three months ended March 31, 2007, as compared to \$64.6 million, or \$.31 per diluted share, for the three months ended March 31, 2006.

During the three months ended March 31, 2007, we recorded a charge of \$22.0 million (\$13.5 million net of tax), or approximately \$.07 per diluted share, related to estimated costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide Recycling and Disposal Facility in East Sparta, Ohio. We will adjust this charge, if necessary, to reflect the effects of new or additional information, to the extent that such information impacts the costs, timing or duration of the required actions. This charge affected our Unaudited Condensed Consolidated Statement of Income as follows:

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

During the three months ended March 31, 2007, we recorded a charge of \$4.2 million, or approximately \$.02 per diluted share, in our provision for income taxes related to the resolution of various income tax matters.

The following table summarizes our costs and expenses for the three months ended March 31, 2007 and 2006 in millions of dollars and as a percentage of our revenue:

	<b>Three Months Ended March 31,</b>			
	<u>2007</u>		<u>2006</u>	
Revenue	\$ 765.6	100.0%	\$ 737.5	100.0%
Cost of operations	486.7	63.6	456.4	61.9
Depreciation, amortization and depletion of property and equipment	77.1	10.1	71.3	9.7
Amortization of intangible assets	1.9	.2	1.8	.2
Accretion	4.1	.5	3.8	.5
Selling, general and administrative expenses	81.1	10.6	81.8	11.1
Operating income	<u>\$ 114.7</u>	<u>15.0%</u>	<u>\$ 122.4</u>	<u>16.6%</u>

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*Revenue.* Revenue was \$765.6 million and \$737.5 million for the three months ended March 31, 2007 and 2006, respectively, an increase of 3.8%. The following table reflects the components of our revenue growth for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Core price	4.4%	3.1%
Fuel surcharges	.1	1.3
Environmental fees	.4	.4
Recycling commodities	.9	(.5)
<b>Total price</b>	<b>5.8</b>	<b>4.3</b>
Core volume (a)	(1.6)	4.9
Non-core volume	(.1)	.2
<b>Total volume</b>	<b>(1.7)</b>	<b>5.1</b>
<b>Total internal growth</b>	<b>4.1</b>	<b>9.4</b>
Acquisitions, net of divestitures	(.2)	(.6)
Taxes (b)	(.1)	.1
<b>Total revenue growth</b>	<b>3.8%</b>	<b>8.9%</b>

(a) Core volume growth for the three months ended March 31, 2007 and 2006 includes .6% and .2%, respectively, of growth associated with hauling waste from the city of Toronto to one of our landfills in Michigan. This hauling service is provided to the city at a rate that approximates our cost.

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

During the three months ended March 31, 2007, our revenue growth from core pricing continued to benefit from a broad-based pricing initiative which we started during the fourth quarter of 2003. We anticipate that we will continue to realize this benefit throughout 2007. During the three months ended March 31, 2007, we experienced lower core volume growth due primarily to less temporary work in our industrial collection line of business.

*Cost of Operations.* Cost of operations was \$486.7 million for the three months ended March 31, 2007, versus \$456.4 for the comparable 2006 period. Cost of operations as a percentage of revenue was 63.6% for the three months ended March 31, 2007, versus 61.9% for the comparable 2006 period. The increase in cost of operations in aggregate dollars is primarily a result of the charge we recorded related to estimated costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility.

The following table summarizes the major components of our cost of operations for the three months ended March 31, 2007 and 2006 in millions of dollars and as a percentage of our revenue:

	Three Months Ended March 31,			
	2007		2006	
Subcontractor, disposal and third-party fees	\$ 166.6	21.8%	\$ 166.9	22.6%
Labor and benefits	150.4	19.6	144.4	19.6
Maintenance and operating	126.7	16.6	107.0	14.5
Insurance and other	43.0	5.6	38.1	5.2
<b>Total</b>	<b>\$ 486.7</b>	<b>63.6%</b>	<b>\$ 456.4</b>	<b>61.9%</b>

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A description of our cost categories is as follows:

- Subcontractor, disposal and third-party fees include costs such as third-party disposal, transportation of waste, host fees and cost of goods sold. The decrease in such expenses as a percentage of revenue for the three months ended March 31, 2007 versus the comparable 2006 period is primarily due to higher revenue resulting from improved pricing. Drier weather, particularly in the southeast, also resulted in lower disposal costs.
- Labor and benefits include costs such as wages, salaries, payroll taxes and health benefits for our frontline service employees and their supervisors. Such expenses as a percentage of revenue for the three months ended March 31, 2007 versus the comparable 2006 period remained consistent. Increases in wages and benefits were offset by higher revenue.
- Maintenance and operating includes costs such as fuel, parts, shop labor and benefits, third-party repairs, and landfill monitoring and operating. The increase in such expenses as a percentage of revenue for the three months ended March 31, 2007 versus the comparable 2006 period is primarily due to an increase in landfill operating costs resulting from an \$18.0 million charge recorded during the three months ended March 31, 2007. This charge related to estimated costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility.
- Insurance and other includes costs such as worker's compensation, auto and general liability insurance, property taxes, property maintenance and utilities. The increase in such expenses as a percentage of revenue for the three months ended March 31, 2007 versus the comparable 2006 period is primarily due to a slight increase in the severity of our automobile insurance claims.

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

*Depreciation, Amortization and Depletion of Property and Equipment.* Depreciation, amortization and depletion expenses for property and equipment were \$77.1 million for the three months ended March 31, 2007, versus \$71.3 million for the comparable 2006 period. Depreciation, amortization and depletion of property and equipment as a percentage of revenue was 10.1% for the three months ended March 31, 2007, versus 9.7% for the comparable 2006 period. The increase in such expenses in aggregate dollars and as a percentage of revenue for the three month period presented is due to a \$2.9 million adjustment to landfill amortization expense associated with one of our facilities in California and a \$2.1 million adjustment to landfill amortization expense associated with our Countywide facility. In addition, during the three months ended March 31, 2007, we incurred approximately \$.8 million of additional depletion and amortization expense associated with a reduction of estimated remaining available airspace at this landfill. We expect to incur approximately \$2.5 million of additional depletion and amortization expense during the remainder of 2007 associated with the reduction of estimated remaining available airspace at our Countywide facility.

*Amortization of Intangible Assets.* Expenses for amortization of intangible and other assets were \$1.9 million for the three months ended March 31, 2007, versus \$1.8 million for the comparable 2006 period. Amortization of intangible assets as a percentage of revenue was .2% for the three months ended March 31, 2007 and 2006.

*Accretion Expense.* Accretion expense was \$4.1 million for the three months ended March 31, 2007, versus \$3.8 million for the comparable 2006 period. Accretion expense as a percentage of revenue was .5% for the three months ended March 31, 2007 and 2006. The increase in such expenses in aggregate dollars in 2007 is primarily due to an increase in asset retirement obligations.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$81.1 million for the three months ended March 31, 2007, versus \$81.8 million for the comparable 2006 period. Selling, general and administrative expenses as a percentage of revenue were 10.6% for the three months ended March 31, 2007, versus 11.1% for the comparable 2006 period. Such expenses in aggregate dollars remained relatively consistent. The decrease in such expenses as a percentage of revenue for the three month period presented is due to lower equity-based compensation expense, a decrease in bad debt expense and leverage from an increase in revenue. We believe selling, general and administrative costs as a percentage of revenue for the year ended December 31, 2007 will be between 10% and 10.5%.



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*Interest Expense.* We incurred interest expense primarily on our unsecured notes and tax-exempt bonds. Interest expense was \$24.0 million for the three months ended March 31, 2007, versus \$22.1 million for the comparable 2006 period. The increase in interest expense during the three months ended March 31, 2007 versus the comparable 2006 period is primarily due to increases in debt balances and short-term interest rates.

Capitalized interest was \$.6 million for the three months ended March 31, 2007, versus \$.3 million for the comparable 2006 period.

*Interest and Other Income (Expense), Net.* Interest and other income, net of other expense, was \$3.7 million for the three months ended March 31, 2007, versus \$3.9 million for the comparable 2006 period.

*Income Taxes.* Our provision for income taxes was \$40.5 million for the three months ended March 31, 2007, versus \$39.6 million for the comparable 2006 period. Our effective income tax rate was 42.9% for the three months ended March 31, 2007 versus 38.0% for the comparable 2006 period. Income tax expense for the three months ended March 31, 2007 includes a \$4.2 million charge related to the resolution of various income tax matters. We believe that our effective income tax rate for the remainder of 2007 will be approximately 38.5%.

## **Landfill and Environmental Matters**

### *Available Airspace*

The following table reflects landfill airspace activity for landfills owned or operated by us for the three months ended March 31 2007:

	<u>Balances as of December 31, 2006</u>	<u>New Expansions Undertaken</u>	<u>Landfills No Longer Operated</u>	<u>Airspace Consumed</u>	<u>Changes in Design</u>	<u>Changes in Engineering Estimates</u>	<u>Balances as of March 31, 2007</u>
<b>Permitted airspace:</b>							
Cubic yards (in millions)	1,597.2	—	(4.4)	(9.7)	(27.9)	6.9	1,562.1
Number of sites	59		(1)				58
<b>Probable expansion airspace:</b>							
Cubic yards (in millions)	124.6	74.5	—	—	(7.5)	.5	192.1
Number of sites	8	3	—				11
<b>Total available airspace:</b>							
Cubic yards (in millions)	<u>1,721.8</u>	<u>74.5</u>	<u>(4.4)</u>	<u>(9.7)</u>	<u>(35.4)</u>	<u>7.4</u>	<u>1,754.2</u>
Number of sites	<u>59</u>		<u>(1)</u>				<u>58</u>

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

During 2007, total available airspace increased by 32.4 million cubic yards primarily due to new expansions undertaken and changes in engineering estimates, partially offset by changes in design and airspace consumed. In addition, total available airspace was reduced during the three months ended March 31, 2007 as a result of not renewing a contract to operate a small landfill in Texas. Changes in design are primarily due to a reduction of estimated remaining available airspace at our Countywide facility.

As of March 31, 2007, we owned or operated 58 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 at least annually by engineers utilizing information provided by annual aerial surveys. As of March 31, 2007, total available disposal capacity is estimated to be 1.6 billion in-place cubic yards of permitted airspace plus .2 billion in-place cubic yards of probable expansion airspace. Before airspace included in an expansion area is determined to be probable expansion airspace and, therefore, included in our calculation of total available disposal capacity, it must meet all of our expansion criteria. See Note 2, Landfill and Environmental Costs, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

As of March 31, 2007, eleven of our landfills meet all of our criteria for including probable expansion airspace in their total available disposal capacity. At projected annual volumes, these eleven landfills have an estimated remaining average site life of 31 years, including probable expansion airspace. The average estimated remaining life of all of our landfills is 27 years. Probable expansion airspace represents 11.0% of our total available airspace. We have other expansion opportunities that are not included in our total available airspace because they do not meet our criteria for probable expansion airspace.

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*Final Capping, Closure and Post-Closure Costs*

As of March 31, 2007, accrued final capping, closure and post-closure costs were \$269.7 million. The current portion of these costs of \$26.9 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in other current liabilities. The long-term portion of these costs of \$242.8 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in accrued landfill and environmental costs.

*Charge for Landfill Matter*

During the three months ended March 31, 2007, we recorded a charge of \$22.0 million related to costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility. We also recorded approximately \$.8 million of additional depletion and amortization expense associated with a reduction of estimated remaining available airspace at this landfill. In addition, we will incur approximately \$2.5 million of additional depletion and amortization expense during the remainder of 2007 associated with a reduction of estimated remaining available airspace at this landfill as a result of the OEPA's F&Os. While we intend to vigorously pursue financial contribution from third parties for our costs to comply with the F&Os, the Company has not recorded any receivables for potential recoveries.

Additionally, the Stark County Health Department, in connection with the annual issuance of our landfill's operating license, is evaluating the environmental conditions that are the subject of the F&Os. We expect that the Health Department will make a decision regarding the renewal of our landfill's operating license in May 2007.

**Investment in Landfills**

The following table reflects changes in our investment in landfills for the three months ended March 31, 2007 (in millions):

	<u>Balance as of December 31, 2006</u>	<u>Capital Additions</u>	<u>Retire- ments</u>	<u>Non-Cash Additions for Asset Retirement Obligations</u>	<u>SFAS 143 Adjustments to Amortization Expense</u>	<u>Additions Charged to Expense</u>	<u>Transfers And Other Adjustments</u>	<u>Balance as of March 31, 2007</u>
Non-depletable landfill land	\$ 52.7	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 52.7
Landfill development costs	1,722.2	.3	(.1)	4.5	5.6	—	18.1	1,750.6
Construction in progress — landfill	61.1	11.1	—	—	—	—	(18.1)	54.1
Accumulated depletion and amortization	(930.6)	—	—	—	—	(30.2)	—	(960.8)
Net investment in landfill land and development costs	<u>\$ 905.4</u>	<u>\$ 11.4</u>	<u>\$ (.1)</u>	<u>\$ 4.5</u>	<u>\$ 5.6</u>	<u>\$ (30.2)</u>	<u>\$ —</u>	<u>\$ 896.6</u>

The following table reflects our future expected investment in our landfills as of March 31, 2007 (in millions):

	<u>Balance as of March 31, 2007</u>	<u>Expected Future Investment</u>	<u>Total Expected Investment</u>
Non-depletable landfill land	\$ 52.7	\$ —	\$ 52.7
Landfill development costs	1,750.6	1,830.0	3,580.6
Construction in progress — landfill	54.1	—	54.1
Accumulated depletion and amortization	(960.8)	—	(960.8)
Net investment in landfill land and development costs	<u>\$ 896.6</u>	<u>\$ 1,830.0</u>	<u>\$ 2,726.6</u>

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The following table reflects our net investment in our landfills, excluding non-depletable land, and our depletion, amortization and accretion expense for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Number of landfills owned or operated	58	59
Net investment, excluding non-depletable land (in millions)	\$ 843.9	\$ 845.7
Total estimated available disposal capacity (in millions of cubic yards)	1,754.2	1,750.5
Net investment per cubic yard	\$ .48	\$ .48
Landfill depletion and amortization expense (in millions)	\$ 30.2	\$ 27.2
Accretion expense (in millions)	4.1	3.8
	34.3	31.0
Airspace consumed (in millions of cubic yards)	9.7	10.7
Depletion, amortization and accretion expense per cubic yard of airspace consumed	\$ 3.54	\$ 2.90

The increase in depletion, amortization and accretion expense per cubic yard of airspace consumed from 2006 to 2007 is primarily due to a \$5.0 million increase in landfill amortization expense we recorded during the first quarter of 2007 related to a review of landfill asset retirement obligations at certain of our landfills.

During the three months ended March 31, 2007 and 2006, our weighted average compaction rate was approximately 1,500 pounds per cubic yard based on our three-year historical moving average. Our compaction rates may improve as a result of the settlement and decomposition of waste.

As of March 31, 2007, we expect to spend an estimated additional \$1.8 billion on existing landfills, primarily related to cell construction and environmental structures, over their expected remaining lives. Our total expected investment, excluding non-depletable land, estimated to be \$2.7 billion, or \$1.52 per cubic yard, is used in determining our depletion and amortization expense based on airspace consumed using the units-of-consumption method.

We accrue costs related to environmental remediation activities through a charge to income in the period such liabilities become probable and can be reasonably estimated. We accrue costs related to environmental remediation activities associated with properties acquired through business combinations as a charge to cost in excess of fair value of net assets acquired or landfill purchase price allocated to airspace, as appropriate. During the three months ended March 31, 2007, we recorded a pre-tax charge of \$22.0 million, of which \$19.9 million was for remediation costs to comply with the Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility.

### **Financial Condition**

At March 31, 2007, we had \$20.3 million of cash and cash equivalents. We also had \$142.0 million of restricted cash deposits, including \$53.9 million of restricted cash held for capital expenditures under certain debt facilities.

In June 2005, we entered into a \$750.0 million unsecured revolving credit facility with a group of banks which expired in 2010. Borrowings under the credit facility bear interest at LIBOR-based rates. We use our operating cash flow and proceeds from our credit facility to finance our working capital, capital expenditures, acquisitions, share repurchases, dividends and other requirements. As of March 31, 2007, we had \$257.3 million available under our credit facility. During April 2007, we increased our unsecured revolving credit facility to \$1.0 billion and extended the term to 2012.

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

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

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

At March 31, 2007, we had \$673.3 million of tax-exempt bonds and other tax-exempt financings outstanding. Borrowings under these bonds and other financings bear interest based on fixed or floating interest rates at the prevailing market and have maturities ranging from 2012 to 2037. As of March 31, 2007, we had \$53.9 million of restricted cash related to proceeds from tax-exempt bonds and other tax-exempt financings. This restricted cash will be used to fund capital expenditures under the terms of the agreements.

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

### **Selected Balance Sheet Accounts**

The following table reflects the activity in our allowance for doubtful accounts, final capping, closure, post-closure and remediation liabilities, and accrued self-insurance during the three months ended March 31, 2007 (in millions):

	<u>Allowance for Doubtful Accounts</u>	<u>Final Capping, Closure and Post-Closure</u>	<u>Remediation</u>	<u>Self-Insurance</u>
Balance, December 31, 2006	\$ 18.8	\$ 257.6	\$ 45.1	\$ 157.7
Non-cash asset additions	—	4.5	—	—
Revisions in estimates of future cash flows recorded as non-cash asset additions	—	5.6	—	—
Accretion expense	—	4.1	—	—
Other additions charged to expense	1.1	—	19.9	45.6
Payments or usage	(1.7)	(2.1)	(5.2)	(42.0)
Balance, March 31, 2007	18.2	269.7	59.8	161.3
Less: Current portion	(18.2)	(26.9)	(25.4)	(54.4)
Long-term portion	<u>\$ —</u>	<u>\$ 242.8</u>	<u>\$ 34.4</u>	<u>\$ 106.9</u>

Our expense related to doubtful accounts as a percentage of revenue for the three months ended March 31, 2007 was .1%. As of March 31, 2007, accounts receivable were \$297.7 million, net of allowance for doubtful accounts of \$18.2 million, resulting in days sales outstanding of 35, or 22 days net of deferred revenue. In addition, at March 31, 2007, our accounts receivable in excess of 90 days old totaled \$19.6 million, or 6.2% of gross receivables outstanding.

**Property and Equipment**

The following tables reflect the activity in our property and equipment accounts for the three months ended March 31, 2007 (in millions):

	<b>Gross Property and Equipment</b>							<b>Balance as of March 31, 2007</b>
	<b>Balance as of December 31, 2006</b>	<b>Capital Additions</b>	<b>Retirements</b>	<b>Acquisitions, Net of Divestitures</b>	<b>Non-Cash Additions for Asset Retirement Obligations</b>	<b>SEAS 143 Annual Adjustments</b>	<b>Transfers And Other Adjustments</b>	
Other land	\$ 105.9	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 105.9
Non-depletable landfill land	52.7	—	—	—	—	—	—	52.7
Landfill development costs	1,722.2	.3	(.1)	—	4.5	5.6	18.1	1,750.6
Vehicles and equipment	1,886.8	31.6	(11.0)	(.1)	—	—	2.6	1,909.9
Buildings and improvements	307.5	(.3)	.1	—	—	—	.5	307.8
Construction in progress — landfill	61.1	11.1	—	—	—	—	(18.1)	54.1
Construction in progress — other	12.3	1.4	—	—	—	—	(3.1)	10.6
<b>Total</b>	<b>\$ 4,148.5</b>	<b>\$ 44.1</b>	<b>\$ (11.0)</b>	<b>\$ (.1)</b>	<b>\$ 4.5</b>	<b>\$ 5.6</b>	<b>\$ —</b>	<b>\$ 4,191.6</b>

  

	<b>Accumulated Depreciation, Amortization and Depletion</b>					<b>Balance as of March 31, 2007</b>
	<b>Balance as of December 31, 2006</b>	<b>Additions Charged to Expense</b>	<b>Retirements</b>	<b>Acquisitions, Net of Divestitures</b>	<b>Transfers and Other Adjustments</b>	
Landfill development costs	\$ (930.6)	\$ (30.2)	\$ —	\$ —	\$ —	\$ (960.8)
Vehicles and equipment	(963.5)	(43.8)	10.6	.1	(.1)	(996.7)
Buildings and improvements	(90.6)	(3.1)	—	—	.1	(93.6)
<b>Total</b>	<b>\$ (1,984.7)</b>	<b>\$ (77.1)</b>	<b>\$ 10.6</b>	<b>\$ .1</b>	<b>\$ —</b>	<b>\$ (2,051.1)</b>

**Liquidity and Capital Resources**

The major components of changes in cash flows for the three months ended March 31, 2007 and 2006 are discussed below.

*Cash Flows From Operating Activities.* Cash provided by operating activities was \$99.2 million and \$4.2 million for the three months ended March 31, 2007 and 2006, respectively. The changes in cash provided by operating activities during the periods are primarily due to the payment of \$83.0 million for income taxes made during the three months ended March 31, 2006 related to fiscal 2005 that had been deferred as a result of an Internal Revenue Service notice issued in response to Hurricane Katrina.

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

*Cash Flows Used In Investing Activities.* Cash used in investing activities was \$31.5 million and \$98.0 million for the three months ended March 31, 2007 and 2006, respectively, and consists primarily of cash used for capital additions in 2007 and 2006. Capital additions were \$44.1 million and \$90.5 million for the three months ended March 31, 2007 and 2006, respectively.

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

*Cash Flows Used In Financing Activities.* Cash used in financing activities for the three months ended March 31, 2007 and 2006 was \$76.5 million and \$23.1 million, respectively, and consists primarily of purchases of common stock for treasury, proceeds from and payments of notes payable and long-term debt, proceeds from stock option exercises, and payments of cash dividends.

From 2000 through the period ended March 31, 2007, our board of directors authorized the repurchase of up to \$2,050.0 million of our common stock. As of March 31, 2007, we had paid \$1,871.5 million to repurchase 65.4 million shares of our common stock, of which \$70.7 million was paid during the three months ended March 31, 2007 to repurchase 1.7 million shares of our common stock.

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

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

### **Credit Ratings**

Our company has received investment grade credit ratings. As of March 31, 2007, our senior debt was rated BBB+ by Standard & Poor's, BBB+ by Fitch and Baa2 by Moody's.

### **Fuel Hedges**

During January 2007, we entered into option agreements related to forecasted diesel fuel purchases. These option agreements commence in January 2008 and settle each month in equal notional amounts of 500,000 gallons through December 2010. Under Statement of Financial Accounting Standards No 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), the options qualified for and were designated as effective hedges in the prices of forecasted diesel fuel purchases. In accordance with SFAS 133, the effective portion of the change in fair value as of March 31, 2007, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and was included in other income (expense), net in the accompanying Unaudited Condensed Consolidated Statements of Income.

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

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

### **Free Cash Flow**

We define free cash flow, which is not a measure determined in accordance with U.S. generally accepted accounting principles, as cash provided by operating activities less purchases of property and equipment plus proceeds from sales of property and equipment as presented in our Unaudited Condensed Consolidated Statements of Cash Flows. Our free cash flow for the three months ended March 31, 2007 is calculated as follows (in millions):

	<b>Three Months Ended March 31, 2007</b>
Cash provided by operating activities	\$ 99.2
Purchases of property and equipment	(44.1)
Proceeds from sales of property and equipment	1.0
Free cash flow	<u>\$ 56.1</u>

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

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

### **Seasonality**

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

### **New Accounting Pronouncements**

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

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

## Disclosure Regarding Forward-Looking Statements

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

- whether our estimates and assumptions concerning our selected balance sheet accounts, income tax accounts, final capping, closure, post-closure and remediation costs, available airspace, and projected costs and expenses related to our landfills and property and equipment, and labor, fuel rates and economic and inflationary trends, turn out to be correct or appropriate;
- various factors that will impact our actual business and financial performance such as competition and demand for services in the solid waste industry;
- our ability to manage growth;
- compliance with, and future changes in, environmental regulations;
- our ability to obtain approval from regulatory agencies in connection with operating and expanding our landfills;
- our ability to obtain financing on acceptable terms to finance our operations and growth strategy and for our company to operate within the limitations imposed by financing arrangements;
- our ability to repurchase common stock at prices that are accretive to earnings per share;
- our dependence on key personnel;
- general economic and market conditions including, but not limited to, inflation and changes in commodity pricing, fuel, labor, risk and health insurance, and other variable costs that are generally not within our control;
- dependence on large, long-term collection, transfer and disposal contracts;
- dependence on acquisitions for growth;
- risks associated with undisclosed liabilities of acquired businesses;
- risks associated with pending legal proceedings; and
- other factors contained in our filings with the Securities and Exchange Commission.



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

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

In March 2007, our wholly owned subsidiary, Republic Services of Ohio II, LLC (“Republic-Ohio”), was issued Final Findings and Orders (“F&Os”) from the Ohio Environmental Protection Agency (“OEPA”). The F&Os relate to environmental conditions attributed to a chemical reaction resulting from the disposal of aluminum production waste at the Countywide Recycling and Disposal Facility in East Sparta, Ohio. The F&Os require certain actions to be taken by Republic-Ohio to address the environmental conditions, including the following: (a) prohibiting leachate recirculation, (b) refraining from the disposal of solid waste in certain portions of the site, (c) updating engineering plans and specifications and providing further information regarding the integrity of various engineered components at the site, (d) performing additional data collection, (e) taking additional measures to address emissions, (f) expanding the gas collection and control system, and (g) submitting to OEPA a plan to suppress the chemical reaction and following approval by OEPA, implementing such plan. We also paid approximately \$.7 million in sanctions pursuant to the F&Os. While we intend to vigorously pursue financial contributions from third parties for our costs to comply with the F&Os, the Company has not recorded any receivables for potential recoveries.

**ITEM 1A. RISK FACTORS**

There were no material changes during the first quarter 2007 in the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

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

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased</u>	<u>(b) Average Price Paid per Share (or Unit)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)</u>
Month #1 (January 1, — January 31, 2007)	1,135,000	\$ 41.75	1,135,000	\$ 201.8
Month #2 (February 1, — February 28, 2007)	489,998	43.48	489,998	180.5
Month #3 (March 1, — March 31, 2007)	50,000	39.70	50,000	178.5
Total	<u>1,674,998</u>	<u>\$ 42.20</u>	<u>1,674,998</u>	<u>\$ 178.5</u>

The share purchases reflected in the table above were made pursuant to our \$250.0 million repurchase program approved by our board of directors in October 2006. This share repurchase program does not have an expiration date. 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 purchase program up to an aggregate of \$178.5 million.

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**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.1	Amended and Restated Employment agreement dated February 21, 2007, by and between Republic Services, Inc. and James E. O'Connor.
10.2	Amended and Restated Employment agreement dated February 21, 2007, by and between Republic Services, Inc. and Michael Cordesman.
10.3	Amended and Restated Employment agreement dated February 21, 2007, by and between Republic Services, Inc. and Tod C. Holmes.
10.4	Amended and Restated Employment agreement dated February 21, 2007, by and between Republic Services, Inc. and David A. Barclay.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith)
32.1	Section 1350 Certification of Chief Executive Officer (filed herewith)
32.2	Section 1350 Certification of Chief Financial Officer (filed herewith)

**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: May 7, 2007

**AMENDED AND RESTATED  
EMPLOYMENT AGREEMENT**

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT is effective as of the 21st day of February, 2007 (the "Effective Date"), by and between REPUBLIC SERVICES, INC., a Delaware corporation (the "Company"), and JAMES E. O'CONNOR, a Florida resident ("Employee").

Employee and the Company are parties to that Employment Agreement dated as of October 25, 2000, as amended by Amendment Number One, dated as of January 31, 2003, and Amendment Number Two, dated as of October 10, 2006 (collectively, the "Existing Employment Agreement").

As of the date hereof, Employee continues to be an employee of the Company and is considered a valued employee that the Company desires to retain in accordance with the terms of the Existing Employment Agreement.

For convenience of incorporating the previous amendments and making certain clarifying changes to the Existing Employment Agreement, including the incorporation in this Agreement of references to certain provisions of the Company's Executive Incentive Plan which otherwise governs certain incentive bonuses generally available to all participants under such Plan, including Employee, and in order to memorialize the agreement by Employee to the cessation of the accrual of a tax gross-up on future deferrals of compensation, Employee and the Company desire to enter into this Amended and Restated Employment Agreement (this "Agreement").

In consideration of the premises set forth above, the mutual representations, warranties, covenants and agreements contained in this Agreement and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment.

(a) Retention. The Company agrees to employ and/or continue the employment of Employee as its Chairman and Chief Executive Officer, and Employee agrees to accept such employment, subject to the terms and conditions of this Agreement. The Company also agrees that Employee shall continue to serve on the Company's Board of Directors until the next annual meeting of stockholders of the Company, and that he shall be nominated for election to the Board at each annual meeting of the stockholders of the Company as long as this Agreement remains in effect.

(b) Employment Period. This Agreement shall commence on the Effective Date and, unless terminated in accordance with the terms of this Agreement shall continue in effect on a rolling three-year basis, such that at any time during the term of this Agreement there will be three years remaining (the "Employment Period"). Notwithstanding the evergreen nature of the Employment Period, the Company may terminate Employee at any time in accordance with the provisions of Section 3 of this Agreement.

(c) Duties and Responsibilities. During the Employment Period, Employee shall serve as Chairman and Chief Executive Officer and shall have such authority and responsibility and perform such duties as may be assigned to him from time to time at the direction of the Board of Directors of the Company, and in the absence of such assignment, such duties as are customary to Employee's office and as are necessary or appropriate to the business and operations of the Company. During the Employment Period, Employee's employment shall be full time and Employee shall perform his duties honestly, diligently, in good faith and in the best interests of the Company and shall use his best efforts to promote the interests of the Company. All executive officers of the Company (except for the Chairman and the Vice Chairman) shall report to the Chief Executive Officer, and Employee shall in such capacity have the authority and responsibility to assign appropriate duties to such other executive officers as are necessary or appropriate for the business and operations of the Company.

(d) Other Activities. Except upon the prior written consent of the Company, Employee, during the Employment Period, will not accept any other employment. Employee shall be permitted to engage in any non-competitive businesses, not-for-profit organizations and other ventures, such as passive real estate investments, serving on charitable and civic boards and organizations, and similar activities, so long as such activities do not materially interfere with or detract from the performance of Employee's duties or constitute a breach of any of the provisions contained in Section 7 of this Agreement.

## 2. Compensation.

(a) Base Salary and Adjusted Salary. In consideration for Employee's services hereunder and the restrictive covenants contained herein, Employee shall be paid an annual base salary of \$856,800 for the 2007 Fiscal Year, subject to adjustment pursuant to Section 2(l) hereof (the "Base Salary"), payable in accordance with the Company's customary payroll practices. Notwithstanding the foregoing, Employee's annual Base Salary may be increased at anytime and from time to time to levels greater than the levels set forth in the preceding sentence at the discretion of the Board of Directors of the Company to reflect merit or other increases. In lieu of cash increases to the Base Salary, commencing with the 2004 Fiscal Year and continuing for each Fiscal Year thereafter through 2006, Employee has been awarded shares of restricted stock of the Company, as follows: (i) 2004 — 3,000 shares; (ii) 2005 — 4,000 shares; and 2006 — 5,000 shares. Similar deferrals in lieu of cash increases in Base Salary may be made for 2007 and/or future Fiscal Years during the term of this Agreement, in the discretion of the Compensation Committee of the Board of Directors. For the purposes of this Agreement, the term "Adjusted Salary" means (x) with respect to the 2004 Fiscal Year, the Base Salary plus the value (determined as described below) of the shares of restricted stock initially granted to Employee in lieu of a cash increase to Base Salary for such year, and (y) with respect to the 2005 Fiscal Year and each Fiscal Year thereafter during the term of this Agreement, the greater of (1) the Adjusted Salary for the immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the value (determined as described below) of the shares of restricted stock granted to Employee for such Fiscal Year. For the purposes of this Section, the value of shares of restricted stock shall be the value, determined at the closing price of the Company's shares on the New York Stock Exchange ("NYSE") as of the date of grant of the restricted stock award (or if the

NYSE is not open for business on such date of grant, then on the next regular business day on which the NYSE is open for business). Based on the foregoing formula, Employee's Adjusted Salary for 2006 was \$1,051,850, which was determined as reflected on Schedule 2(a) hereto, which Schedule also sets forth an example of how such Adjusted Salary amount would be computed for future years. The Base Salary and Adjusted Salary for each Fiscal Year shall become effective as of January 1 of such Fiscal year. Employee's Base Salary for any Fiscal Year after 2007 shall remain as set for the 2007 Fiscal Year unless the Board of Directors increases such Base Salary and the Adjusted Salary shall be determined each Fiscal Year in the manner described above. The term "Fiscal Year" as used herein shall mean each period of twelve (12) calendar months commencing on January 1st of each calendar year during the Employment Period and expiring on December 31st of such year.

(b) Annual Awards. In addition to the Base Salary and/or Adjusted Salary, Employee shall be eligible to receive Annual Awards in an amount equal to 120% of the Employee's Base Salary in effect for the Performance Period with respect to which such Annual Award is granted, as established pursuant to the terms of the Company's Executive Incentive Plan, as amended, restated and renamed effective as of January 1, 2003 (the "Plan"). The Annual Award shall be based on the achievement of such Performance Goals as are established by the Compensation Committee of the Board of Directors pursuant to the Plan. The achievement of said Performance Goals shall be determined by the Compensation Committee of the Board of Directors. Except as otherwise provided in Sections 3(d), 3(e) and 22, with respect to any Fiscal Year during which Employee is employed by the Company for less than the entire Fiscal Year, the Annual Award shall be prorated for the period during which Employee was so employed. The Annual Award shall be payable within sixty (60) days after the end of the Company's Fiscal Year. To the extent of any conflict between the provisions of this Agreement and the Plan, the terms of this Agreement shall control.

(c) Merit and Other Bonuses. Employee shall be entitled to such other bonuses as may be determined by the Board of Directors of the Company or by a committee of the Board of Directors as determined by the Board of Directors, in its sole discretion.

(d) Existing Stock Options and Shares of Restricted Stock. The Company has issued to Employee options to purchase shares of the Company's Common Stock pursuant to the terms of various Option Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Option Grants"). The Company has also granted to Employee restricted shares of the Company's Common Stock pursuant to the terms of various Executive Restricted Stock Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Restricted Stock Grants"). The options issued or to be issued under the Outstanding Option Grants shall continue to be subject to the terms of the Option Agreements, except to the extent otherwise provided for in this Agreement. The shares of restricted stock granted or to be granted under the Outstanding Restricted Stock Grants shall continue to be subject to the terms of the Executive Restricted Stock Agreements, except to the extent otherwise provided for in this Agreement.

(e) Other Stock Options. Employee shall be entitled to participate and receive option grants under the 1998 Stock Incentive Plan and such other incentive or stock option plans as may be in effect from time-to-time, as determined by the Board of Directors of the Company.

(f) Other Compensation Programs. Employee shall be entitled to participate in the Company's incentive and deferred compensation programs and such other programs as are established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans or programs.

(g) Health Insurance. The Company shall pay for Employee's and his family's health insurance including without limitation comprehensive major medical and hospitalization coverage including dental and optical coverage under all group medical plans from time to time in effect for the benefit of the Company's employees or executive officers.

(h) Life Insurance. The Company shall purchase and maintain in effect one or more term insurance policies on the life of Employee in an aggregate amount not less than two times his Base Salary in effect from time to time during the term of employment. The beneficiary of such policy shall be the person or persons who Employee designates in writing to the Company.

(i) Disability Insurance. The Company shall pay for Employee to participate in the Company's disability insurance in effect from time to time. The Company shall pay for the maximum coverage commercially available. To the extent the Company does not have a disability insurance plan or other retirement plan, then the Company shall arrange, at its expense, for Employee to participate in such plan.

(j) Other Benefits. During the term of this Agreement, Employee shall also be entitled to participate in any other health insurance programs, life insurance programs, disability programs, stock option plans, bonus plans, pension plans and other fringe benefit plans and programs as are from time to time established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans and programs.

(k) Expenses. Employee shall be reimbursed for all out-of-pocket expenses reasonably incurred by him on behalf of or in connection with the business of the Company, pursuant to the normal standards and guidelines followed from time to time by the Company.

(l) Tax and Estate Planning Reimbursement for 2007. Employee's Base Salary for Fiscal Year 2007 shall be reduced by that amount of out-of-pocket expenses for financial, tax and estate planning that was submitted by Employee and reimbursed by the Company during such year.

(m) Long Term Awards. On April 26, 2001, the Board of Directors adopted the Republic Services, Inc. Long Term Incentive Plan, effective January 1, 2001 to provide for long term incentive cash grants for specific employees of the Company, including Employee. Effective January 1, 2003, the Long Term Incentive Plan was amended, restated and renamed to the Executive



Incentive Plan (as previously defined in Section 2, clause (b), the "Plan") to provide not only for long term incentive cash grants but also to include the Annual Awards referred to above. Employee has participated in the Long Term Incentive Plan and the Plan since inception, and Employee shall be entitled to continue to participate in the Plan for purposes of receiving Long Term Awards pursuant to the terms of this Agreement and the Plan.

### 3. Termination.

(a) For Cause. The Company shall have the right to terminate this Agreement and to discharge Employee for Cause (as defined below), at any time during the term of this Agreement. Termination for Cause shall mean, during the term of this Agreement, (i) Employee's willful and continued failure to substantially perform his duties after he has received written notice from the Company identifying the actions or omissions constituting willful and continued failure to perform, (ii) Employee's conduct that would constitute a crime under federal or state law, (iii) Employee's actions or omissions that constitute fraud, dishonesty or gross misconduct, (iv) Employee's breach of any fiduciary duty that causes material injury to the Company, (v) Employee's breach of any duty causing material injury to the Company, (vi) Employee's inability to perform his material duties to the reasonable satisfaction of the Company due to alcohol or other substance abuse, or (vii) any violation of the Company's policies or procedures involving discrimination, harassment, substance abuse or work place violence. Any termination for Cause pursuant to this Section shall be given to Employee in writing and shall set forth in detail all acts or omissions upon which the Company is relying to terminate Employee for Cause.

Upon any determination by the Company that Cause exists to terminate Employee, the Company shall cause a special meeting of the Board of Directors to be called and held at a time mutually convenient to the Board of Directors and Employee, but in no event later than ten (10) business days after Employee's receipt of the notice that the Company intends to terminate Employee for Cause. Employee shall have the right to appear before such special meeting of the Board of Directors with legal counsel of his choosing to refute such allegations and shall have a reasonable period of time to cure any actions or omissions which provide the Company with a basis to terminate Employee for Cause (provided that such cure period shall not exceed 30 days). A majority of the members of the Board of Directors must affirm that Cause exists to terminate Employee. No finding by the Board of Directors will prevent Employee from contesting such determination through appropriate legal proceedings provided that Employee's sole remedy shall be to sue for damages, not reinstatement, and damages shall be limited to those that would be paid to Employee if he had been terminated without Cause. In the event the Company terminates Employee for Cause, the Company shall only be obligated to continue to pay in the ordinary and normal course of its business to Employee his Base Salary plus accrued but unused vacation time through the termination date and the Company shall have no further obligations to Employee from and after the date of termination.

(b) Resignation by Employee Without Good Reason. If Employee shall resign or otherwise terminate his employment with the Company at anytime during the term of this Agreement, other than for Good Reason (as defined below), Employee shall only be entitled to

receive his accrued and unpaid Base Salary through the termination date, and the Company shall have no further obligations under this Agreement from and after the date of resignation.

(c) Termination by Company Without Cause and by Employee For Good Reason. At any time during the term of this Agreement, (i) the Company shall have the right to terminate this Agreement and to discharge Employee without Cause effective upon delivery of written notice to Employee, and (ii) Employee shall have the right to terminate this Agreement for Good Reason effective upon delivery of written notice to the Company. For purposes of this Agreement, "Good Reason" shall mean: (i) the Company has materially reduced the duties and responsibilities of Employee to a level not appropriate for an officer of a publicly-traded company holding the position provided for in Section 1(a), (ii) the Company has breached any material provision of this Agreement and has not cured such breach within 30 days of receipt of written notice of such breach from Employee, (iii) Company has reduced Employee's annual Adjusted Salary by more than 10% from the prior Fiscal Year (nothing in this clause implies that the Company may reduce Employee's Adjusted Salary below the levels provided for in Section 2(a)), (iv) the Company has terminated Employee's participation in one or more of the Company's sponsored benefit or incentive plans and no other executive officer has had his participation terminated, (v) a failure by the Company (1) to continue any bonus plan, program or arrangement in which Employee is entitled to participate ("Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Employee with substantially similar benefits are not substituted therefor ("Substitute Plans"), or (2) to continue Employee as a participant in the Bonus Plans and Substitute Plans on at least a basis which is substantially the same as to potential amount of the bonus Employee participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans (a plan shall be considered to be on a basis substantially the same as another if the potential amount payable thereunder is at least 90% of the potential amount payable under the other plan), (vi) Employee's office is relocated by the Company to a location which is not located within the Florida counties of Miami-Dade, Broward or Palm Beach, or (vii) the Company's termination without Cause of the continuation of the Employment Period provided in this Agreement. Upon any such termination by the Company without Cause, or by Employee for Good Reason, the Company shall pay to Employee all of Employee's accrued but unpaid Base Salary through the date of termination, and continue to pay to or provide for Employee (a) a sum equal to his Adjusted Salary payable in accordance with Section 2(a) for three (3) years from the date of termination, when and as Base Salary would have been due and payable hereunder but for such termination, (b) all health benefits in which Employee was entitled to participate at any time during the 12-month period prior to the date of termination, until the earliest to occur of the third anniversary of the date of termination, Employee's death, or the date on which Employee becomes covered by a comparable health benefit plan by a subsequent employer; provided, however, that in the event that Employee's continued participation in any health benefit plan of the Company is prohibited, the Company will arrange to provide Employee with benefits substantially similar to those which Employee would have been entitled to receive under such plan for such period on a basis which provides Employee with no additional after tax cost, (c) all stock option grants or restricted stock grants, whether or not part of the Outstanding Option Grant

or any options issued during the term of this Agreement, will immediately vest and any such options will remain exercisable for the lesser of the unexpired term of the option without regard to the termination of Employee's employment or three (3) years from the date of termination of employment, (d) all Annual Awards shall vest and be paid on a pro-rated basis in an amount equal to the Annual Awards payment that the Compensation Committee of the Board of Directors determines would have been paid to Employee pursuant to the Plan had Employee's employment continued to the end of the Performance Period, multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total number of months in the Performance Period, (e) all Long Term Awards shall vest and be paid on a pro-rated basis in an amount equal to the maximum Long Term Awards that would have been paid to Employee pursuant to the Plan had Employee's employment continued to the end of the Performance Periods established under the Plan multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total number of months in the Performance Period, and (f) as of the termination date Employee shall be paid the balance of all amounts credited or eligible to be credited to Employee's deferred compensation account, plus, for all such amounts credited or eligible to be credited to such account based upon Company's performance on or before December 31, 2006 (herein referred to as the "December 31, 2006 deferral amount") whether or not such amount is actually credited to such account prior to or after such date, a gross-up payment to reimburse Employee for all income and other taxes imposed with respect to the payment of such amounts and all income and other taxes arising as a result of said gross-up payment such that the payment of such December 31, 2006 deferral amount of Employee is made to Employee free of all taxes thereon whatsoever (collectively, the foregoing consideration payable to Employee shall be referred to herein as the "Severance Payment"). Other than the Severance Payment, the Company shall have no further obligation to Employee except for the obligations set forth in Section 14 of this Agreement after the date of such termination; provided, however, that Employee shall only be entitled to continuation of the Severance Payments as long as he is in compliance with the provisions of Sections 6 and 7 of this Agreement.

(d) Disability of Employee. This Agreement may be terminated by the Company upon the Disability of Employee. "Disability" shall mean any mental or physical illness, condition, disability or incapacity which prevents Employee from reasonably discharging his duties and responsibilities under this Agreement for a period of 180 consecutive days. In the event that any disagreement or dispute shall arise between the Company and Employee as to whether Employee suffers from any Disability, then, in such event, Employee shall submit to the physical or mental examination of a physician licensed under the laws of the State of Florida, who is mutually agreeable to the Company and Employee, and such physician shall determine whether Employee suffers from any Disability. In the absence of fraud or bad faith, the determination of such physician shall be final and binding upon the Company and Employee. The entire cost of such examination shall be paid for solely by the Company. In the event the Company has purchased Disability insurance for Employee, Employee shall be deemed disabled if he is completely (fully) disabled as defined by the terms of the Disability policy. In the event that at any time during the term of this Agreement Employee shall suffer a Disability and the Company terminates Employee's employment for such Disability, such

Disability shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee to the same extent and in the same manner as provided for in paragraph (c) above, except that (i) to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee shall be paid, within thirty (30) days following the date of Employee's termination due to his Disability, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all Performance Goals been met and (ii) payment of the sum equal to the Adjusted Salary in accordance with said paragraph shall be mitigated to the extent payments are made to Employee pursuant to disability insurance programs maintained by the Company.

(e) Death of Employee. If during the term of this Agreement Employee shall die, then the employment of Employee by the Company shall automatically terminate on the date of Employee's death. In such event, Employee's death shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee's personal representative or estate to the same extent and in the same manner as provided for in paragraph (c) above, without mitigation for any insurance policies or other benefits held by Employee, except that to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee's beneficiary or estate shall be paid, within thirty (30) days following the date of Employee's death, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all Performance Goals been met. Once such payments have been made to Employee's personal representative, beneficiary or estate, as the case may be, the Company shall have no further obligations under this Agreement or otherwise to said personal representative, beneficiary or estate, or to any heirs of Employee.

#### 4. Termination of Employment by Employee for Change of Control.

(a) Termination Rights. Notwithstanding the provisions of Section 2 and Section 3 of this Agreement, in the event that there shall occur a Change of Control (as defined below) of the Company and within two years after such Change of Control Employee's employment hereunder is terminated by the Company without Cause or by Employee for Good Reason, then the Company shall be required to pay to Employee (i) the Severance Payment provided in Section 3(c), except that the Severance Payment shall be paid in a single lump sum in full, (ii) the product of three multiplied by the maximum amount of the Awards, including both Annual Awards and Long Term Awards, that Employee would have been eligible for under the Plan with respect to the Fiscal Year in which such termination occurs, in a single lump sum. The foregoing payments shall be made no later than 10 days after Employee's termination pursuant to this Section 4. To the extent that payments are owed by the Company to Employee pursuant to this Section 4, they shall be made in lieu of payments

pursuant to Section 3, and in no event shall the Company be required to make payments or provide benefits to Employee under both Section 3 and Section 4.

(b) Change of Control of the Company Defined. For purposes of this Section 4, the term “Change of Control of the Company” shall mean any change in control of the Company of a nature which would be required to be reported (i) in response to Item 6(e) of Schedule 14A of Regulation 14A, as in effect on the date of this Agreement, promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), (ii) in response to Item 1 of the Current Report on Form 8-K, as in effect on the date of this Agreement, promulgated under the Exchange Act, or (iii) in any filing by the Company with the Securities and Exchange Commission; provided, however, that without limitation, a Change of Control of the Company shall be deemed to have occurred if:

(i) Any “person” (as such term is defined in Sections 13(d)(3) and Section 14(d)(3) of the Exchange Act), other than the Company, any majority-owned subsidiary of the Company, or any compensation plan of the Company or any majority-owned subsidiary of the Company, becomes the “beneficial owner” (as such term is defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company;

(ii) During any period of three consecutive years during the term of this Agreement, the individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority of such Board of Directors, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of such period; or

(iii) The shareholders of the Company approve (1) a reorganization, merger, or consolidation with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger, or consolidation do not immediately thereafter own more than 50% of the combined voting power entitled to vote generally in the election of the directors of the reorganized, merged or consolidated entity; (2) a liquidation or dissolution of the Company; or (3) the sale of all or substantially all of the assets of the Company or of a subsidiary of the Company that accounts for 30% of the consolidated revenues of the Company, but not including a reorganization, merger or consolidation of the Company.

#### 5. Gross-Up Payment.

(a) Amount. If any payment or benefit provided to Employee by the Company (a “Base Payment”) is subject to the tax (the “Excise Tax”) imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”) (or any other similar tax that may hereafter be imposed), the Company shall pay to Employee the “Gross-Up Payment” determined as follows. The “Gross-Up Payment” shall be equal to the sum of (i) the Excise Tax imposed with respect to the

Base Payment, plus (ii) the Excise Tax imposed with respect to the Gross-Up Payment, plus (iii) all other taxes imposed on Employee with respect to the Gross-Up Payment, including income taxes and Employee's share of FICA, FUTA and other payroll taxes. The Gross-Up Payment shall not include the payment of any tax on the Base Payment other than the Excise Tax. The Gross-Up Payment is intended to place Employee in the same economic position Employee would have been in if the Excise Tax did not apply, and shall be calculated in accordance with such intent.

(b) Tax Rates and Assumptions. For purposes of determining the amount of the Gross-Up Payment, Employee shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of Employee's residence on the date of termination, net of the maximum reduction in Federal income taxes which could be obtained from deduction of such state and local taxes.

(c) Payment and Calculation Procedures. The Gross-Up Payment attributable to a Base Payment shall be paid to Employee in cash and at such times as such Base Payment is paid or provided pursuant to this Agreement. Simultaneously with or prior to the Company's payment of a Base Payment, the Company shall deliver to Employee a written statement specifying the total amount of the Base Payment and the Excise Tax and Gross-Up Payment relating to the Base Payment, if any, together with all supporting calculations and conclusions. If Employee disagrees with the Company's determination of the Excise Tax or Gross-Up Payment, Employee shall submit to the Company, no later than 30 days after receipt of the Company's written statement, a written notice advising the Company of the disagreement and setting forth Employee's calculation of said amounts. Employee's failure to submit such notice within such period shall be conclusively deemed to be an agreement by Employee as to the amount of the Excise Tax and Gross-Up Payment, if any. If the Company agrees with Employee's calculations, it shall pay any shortfall in the Gross-Up Payment to Employee within 20 days after receipt of such a notice from Employee. If the Company does not agree with Employee's calculations, it shall provide Employee with a written notice within 20 days after the receipt of Employee's calculations advising Employee that the disagreement is to be referred to an independent accounting firm for resolution. Such disagreement shall be referred to a nationally recognized independent accounting firm which is not the regular accounting firm of the Company and which is designated by the Company. The Company shall be required to designate such accounting firm within 10 days after issuance of the Company's notice of disagreement. The accounting firm shall review all information provided to it by the parties and submit a written report to the parties setting forth its calculation of the Excise Tax and the Gross-Up Payment within 15 days after submission of the matter to it, and such decision shall be final and binding on all of the parties. The fees and expenses charged by said accounting firm shall be paid by the Company. If the amount of the Gross-Up Payment actually paid by the Company was less than the amount calculated by the accounting firm, the Company shall pay the shortfall to Employee within 5 days after the accounting firm submits its written report. If the amount of the Gross-Up Payment actually paid by the Company was greater than the amount calculated by the accounting firm, Employee shall pay the excess to the Company within 5 days after the accounting firm submits its written report.

(d) Subsequent Recalculation. In the event the Internal Revenue Service or other applicable governmental authority imposes an Excise Tax with respect to a Base Payment that is greater than the amount of the Excise Tax determined pursuant to the immediately preceding paragraph, the Company shall reimburse Employee for the full amount of such additional Excise Tax plus any interest and penalties which may be imposed in connection therewith, and pay to Employee a Gross-up Payment sufficient to make Employee whole and reimburse Employee for any Excise Tax, income tax and other taxes imposed on the reimbursement of such additional Excise Tax and interest and penalties, in accordance with the principles set forth above.

(e) Example. The calculation of the Gross-Up Payment is illustrated by the example set forth in Schedule 5(e), attached to this Agreement and hereby incorporated by reference. The amounts set forth in such example are for illustration purposes only and no implication shall be drawn from such example as to the amounts otherwise payable to Employee by the Company.

6. Successor To Company. The Company shall require any successor, whether direct or indirect, to all or substantially all of the business, properties and assets of the Company whether by purchase, merger, consolidation or otherwise, prior to or simultaneously with such purchase, merger, consolidation or other acquisition to execute and to deliver to Employee a written instrument in form and in substance reasonably satisfactory to Employee pursuant to which any such successor shall agree to assume and to timely perform or to cause to be timely performed all of the Company's covenants, agreements and obligations set forth in this Agreement (a "Successor Agreement"). The failure of the Company to cause any such successor to execute and deliver a Successor Agreement to Employee shall constitute a material breach of the provisions of this Agreement by the Company.

7. Restrictive Covenants. In consideration of his employment and the other benefits arising under this Agreement, Employee agrees that during the term of this Agreement, and for a period of three (3) years following the termination of this Agreement, Employee shall not directly or indirectly:

(a) alone or as a partner, joint venturer, officer, director, member, employee, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, (i) engage in the business of solid waste collection, disposal or recycling (the "Solid Waste Services Business") in any market in which the Company or any of its subsidiaries or affiliates does business, or any other line of business which is entered into by the Company or any of its subsidiaries or affiliates during the term of this Agreement, or (ii) compete with the Company or any of its subsidiaries or affiliates in acquiring or merging with any other business or acquiring the assets of such other business; or

(b) for any reason, (i) induce any customer of the Company or any of its subsidiaries or affiliates to patronize any business directly or indirectly in competition with the Solid Waste Services Business conducted by the Company or any of its subsidiaries or affiliates in any market in which the Company or any of its subsidiaries or affiliates does business; (ii) canvass, solicit or accept from any customer of the Company or any of its subsidiaries or affiliates any such

competitive business; or (iii) request or advise any customer or vendor of the Company or any of its subsidiaries or affiliates to withdraw, curtail or cancel any such customer's or vendor's business with the Company or any of its subsidiaries or affiliates; or

(c) for any reason, employ, or knowingly permit any company or business directly or indirectly controlled by him, to employ, any person who was employed by the Company or any of its subsidiaries or affiliates at or within the prior six months, or in any manner seek to induce any such person to leave his or her employment.

Notwithstanding the foregoing, the beneficial ownership of less than five percent (5%) of the shares of stock of any corporation having a class of equity securities actively traded on a national securities exchange or over-the-counter market shall not be deemed, in and of itself, to violate the prohibitions of this Section.

8. Confidentiality. Employee agrees that at all times during the term of this Agreement and after the termination of employment for as long as such information remains non-public information, Employee shall (i) hold in confidence and refrain from disclosing to any other party all information, whether written or oral, tangible or intangible, of a private, secret, proprietary or confidential nature, of or concerning the Company or any of its subsidiaries or affiliates and their business and operations, and all files, letters, memoranda, reports, records, computer disks or other computer storage medium, data, models or any photographic or other tangible materials containing such information ("Confidential Information"), including without limitation, any sales, promotional or marketing plans, programs, techniques, practices or strategies, any expansion plans (including existing and entry into new geographic and/or product markets), and any customer lists, (ii) use the Confidential Information solely in connection with his employment with the Company or any of its subsidiaries or affiliates and for no other purpose, (iii) take all precautions necessary to ensure that the Confidential Information shall not be, or be permitted to be, shown, copied or disclosed to third parties, without the prior written consent of the Company or any of its subsidiaries or affiliates, and (iv) observe all security policies implemented by the Company or any of its subsidiaries or affiliates from time to time with respect to the Confidential Information. In the event that Employee is ordered to disclose any Confidential Information, whether in a legal or regulatory proceeding or otherwise, Employee shall provide the Company or any of its subsidiaries or affiliates with prompt notice of such request or order so that the Company or any of its subsidiaries or affiliates may seek to prevent disclosure. In addition to the foregoing Employee shall not at any time libel, defame, ridicule or otherwise disparage the Company.

9. Specific Performance; Injunction. The parties agree and acknowledge that the restrictions contained in Sections 7 and 8 are reasonable in scope and duration and are necessary to protect the Company or any of its subsidiaries or affiliates. If any provision of Section 7 or 8 as applied to any party or to any circumstance is adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other circumstance or the validity or enforceability of any other provision of this Agreement. If any such provision, or any part thereof, is held to be unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court



making such determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, and in its reduced form, such provision shall then be enforceable and shall be enforced. Employee agrees and acknowledges that the breach of Section 7 or 8 will cause irreparable injury to the Company or any of its subsidiaries or affiliates and upon breach of any provision of such Sections, the Company or any of its subsidiaries or affiliates shall be entitled to injunctive relief, specific performance or other equitable relief, without being required to post a bond; provided, however, that, this shall in no way limit any other remedies which the Company or any of its subsidiaries or affiliates may have (including, without limitation, the right to seek monetary damages).

10. Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be deemed given if delivered by hand delivery, by certified or registered mail (first class postage pre-paid), guaranteed overnight delivery or facsimile transmission if such transmission is confirmed by delivery by certified or registered mail (first class postage pre-paid) or guaranteed overnight delivery to, the following addresses and telecopy numbers (or to such other addresses or telecopy numbers which such party shall designate in writing to the other parties): (a) if to the Company, at its principal executive offices, addressed to the President, with a copy to the General Counsel; and (b) if to Employee, at the address listed on the signature page hereto.

11. Amendment; Waiver. This Agreement may not be modified, amended, or supplemented, except by written instrument executed by all parties. No failure to exercise, and no delay in exercising, any right, power or privilege under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any right, power or privilege hereunder preclude the exercise of any other right, power or privilege. No waiver of any breach of any provision shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other provision, nor shall any waiver be implied from any course of dealing between the parties. No extension of time for performance of any obligations or other acts hereunder or under any other agreement shall be deemed to be an extension of the time for performance of any other obligations or any other acts. The rights and remedies of the parties under this Agreement are in addition to all other rights and remedies, at law or equity, that they may have against each other.

12. Assignment; Third Party Beneficiary. This Agreement, and Employee's rights and obligations hereunder, may not be assigned or delegated by him. The Company may assign its rights, and delegate its obligations, hereunder to any affiliate of the Company, or any successor to the Company or its Solid Waste Services Business, specifically including the restrictive covenants set forth in Section 7 hereof. The rights and obligations of the Company under this Agreement shall inure to the benefit of and be binding upon its respective successors and assigns.

13. Severability; Survival. In the event that any provision of this Agreement is found to be void and unenforceable by a court of competent jurisdiction, then such unenforceable provision shall be deemed modified so as to be enforceable (or if not subject to modification then eliminated herefrom) to the extent necessary to permit the remaining provisions to be enforced in accordance

with the parties intention. The provisions of Sections 7 and 8 will survive the termination for any reason of Employee's relationship with the Company.

14. Indemnification. The Company agrees to indemnify Employee during the term and after termination of this Agreement in accordance with the provisions of the Company's certificate of incorporation and bylaws and the Delaware General Corporation Law.

15. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

16. Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Florida applicable to contracts executed and to be wholly performed within such State.

17. Entire Agreement. This Agreement contains the entire understanding of the parties in respect of its subject matter and supersedes all prior agreements and understandings (oral or written) between or among the parties with respect to such subject matter. Upon the execution of this Agreement the provisions of the Existing Employment Agreement shall be superseded and shall be of no further force and effect except as specifically preserved by the terms of this Agreement.

18. Headings. The headings of Paragraphs and Sections are for convenience of reference and are not part of this Agreement and shall not affect the interpretation of any of its terms.

19. Construction. This Agreement shall be construed as a whole according to its fair meaning and not strictly for or against any party. The parties acknowledge that each of them has reviewed this Agreement and has had the opportunity to have it reviewed by their respective attorneys and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Agreement. Words of one gender shall be interpreted to mean words of another gender when necessary to construe this Agreement, and in like manner words in singular may be interpreted to be in the plural, and vice versa.

20. Attorneys' Fees. If at any time following a Change of Control of the Company, there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Employee (and Employee shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly provide sums sufficient to pay on a current basis (either directly or by reimbursing Employee) Employee's costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Employee in connection with any such dispute or any litigation, provided that Employee shall repay any such amounts paid or advanced if Employee is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. If at any time when there has not previously been a Change of Control of the Company, there should arise any dispute or litigation as to the validity, interpretation or

application of any term or condition of the Agreement, the prevailing party in such dispute or litigation shall be entitled to recover from the non-prevailing party its costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred in such dispute or litigation. The provisions of this Section 20, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and Employee's employment hereunder.

21. Withholding. All payments made to Employee shall be made net of any applicable withholding for income taxes, Excise Tax and Employee's share of FICA, FUTA or other taxes. The Company shall withhold such amounts from such payments to the extent required by applicable law and remit such amounts to the applicable governmental authorities in accordance with applicable law.

22. Retirement Eligibility. Upon Employee's retirement, the Company shall pay to Employee all of Employee's accrued but unpaid Base Salary through the date of retirement. In addition, for all stock option or restricted stock awards ("Equity Awards") and all monetary awards (including Annual Awards and Long Term Awards pursuant to the Plan and any retirement contributions to the deferred compensation program) ("Monetary Awards"), in each case granted to Employee prior to July 26, 2006 ("Prior Awards"), such Employee shall be eligible to retire for purposes of the Prior Awards, and such Prior Awards shall fully vest in the event of such retirement, upon attaining either (a) the age of fifty-five (55) and having completed six (6) years of service with the Company or (b) the age of sixty-five (65) without regard to years of service with the Company (the "Original Retirement Policy"). For all Equity Awards and/or Monetary Awards granted to Employee following July 26, 2006 ("Prospective Awards"), the Original Retirement Policy shall apply, and such Prospective Awards shall fully vest in the event of such retirement, provided, and only to the extent that, Employee shall provide the Company with not less than twelve (12) months prior written notice of Employee's intent to retire. Failure by Employee to provide such written notice shall cause the Revised Retirement Policy (as hereinafter defined) to apply with respect to the vesting of Prospective Awards, but such failure shall have no effect whatsoever on the Prior Awards, all of which shall continue to be subject to the Original Retirement Policy. For purposes of this Agreement, (i) "Revised Retirement Policy" shall mean Employee has attained the age of (x) sixty (60) and has completed fifteen (15) years of continuous service with the Company or (y) sixty-five (65) with five (5) years of continuous service with the Company, and (ii) the Annual Awards and Long Term Awards includable within the Monetary Awards to be fully vested as provided above shall include all such Awards which have been granted to Employee, but which, as of the date of his retirement, have not been determined to have been earned pursuant to the Plan and in such instance Employee shall be paid, within thirty (30) days following the date of Employee's retirement, an amount with respect to each such open Award equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all performance goals been met.

23. Timing of Severance Payments. Notwithstanding anything in this Agreement to the contrary, if Employee is deemed to be a “key employee” for purposes of Internal Revenue Code Section 409A (“Section 409A”), no Severance Payment or other payments pursuant to, or contemplated by, this Agreement shall be made to Employee by the Company until the amount of time has elapsed that is necessary to avoid incurring excise taxes under Section 409A. Should this result in a delay of payments to Employee, on the first day any such payments may be made without incurring a penalty pursuant to Section 409A (the “409A Payment Date”), the Company shall begin to make such payments as described in this Section 23, provided that any amounts that would have been payable earlier but for the application of this Section 23 shall be paid in a lump-sum on the 409A Payment Date.

**[SIGNATURES ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

REPUBLIC SERVICES, INC., a Delaware  
corporation

By: /s/ Harris W. Hudson  
Harris W. Hudson, Vice Chairman

EMPLOYEE:

/s/ James E. O'Connor  
James E. O'Connor

Address for Notices:

\_\_\_\_\_  
  
\_\_\_\_\_

## Schedule 2(a)

### Adjusted Salary Example

#### Calculation of 2006 Adjusted Salary

Adjusted Salary for 2005: \$964,000  
Base Salary: \$856,800  
Shares of Company Restricted Stock Granted: 5,000  
Closing Price of Company Shares: \$39.01 per share (5,000 x \$39.01 = \$195,050)  
Base Salary + Closing Price of Restricted Shares = \$856,800 + \$195,050 = \$1,051,850  
Adjusted Salary for 2006: \$1,051,850 (since greater than the Adjusted Salary for 2005)

#### Examples of Calculation of Future Adjusted Salary

##### Example 1:

Assume the following: (i) Employee's Base Salary is \$350,000.00; (ii) Employee's Adjusted Salary for the Fiscal Year immediately preceding the Fiscal Year for which the computation is to be made was \$400,000.00; (iii) for the Fiscal Year of determination Employee is granted 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$40.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

- (i) \$400,000.00; or
- (ii)  $\$350,000.00 + (1,500 \times \$40.00) = \$350,000.00 + \$60,000 = \$410,000.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 1 is \$410,000.00.

Example 2:

Assume, with respect to the Fiscal Year immediately following the Fiscal Year described in Example 1 above, the following: (i) Employee's Base Salary remains at \$350,000.00; (ii) as indicated above in Example 1, Employee's Adjusted Salary for the immediately preceding Fiscal Year immediately was \$410,000.00; (iii) for the Fiscal Year of determination Employee is granted an additional 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$45.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

(i) \$410,000.00; or

(ii)  $\$350,000.00 + (1,500 \times \$45.00) =$

$\$350,000.00 + \$67,500 = \$417,500.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 2 is \$417,500.00.

**Schedule 5(e)**

**Gross-Up Payment Example**

Assume that the Company makes a Base Payment to Employee of \$900,000, and that \$600,000 is subject to an Excise Tax of 20%. Also assume that the maximum combined effective federal, state and local tax rate, including Employee's share of payroll taxes but not including the Excise Tax rate, is 45%. Under these circumstances, the Gross-Up Payment would be \$342,857.14.

The Gross-Up Payment in this example is equal to the amount of the Base Payment subject to the Excise Tax (\$600,000), multiplied by the Excise Tax rate, expressed as a decimal (.20), and divided by the remainder of 1 minus the Excise Tax rate, expressed as a decimal, and minus the effective rate of tax of Employee exclusive of the Excise Tax, expressed as a decimal (1-.20-.45). Hence, the Gross-Up Payment is  $\$600,000 \times .20 / (1-.20-.45) = \$342,857.14$ .

The Gross-Up Payment of \$342,857.14 represents the sum of the amounts referred to in clauses (i), (ii) and (iii) of Section 5(a) of this Agreement, as set forth below.

clause (i):	
Excise Tax on Base Payment (600,000 x .20)	120,000.00
clause (ii):	
Excise Tax on Gross-Up Payment (342,857.14 x .20)	68,571.43
clause (iii):	
Other taxes on Gross-Up Payment (342,857.14 x .45)	<u>154,285.71</u>
Total taxes subject to gross-up	<u><u>342,857.14</u></u>



**AMENDED AND RESTATED  
EMPLOYMENT AGREEMENT**

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT is effective as of the 21st day of February, 2007 (the "Effective Date"), by and between REPUBLIC SERVICES, INC., a Delaware corporation (the "Company"), and MICHAEL J. CORDESMAN, a Florida resident ("Employee").

Employee and the Company are parties to that Employment Agreement dated as of January 31, 2003, as amended on February 28, 2003 and on October 10, 2006 (collectively, the "Existing Employment Agreement").

As of the date hereof, Employee continues to be an employee of the Company and is considered a valued employee that the Company desires to retain in accordance with the terms of the Existing Employment Agreement.

For convenience of incorporating the previous amendments and making certain clarifying changes to the Existing Employment Agreement, including the incorporation in this Agreement of references to certain provisions of the Company's Executive Incentive Plan which otherwise governs certain incentive bonuses generally available to all participants under such Plan, including Employee, and in order to memorialize the agreement by Employee to the cessation of the accrual of a tax gross-up on future deferrals of compensation, Employee and the Company desire to enter into this Amended and Restated Employment Agreement (this "Agreement").

In consideration of the premises set forth above, the mutual representations, warranties, covenants and agreements contained in this Agreement and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment.

(a) Retention. The Company agrees to employ and/or continue the employment of Employee as its President and Chief Operating Officer, and Employee agrees to accept such employment, subject to the terms and conditions of this Agreement.

(b) Employment Period. This Agreement shall commence on the Effective Date and, unless terminated in accordance with the terms of this Agreement shall continue in effect on a rolling two-year basis, such that at any time during the term of this Agreement there will be two years remaining (the "Employment Period"). Notwithstanding the evergreen nature of the Employment Period, the Company may terminate Employee at any time in accordance with the provisions of Section 3 of this Agreement.

(c) Duties and Responsibilities. During the Employment Period, Employee shall serve as President and Chief Operating Officer and shall have such authority and responsibility and perform such duties as may be assigned to him from time to time by the Chief Executive Officer of

the Company, and in the absence of such assignment, such duties as are customary to Employee's office and as are necessary or appropriate to the business and operations of the Company. During the Employment Period, Employee's employment shall be full time and Employee shall perform his duties honestly, diligently, in good faith and in the best interests of the Company and shall use his best efforts to promote the interests of the Company.

(d) Other Activities. Except upon the prior written consent of the Company, Employee, during the Employment Period, will not accept any other employment. Employee shall be permitted to engage in any non-competitive businesses, not-for-profit organizations and other ventures, such as passive real estate investments, serving on charitable and civic boards and organizations, and similar activities, so long as such activities do not materially interfere with or detract from the performance of Employee's duties or constitute a breach of any of the provisions contained in Section 7 of this Agreement.

## 2. Compensation.

(a) Base Salary and Adjusted Salary. In consideration for Employee's services hereunder and the restrictive covenants contained herein, Employee shall be paid an annual base salary of \$459,000 for the 2007 Fiscal Year, subject to adjustment pursuant to Section 2(l) hereof (the "Base Salary"), payable in accordance with the Company's customary payroll practices. Notwithstanding the foregoing, Employee's annual Base Salary may be increased at anytime and from time to time to levels greater than the levels set forth in the preceding sentence at the discretion of the Board of Directors of the Company to reflect merit or other increases. In lieu of cash increases to the Base Salary, commencing with the 2004 Fiscal Year and continuing for each Fiscal Year thereafter through 2006, Employee has been awarded shares of restricted stock of the Company, as follows: (i) 2004 — 1,500 shares; (ii) 2005 — 2,000 shares; and 2006 — 3,000 shares. Similar deferrals in lieu of cash increases in Base Salary may be made for 2007 and/or future Fiscal Years during the term of this Agreement, in the discretion of the Compensation Committee of the Board of Directors. For the purposes of this Agreement, the term "Adjusted Salary" means (x) with respect to the 2004 Fiscal Year, the Base Salary plus the value (determined as described below) of the shares of restricted stock initially granted to Employee in lieu of a cash increase to Base Salary for such year, and (y) with respect to the 2005 Fiscal Year and each Fiscal Year thereafter during the term of this Agreement, the greater of (1) the Adjusted Salary for the immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the value (determined as described below) of the shares of restricted stock granted to Employee for such Fiscal Year. For the purposes of this Section, the value of shares of restricted stock shall be the value, determined at the closing price of the Company's shares on the New York Stock Exchange ("NYSE") as of the date of grant of the restricted stock award (or if the NYSE is not open for business on such date of grant, then on the next regular business day on which the NYSE is open for business). Based on the foregoing formula, Employee's Adjusted Salary for 2006 was \$576,030, which was determined as reflected on Schedule 2(a) hereto, which Schedule also sets forth an example of how such Adjusted Salary amount would be computed for future years. The Base Salary and Adjusted Salary for each Fiscal Year shall become effective as of January 1 of such Fiscal year. Employee's Base Salary for any Fiscal Year after 2007 shall remain as set for the 2007 Fiscal Year unless the Board of Directors increases such Base Salary and the Adjusted Salary

shall be determined each Fiscal Year in the manner described above. The term "Fiscal Year" as used herein shall mean each period of twelve (12) calendar months commencing on January 1st of each calendar year during the Employment Period and expiring on December 31st of such year.

(b) Annual Awards. In addition to the Base Salary and/or Adjusted Salary, Employee shall be eligible to receive Annual Awards in an amount equal to 100 % of the Employee's Base Salary in effect for the Performance Period with respect to which such Annual Award is granted, as established pursuant to the terms of the Company's Executive Incentive Plan, as amended, restated and renamed effective as of January 1, 2003 (the "Plan"). The Annual Award shall be based on the achievement of such Performance Goals as are established by the Compensation Committee of the Board of Directors pursuant to the Plan. The achievement of said Performance Goals shall be determined by the Compensation Committee of the Board of Directors. Except as otherwise provided in Sections 3(d), 3(e) and 22, with respect to any Fiscal Year during which Employee is employed by the Company for less than the entire Fiscal Year, the Annual Award shall be prorated for the period during which Employee was so employed. The Annual Award shall be payable within sixty (60) days after the end of the Company's Fiscal Year. To the extent of any conflict between the provisions of this Agreement and the Plan, the terms of this Agreement shall control.

(c) Merit and Other Bonuses. Employee shall be entitled to such other bonuses as may be determined by the Board of Directors of the Company or by a committee of the Board of Directors as determined by the Board of Directors, in its sole discretion.

(d) Existing Stock Options and Shares of Restricted Stock. The Company has issued to Employee options to purchase shares of the Company's Common Stock pursuant to the terms of various Option Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Option Grants"). The Company has also granted to Employee restricted shares of the Company's Common Stock pursuant to the terms of various Executive Restricted Stock Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Restricted Stock Grants"). The options issued or to be issued under the Outstanding Option Grants shall continue to be subject to the terms of the Option Agreements, except to the extent otherwise provided for in this Agreement. The shares of restricted stock granted or to be granted under the Outstanding Restricted Stock Grants shall continue to be subject to the terms of the Executive Restricted Stock Agreements, except to the extent otherwise provided for in this Agreement.

(e) Other Stock Options. Employee shall be entitled to participate and receive option grants under the 1998 Stock Incentive Plan and such other incentive or stock option plans as may be in effect from time-to-time, as determined by the Board of Directors of the Company.

(f) Other Compensation Programs. Employee shall be entitled to participate in the Company's incentive and deferred compensation programs and such other programs as are

established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans or programs.

(g) Health Insurance. The Company shall pay for Employee's and his family's health insurance including without limitation comprehensive major medical and hospitalization coverage including dental and optical coverage under all group medical plans from time to time in effect for the benefit of the Company's employees or executive officers.

(h) Life Insurance. The Company shall purchase and maintain in effect one or more term insurance policies on the life of Employee in an aggregate amount not less than two times his Base Salary in effect from time to time during the term of employment. The beneficiary of such policy shall be the person or persons who Employee designates in writing to the Company.

(i) Disability Insurance. The Company shall pay for Employee to participate in the Company's disability insurance in effect from time to time. The Company shall pay for the maximum coverage commercially available. To the extent the Company does not have a disability insurance plan or other retirement plan, then the Company shall arrange, at its expense, for Employee to participate in such plan.

(j) Other Benefits. During the term of this Agreement, Employee shall also be entitled to participate in any other health insurance programs, life insurance programs, disability programs, stock option plans, bonus plans, pension plans and other fringe benefit plans and programs as are from time to time established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans and programs.

(k) Expenses. Employee shall be reimbursed for all out-of-pocket expenses reasonably incurred by him on behalf of or in connection with the business of the Company, pursuant to the normal standards and guidelines followed from time to time by the Company.

(l) Tax and Estate Planning Reimbursement for 2007. Employee's Base Salary for Fiscal Year 2007 shall be reduced by that amount of out-of-pocket expenses for financial, tax and estate planning that was submitted by Employee and reimbursed by the Company during such year.

(m) Long Term Awards. On April 26, 2001, the Board of Directors adopted the Republic Services, Inc. Long Term Incentive Plan, effective January 1, 2001 to provide for long term incentive cash grants for specific employees of the Company, including Employee. Effective January 1, 2003, the Long Term Incentive Plan was amended, restated and renamed to the Executive Incentive Plan (as previously defined in Section 2, clause (b), the "Plan") to provide not only for long term incentive cash grants but also to include the Annual Awards referred to above. Employee has participated in the Long Term Incentive Plan and the Plan since inception, and Employee shall be entitled to continue to participate in the Plan for purposes of receiving Long Term Awards pursuant to the terms of this Agreement and the Plan.

### 3. Termination.

(a) For Cause. The Company shall have the right to terminate this Agreement and to discharge Employee for Cause (as defined below), at any time during the term of this Agreement. Termination for Cause shall mean, during the term of this Agreement, (i) Employee's willful and continued failure to substantially perform his duties after he has received written notice from the Company identifying the actions or omissions constituting willful and continued failure to perform, (ii) Employee's conduct that would constitute a crime under federal or state law, (iii) Employee's actions or omissions that constitute fraud, dishonesty or gross misconduct, (iv) Employee's breach of any fiduciary duty that causes material injury to the Company, (v) Employee's breach of any duty causing material injury to the Company, (vi) Employee's inability to perform his material duties to the reasonable satisfaction of the Company due to alcohol or other substance abuse, or (vii) any violation of the Company's policies or procedures involving discrimination, harassment, substance abuse or work place violence. Any termination for Cause pursuant to this Section shall be given to Employee in writing and shall set forth in detail all acts or omissions upon which the Company is relying to terminate Employee for Cause.

Upon any determination by the Company that Cause exists to terminate Employee, the Company shall cause a special meeting of the Board of Directors to be called and held at a time mutually convenient to the Board of Directors and Employee, but in no event later than ten (10) business days after Employee's receipt of the notice that the Company intends to terminate Employee for Cause. Employee shall have the right to appear before such special meeting of the Board of Directors with legal counsel of his choosing to refute such allegations and shall have a reasonable period of time to cure any actions or omissions which provide the Company with a basis to terminate Employee for Cause (provided that such cure period shall not exceed 30 days). A majority of the members of the Board of Directors must affirm that Cause exists to terminate Employee. No finding by the Board of Directors will prevent Employee from contesting such determination through appropriate legal proceedings provided that Employee's sole remedy shall be to sue for damages, not reinstatement, and damages shall be limited to those that would be paid to Employee if he had been terminated without Cause. In the event the Company terminates Employee for Cause, the Company shall only be obligated to continue to pay in the ordinary and normal course of its business to Employee his Base Salary plus accrued but unused vacation time through the termination date and the Company shall have no further obligations to Employee from and after the date of termination.

(b) Resignation by Employee Without Good Reason. If Employee shall resign or otherwise terminate his employment with the Company at anytime during the term of this Agreement, other than for Good Reason (as defined below), Employee shall only be entitled to receive his accrued and unpaid Base Salary through the termination date, and the Company shall have no further obligations under this Agreement from and after the date of resignation.

(c) Termination by Company Without Cause and by Employee For Good Reason. At any time during the term of this Agreement, (i) the Company shall have the right to terminate

this Agreement and to discharge Employee without Cause effective upon delivery of written notice to Employee, and (ii) Employee shall have the right to terminate this Agreement for Good Reason effective upon delivery of written notice to the Company. For purposes of this Agreement, "Good Reason" shall mean: (i) the Company has materially reduced the duties and responsibilities of Employee to a level not appropriate for an officer of a publicly-traded company holding the position provided for in Section 1(a), (ii) the Company has breached any material provision of this Agreement and has not cured such breach within 30 days of receipt of written notice of such breach from Employee, (iii) Company has reduced Employee's annual Adjusted Salary by more than 10% from the prior Fiscal Year (nothing in this clause implies that the Company may reduce Employee's Adjusted Salary below the levels provided for in Section 2(a)), (iv) the Company has terminated Employee's participation in one or more of the Company's sponsored benefit or incentive plans and no other executive officer has had his participation terminated, (v) a failure by the Company (1) to continue any bonus plan, program or arrangement in which Employee is entitled to participate ("Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Employee with substantially similar benefits are not substituted therefor ("Substitute Plans"), or (2) to continue Employee as a participant in the Bonus Plans and Substitute Plans on at least a basis which is substantially the same as to potential amount of the bonus Employee participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans (a plan shall be considered to be on a basis substantially the same as another if the potential amount payable thereunder is at least 90% of the potential amount payable under the other plan), (vi) Employee's office is relocated by the Company to a location which is not located within the Florida counties of Miami-Dade, Broward or Palm Beach, or (vii) the Company's termination without Cause of the continuation of the Employment Period provided in this Agreement. Upon any such termination by the Company without Cause, or by Employee for Good Reason, the Company shall pay to Employee all of Employee's accrued but unpaid Base Salary through the date of termination, and continue to pay to or provide for Employee (a) a sum equal to his Adjusted Salary payable in accordance with Section 2(a) for two (2) years from the date of termination, when and as Base Salary would have been due and payable hereunder but for such termination, (b) all health benefits in which Employee was entitled to participate at any time during the 12-month period prior to the date of termination, until the earliest to occur of the second anniversary of the date of termination, Employee's death, or the date on which Employee becomes covered by a comparable health benefit plan by a subsequent employer; provided, however, that in the event that Employee's continued participation in any health benefit plan of the Company is prohibited, the Company will arrange to provide Employee with benefits substantially similar to those which Employee would have been entitled to receive under such plan for such period on a basis which provides Employee with no additional after tax cost, (c) all stock option grants or restricted stock grants, whether or not part of the Outstanding Option Grant or any options issued during the term of this Agreement, will immediately vest and any such options will remain exercisable for the lesser of the unexpired term of the option without regard to the termination of Employee's employment or two (2) years from the date of termination of employment, (d) all Annual Awards shall vest and be paid on a pro-rated basis in an amount equal to the Annual Awards payment that the Compensation Committee of the Board of Directors determines

would have been paid to Employee pursuant to the Plan had Employee's employment continued to the end of the Performance Period, multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total number of months in the Performance Period, (e) all Long Term Awards shall vest and be paid on a pro-rated basis in an amount equal to the maximum Long Term Awards that would have been paid to Employee pursuant to the Plan had Employee's employment continued to the end of the Performance Periods established under the Plan multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total number of months in the Performance Period, and (f) as of the termination date Employee shall be paid the balance of all amounts credited or eligible to be credited to Employee's deferred compensation account, plus, for all such amounts credited or eligible to be credited to such account based upon Company's performance on or before December 31, 2006 (herein referred to as the "December 31, 2006 deferral amount") whether or not such amount is actually credited to such account prior to or after such date, a gross-up payment to reimburse Employee for all income and other taxes imposed with respect to the payment of such amounts and all income and other taxes arising as a result of said gross-up payment such that the payment of such December 31, 2006 deferral amount of Employee is made to Employee free of all taxes thereon whatsoever (collectively, the foregoing consideration payable to Employee shall be referred to herein as the "Severance Payment"). Other than the Severance Payment, the Company shall have no further obligation to Employee except for the obligations set forth in Section 14 of this Agreement after the date of such termination; provided, however, that Employee shall only be entitled to continuation of the Severance Payments as long as he is in compliance with the provisions of Sections 6 and 7 of this Agreement.

(d) Disability of Employee. This Agreement may be terminated by the Company upon the Disability of Employee. "Disability" shall mean any mental or physical illness, condition, disability or incapacity which prevents Employee from reasonably discharging his duties and responsibilities under this Agreement for a period of 180 consecutive days. In the event that any disagreement or dispute shall arise between the Company and Employee as to whether Employee suffers from any Disability, then, in such event, Employee shall submit to the physical or mental examination of a physician licensed under the laws of the State of Florida, who is mutually agreeable to the Company and Employee, and such physician shall determine whether Employee suffers from any Disability. In the absence of fraud or bad faith, the determination of such physician shall be final and binding upon the Company and Employee. The entire cost of such examination shall be paid for solely by the Company. In the event the Company has purchased Disability insurance for Employee, Employee shall be deemed disabled if he is completely (fully) disabled as defined by the terms of the Disability policy. In the event that at any time during the term of this Agreement Employee shall suffer a Disability and the Company terminates Employee's employment for such Disability, such Disability shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee to the same extent and in the same manner as provided for in paragraph (c) above, except that (i) to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee shall be paid,

within thirty (30) days following the date of Employee's termination due to his Disability, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all Performance Goals been met and (ii) payment of the sum equal to the Adjusted Salary in accordance with said paragraph shall be mitigated to the extent payments are made to Employee pursuant to disability insurance programs maintained by the Company.

(e) Death of Employee. If during the term of this Agreement Employee shall die, then the employment of Employee by the Company shall automatically terminate on the date of Employee's death. In such event, Employee's death shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee's personal representative or estate to the same extent and in the same manner as provided for in paragraph (c) above, without mitigation for any insurance policies or other benefits held by Employee, except that to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee's beneficiary or estate shall be paid, within thirty (30) days following the date of Employee's death, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all Performance Goals been met. Once such payments have been made to Employee's personal representative, beneficiary or estate, as the case may be, the Company shall have no further obligations under this Agreement or otherwise to said personal representative, beneficiary or estate, or to any heirs of Employee.

#### 4. Termination of Employment by Employee for Change of Control.

(a) Termination Rights. Notwithstanding the provisions of Section 2 and Section 3 of this Agreement, in the event that there shall occur a Change of Control (as defined below) of the Company and within two years after such Change of Control Employee's employment hereunder is terminated by the Company without Cause or by Employee for Good Reason, then the Company shall be required to pay to Employee (i) the Severance Payment provided in Section 3(c), except that the continuation of Adjusted Salary under 3(c) shall be for three (3) years from the date of termination and that the Severance Payment shall be paid in a single lump sum in full, (ii) the product of three multiplied by the maximum amount of the Awards, including both Annual Awards and Long Term Awards, that Employee would have been eligible for under the Plan with respect to the Fiscal Year in which such termination occurs, in a single lump sum. The foregoing payments shall be made no later than 10 days after Employee's termination pursuant to this Section 4. To the extent that payments are owed by the Company to Employee pursuant to this Section 4, they shall be made in lieu of payments pursuant to Section 3, and in no event shall the Company be required to make payments or provide benefits to Employee under both Section 3 and Section 4.



(b) Change of Control of the Company Defined. For purposes of this Section 4, the term “Change of Control of the Company” shall mean any change in control of the Company of a nature which would be required to be reported (i) in response to Item 6(e) of Schedule 14A of Regulation 14A, as in effect on the date of this Agreement, promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), (ii) in response to Item 1 of the Current Report on Form 8-K, as in effect on the date of this Agreement, promulgated under the Exchange Act, or (iii) in any filing by the Company with the Securities and Exchange Commission; provided, however, that without limitation, a Change of Control of the Company shall be deemed to have occurred if:

(i) Any “person” (as such term is defined in Sections 13(d)(3) and Section 14(d)(3) of the Exchange Act), other than the Company, any majority-owned subsidiary of the Company, or any compensation plan of the Company or any majority-owned subsidiary of the Company, becomes the “beneficial owner” (as such term is defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company;

(ii) During any period of three consecutive years during the term of this Agreement, the individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority of such Board of Directors, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of such period; or

(iii) The shareholders of the Company approve (1) a reorganization, merger, or consolidation with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger, or consolidation do not immediately thereafter own more than 50% of the combined voting power entitled to vote generally in the election of the directors of the reorganized, merged or consolidated entity; (2) a liquidation or dissolution of the Company; or (3) the sale of all or substantially all of the assets of the Company or of a subsidiary of the Company that accounts for 30% of the consolidated revenues of the Company, but not including a reorganization, merger or consolidation of the Company.

#### 5. Gross-Up Payment.

(a) Amount. If any payment or benefit provided to Employee by the Company (a “Base Payment”) is subject to the tax (the “Excise Tax”) imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”) (or any other similar tax that may hereafter be imposed), the Company shall pay to Employee the “Gross-Up Payment” determined as follows. The “Gross-Up Payment” shall be equal to the sum of (i) the Excise Tax imposed with respect to the Base Payment, plus (ii) the Excise Tax imposed with respect to the Gross-Up Payment, plus (iii) all other taxes imposed on Employee with respect to the Gross-Up Payment, including income taxes and Employee’s share of FICA, FUTA and other payroll taxes. The Gross-Up Payment shall not

include the payment of any tax on the Base Payment other than the Excise Tax. The Gross-Up Payment is intended to place Employee in the same economic position Employee would have been in if the Excise Tax did not apply, and shall be calculated in accordance with such intent.

(b) Tax Rates and Assumptions. For purposes of determining the amount of the Gross-Up Payment, Employee shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of Employee's residence on the date of termination, net of the maximum reduction in Federal income taxes which could be obtained from deduction of such state and local taxes.

(c) Payment and Calculation Procedures. The Gross-Up Payment attributable to a Base Payment shall be paid to Employee in cash and at such times as such Base Payment is paid or provided pursuant to this Agreement. Simultaneously with or prior to the Company's payment of a Base Payment, the Company shall deliver to Employee a written statement specifying the total amount of the Base Payment and the Excise Tax and Gross-Up Payment relating to the Base Payment, if any, together with all supporting calculations and conclusions. If Employee disagrees with the Company's determination of the Excise Tax or Gross-Up Payment, Employee shall submit to the Company, no later than 30 days after receipt of the Company's written statement, a written notice advising the Company of the disagreement and setting forth Employee's calculation of said amounts. Employee's failure to submit such notice within such period shall be conclusively deemed to be an agreement by Employee as to the amount of the Excise Tax and Gross-Up Payment, if any. If the Company agrees with Employee's calculations, it shall pay any shortfall in the Gross-Up Payment to Employee within 20 days after receipt of such a notice from Employee. If the Company does not agree with Employee's calculations, it shall provide Employee with a written notice within 20 days after the receipt of Employee's calculations advising Employee that the disagreement is to be referred to an independent accounting firm for resolution. Such disagreement shall be referred to a nationally recognized independent accounting firm which is not the regular accounting firm of the Company and which is designated by the Company. The Company shall be required to designate such accounting firm within 10 days after issuance of the Company's notice of disagreement. The accounting firm shall review all information provided to it by the parties and submit a written report to the parties setting forth its calculation of the Excise Tax and the Gross-Up Payment within 15 days after submission of the matter to it, and such decision shall be final and binding on all of the parties. The fees and expenses charged by said accounting firm shall be paid by the Company. If the amount of the Gross-Up Payment actually paid by the Company was less than the amount calculated by the accounting firm, the Company shall pay the shortfall to Employee within 5 days after the accounting firm submits its written report. If the amount of the Gross-Up Payment actually paid by the Company was greater than the amount calculated by the accounting firm, Employee shall pay the excess to the Company within 5 days after the accounting firm submits its written report.

(d) Subsequent Recalculation. In the event the Internal Revenue Service or other applicable governmental authority imposes an Excise Tax with respect to a Base Payment that is greater than the amount of the Excise Tax determined pursuant to the immediately preceding

paragraph, the Company shall reimburse Employee for the full amount of such additional Excise Tax plus any interest and penalties which may be imposed in connection therewith, and pay to Employee a Gross-up Payment sufficient to make Employee whole and reimburse Employee for any Excise Tax, income tax and other taxes imposed on the reimbursement of such additional Excise Tax and interest and penalties, in accordance with the principles set forth above.

(e) Example. The calculation of the Gross-Up Payment is illustrated by the example set forth in Schedule 5(e), attached to this Agreement and hereby incorporated by reference. The amounts set forth in such example are for illustration purposes only and no implication shall be drawn from such example as to the amounts otherwise payable to Employee by the Company.

6. Successor To Company. The Company shall require any successor, whether direct or indirect, to all or substantially all of the business, properties and assets of the Company whether by purchase, merger, consolidation or otherwise, prior to or simultaneously with such purchase, merger, consolidation or other acquisition to execute and to deliver to Employee a written instrument in form and in substance reasonably satisfactory to Employee pursuant to which any such successor shall agree to assume and to timely perform or to cause to be timely performed all of the Company's covenants, agreements and obligations set forth in this Agreement (a "Successor Agreement"). The failure of the Company to cause any such successor to execute and deliver a Successor Agreement to Employee shall constitute a material breach of the provisions of this Agreement by the Company.

7. Restrictive Covenants. In consideration of his employment and the other benefits arising under this Agreement, Employee agrees that during the term of this Agreement, and for a period of three (3) years following the termination of this Agreement, Employee shall not directly or indirectly:

(a) alone or as a partner, joint venturer, officer, director, member, employee, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, (i) engage in the business of solid waste collection, disposal or recycling (the "Solid Waste Services Business") in any market in which the Company or any of its subsidiaries or affiliates does business, or any other line of business which is entered into by the Company or any of its subsidiaries or affiliates during the term of this Agreement, or (ii) compete with the Company or any of its subsidiaries or affiliates in acquiring or merging with any other business or acquiring the assets of such other business; or

(b) for any reason, (i) induce any customer of the Company or any of its subsidiaries or affiliates to patronize any business directly or indirectly in competition with the Solid Waste Services Business conducted by the Company or any of its subsidiaries or affiliates in any market in which the Company or any of its subsidiaries or affiliates does business; (ii) canvass, solicit or accept from any customer of the Company or any of its subsidiaries or affiliates any such competitive business; or (iii) request or advise any customer or vendor of the Company or any of its subsidiaries or affiliates to withdraw, curtail or cancel any such customer's or vendor's business with the Company or any of its subsidiaries or affiliates; or

(c) for any reason, employ, or knowingly permit any company or business directly or indirectly controlled by him, to employ, any person who was employed by the Company or any of its subsidiaries or affiliates at or within the prior six months, or in any manner seek to induce any such person to leave his or her employment.

Notwithstanding the foregoing, the beneficial ownership of less than five percent (5%) of the shares of stock of any corporation having a class of equity securities actively traded on a national securities exchange or over-the-counter market shall not be deemed, in and of itself, to violate the prohibitions of this Section.

8. Confidentiality. Employee agrees that at all times during the term of this Agreement and after the termination of employment for as long as such information remains non-public information, Employee shall (i) hold in confidence and refrain from disclosing to any other party all information, whether written or oral, tangible or intangible, of a private, secret, proprietary or confidential nature, of or concerning the Company or any of its subsidiaries or affiliates and their business and operations, and all files, letters, memoranda, reports, records, computer disks or other computer storage medium, data, models or any photographic or other tangible materials containing such information ("Confidential Information"), including without limitation, any sales, promotional or marketing plans, programs, techniques, practices or strategies, any expansion plans (including existing and entry into new geographic and/or product markets), and any customer lists, (ii) use the Confidential Information solely in connection with his employment with the Company or any of its subsidiaries or affiliates and for no other purpose, (iii) take all precautions necessary to ensure that the Confidential Information shall not be, or be permitted to be, shown, copied or disclosed to third parties, without the prior written consent of the Company or any of its subsidiaries or affiliates, and (iv) observe all security policies implemented by the Company or any of its subsidiaries or affiliates from time to time with respect to the Confidential Information. In the event that Employee is ordered to disclose any Confidential Information, whether in a legal or regulatory proceeding or otherwise, Employee shall provide the Company or any of its subsidiaries or affiliates with prompt notice of such request or order so that the Company or any of its subsidiaries or affiliates may seek to prevent disclosure. In addition to the foregoing Employee shall not at any time libel, defame, ridicule or otherwise disparage the Company.

9. Specific Performance; Injunction. The parties agree and acknowledge that the restrictions contained in Sections 7 and 8 are reasonable in scope and duration and are necessary to protect the Company or any of its subsidiaries or affiliates. If any provision of Section 7 or 8 as applied to any party or to any circumstance is adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other circumstance or the validity or enforceability of any other provision of this Agreement. If any such provision, or any part thereof, is held to be unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, and in its reduced form, such provision shall then be enforceable and shall be enforced. Employee agrees and acknowledges that the breach of

Section 7 or 8 will cause irreparable injury to the Company or any of its subsidiaries or affiliates and upon breach of any provision of such Sections, the Company or any of its subsidiaries or affiliates shall be entitled to injunctive relief, specific performance or other equitable relief, without being required to post a bond; provided, however, that, this shall in no way limit any other remedies which the Company or any of its subsidiaries or affiliates may have (including, without limitation, the right to seek monetary damages).

10. Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be deemed given if delivered by hand delivery, by certified or registered mail (first class postage pre-paid), guaranteed overnight delivery or facsimile transmission if such transmission is confirmed by delivery by certified or registered mail (first class postage pre-paid) or guaranteed overnight delivery to, the following addresses and telecopy numbers (or to such other addresses or telecopy numbers which such party shall designate in writing to the other parties): (a) if to the Company, at its principal executive offices, addressed to the President, with a copy to the General Counsel; and (b) if to Employee, at the address listed on the signature page hereto.

11. Amendment; Waiver. This Agreement may not be modified, amended, or supplemented, except by written instrument executed by all parties. No failure to exercise, and no delay in exercising, any right, power or privilege under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any right, power or privilege hereunder preclude the exercise of any other right, power or privilege. No waiver of any breach of any provision shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other provision, nor shall any waiver be implied from any course of dealing between the parties. No extension of time for performance of any obligations or other acts hereunder or under any other agreement shall be deemed to be an extension of the time for performance of any other obligations or any other acts. The rights and remedies of the parties under this Agreement are in addition to all other rights and remedies, at law or equity, that they may have against each other.

12. Assignment; Third Party Beneficiary. This Agreement, and Employee's rights and obligations hereunder, may not be assigned or delegated by him. The Company may assign its rights, and delegate its obligations, hereunder to any affiliate of the Company, or any successor to the Company or its Solid Waste Services Business, specifically including the restrictive covenants set forth in Section 7 hereof. The rights and obligations of the Company under this Agreement shall inure to the benefit of and be binding upon its respective successors and assigns.

13. Severability; Survival. In the event that any provision of this Agreement is found to be void and unenforceable by a court of competent jurisdiction, then such unenforceable provision shall be deemed modified so as to be enforceable (or if not subject to modification then eliminated herefrom) to the extent necessary to permit the remaining provisions to be enforced in accordance with the parties intention. The provisions of Sections 7 and 8 will survive the termination for any reason of Employee's relationship with the Company.

14. Indemnification. The Company agrees to indemnify Employee during the term and after termination of this Agreement in accordance with the provisions of the Company's certificate of incorporation and bylaws and the Delaware General Corporation Law.

15. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

16. Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Florida applicable to contracts executed and to be wholly performed within such State.

17. Entire Agreement. This Agreement contains the entire understanding of the parties in respect of its subject matter and supersedes all prior agreements and understandings (oral or written) between or among the parties with respect to such subject matter. Upon the execution of this Agreement the provisions of the Existing Employment Agreement shall be superseded and shall be of no further force and effect except as specifically preserved by the terms of this Agreement.

18. Headings. The headings of Paragraphs and Sections are for convenience of reference and are not part of this Agreement and shall not affect the interpretation of any of its terms.

19. Construction. This Agreement shall be construed as a whole according to its fair meaning and not strictly for or against any party. The parties acknowledge that each of them has reviewed this Agreement and has had the opportunity to have it reviewed by their respective attorneys and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Agreement. Words of one gender shall be interpreted to mean words of another gender when necessary to construe this Agreement, and in like manner words in singular may be interpreted to be in the plural, and vice versa.

20. Attorneys' Fees. If at any time following a Change of Control of the Company, there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Employee (and Employee shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly provide sums sufficient to pay on a current basis (either directly or by reimbursing Employee) Employee's costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Employee in connection with any such dispute or any litigation, provided that Employee shall repay any such amounts paid or advanced if Employee is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. If at any time when there has not previously been a Change of Control of the Company, there should arise any dispute or litigation as to the validity, interpretation or application of any term or condition of the Agreement, the prevailing party in such dispute or litigation shall be entitled to recover from the non-prevailing party its costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of

experts, etc.) incurred in such dispute or litigation. The provisions of this Section 20, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and Employee's employment hereunder.

21. Withholding. All payments made to Employee shall be made net of any applicable withholding for income taxes, Excise Tax and Employee's share of FICA, FUTA or other taxes. The Company shall withhold such amounts from such payments to the extent required by applicable law and remit such amounts to the applicable governmental authorities in accordance with applicable law.

22. Retirement Eligibility. Upon Employee's retirement, the Company shall pay to Employee all of Employee's accrued but unpaid Base Salary through the date of retirement. In addition, for all stock option or restricted stock awards ("Equity Awards") and all monetary awards (including Annual Awards and Long Term Awards pursuant to the Plan and any retirement contributions to the deferred compensation program) ("Monetary Awards"), in each case granted to Employee prior to July 26, 2006 ("Prior Awards"), such Employee shall be eligible to retire for purposes of the Prior Awards, and such Prior Awards shall fully vest in the event of such retirement, upon attaining either (a) the age of fifty-five (55) and having completed six (6) years of service with the Company or (b) the age of sixty-five (65) without regard to years of service with the Company (the "Original Retirement Policy"). For all Equity Awards and/or Monetary Awards granted to Employee following July 26, 2006 ("Prospective Awards"), the Original Retirement Policy shall apply, and such Prospective Awards shall fully vest in the event of such retirement, provided, and only to the extent that, Employee shall provide the Company with not less than twelve (12) months prior written notice of Employee's intent to retire. Failure by Employee to provide such written notice shall cause the Revised Retirement Policy (as hereinafter defined) to apply with respect to the vesting of Prospective Awards, but such failure shall have no effect whatsoever on the Prior Awards, all of which shall continue to be subject to the Original Retirement Policy. For purposes of this Agreement, (i) "Revised Retirement Policy" shall mean Employee has attained the age of (x) sixty (60) and has completed fifteen (15) years of continuous service with the Company or (y) sixty-five (65) with five (5) years of continuous service with the Company, and (ii) the Annual Awards and Long Term Awards includable within the Monetary Awards to be fully vested as provided above shall include all such Awards which have been granted to Employee, but which, as of the date of his retirement, have not been determined to have been earned pursuant to the Plan and in such instance Employee shall be paid, within thirty (30) days following the date of Employee's retirement, an amount with respect to each such open Award equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all performance goals been met.

23. Timing of Severance Payments. Notwithstanding anything in this Agreement to the contrary, if Employee is deemed to be a "key employee" for purposes of Internal Revenue Code Section 409A ("Section 409A"), no Severance Payment or other payments pursuant to, or contemplated by, this Agreement shall be made to Employee by the Company until the amount of

time has elapsed that is necessary to avoid incurring excise taxes under Section 409A. Should this result in a delay of payments to Employee, on the first day any such payments may be made without incurring a penalty pursuant to Section 409A (the "409A Payment Date"), the Company shall begin to make such payments as described in this Section 23, provided that any amounts that would have been payable earlier but for the application of this Section 23 shall be paid in a lump-sum on the 409A Payment Date.

**[SIGNATURES ON FOLLOWING PAGE]**



IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

REPUBLIC SERVICES, INC., a Delaware  
corporation

By: /s/ Harris W. Hudson  
Harris W. Hudson, Vice Chairman

EMPLOYEE:

/s/ Michael J. Cordesman  
Michael J. Cordesman

Address for Notices:

\_\_\_\_\_  
\_\_\_\_\_

**Schedule 2(a)**  
**Adjusted Salary Example**

**Calculation of 2006 Adjusted Salary**

Adjusted Salary for 2005: \$487,000  
Base Salary: \$459,000  
Shares of Company Restricted Stock Granted: 2,500  
Closing Price of Company Shares: \$39.01 per share (3,000 x \$39.01 = \$117,030)  
Base Salary + Closing Price of Restricted Shares = \$459,000 + \$117,030 = \$576,030  
Adjusted Salary for 2006: \$576,030 (since greater than the Adjusted Salary for 2005)

**Examples of Calculation of Future Adjusted Salary**

**Example 1:**

Assume the following: (i) Employee's Base Salary is \$350,000.00; (ii) Employee's Adjusted Salary for the Fiscal Year immediately preceding the Fiscal Year for which the computation is to be made was \$400,000.00; (iii) for the Fiscal Year of determination Employee is granted 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$40.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

- (i) \$400,000.00; or
- (ii)  $\$350,000.00 + (1,500 \times \$40.00) =$   
 $\$350,000.00 + \$60,000 = \$410,000.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 1 is \$410,000.00.

Example 2:

Assume, with respect to the Fiscal Year immediately following the Fiscal Year described in Example 1 above, the following: (i) Employee's Base Salary remains at \$350,000.00; (ii) as indicated above in Example 1, Employee's Adjusted Salary for the immediately preceding Fiscal Year immediately was \$410,000.00; (iii) for the Fiscal Year of determination Employee is granted an additional 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$45.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

(i) \$410,000.00; or

(ii)  $\$350,000.00 + (1,500 \times \$45.00) =$

$\$350,000.00 + \$67,500 = \$417,500.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 2 is \$417,500.00.

**Schedule 5(e)**

**Gross-Up Payment Example**

Assume that the Company makes a Base Payment to Employee of \$900,000, and that \$600,000 is subject to an Excise Tax of 20%. Also assume that the maximum combined effective federal, state and local tax rate, including Employee's share of payroll taxes but not including the Excise Tax rate, is 45%. Under these circumstances, the Gross-Up Payment would be \$342,857.14.

The Gross-Up Payment in this example is equal to the amount of the Base Payment subject to the Excise Tax (\$600,000), multiplied by the Excise Tax rate, expressed as a decimal (.20), and divided by the remainder of 1 minus the Excise Tax rate, expressed as a decimal, and minus the effective rate of tax of Employee exclusive of the Excise Tax, expressed as a decimal (1-.20-.45). Hence, the Gross-Up Payment is  $\$600,000 \times .20 / (1-.20-.45) = \$342,857.14$ .

The Gross-Up Payment of \$342,857.14 represents the sum of the amounts referred to in clauses (i), (ii) and (iii) of Section 5(a) of this Agreement, as set forth below.

clause (i):	
Excise Tax on Base Payment (600,000 x .20)	120,000.00
clause (ii):	
Excise Tax on Gross-Up Payment (342,857.14 x .20)	68,571.43
clause (iii):	
Other taxes on Gross-Up Payment (342,857.14 x .45)	<u>154,285.71</u>
Total taxes subject to gross-up	<u><u>342,857.14</u></u>

**AMENDED AND RESTATED  
EMPLOYMENT AGREEMENT**

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT is effective as of the 21st day of February, 2007 (the "Effective Date"), by and between REPUBLIC SERVICES, INC., a Delaware corporation (the "Company"), and TOD C. HOLMES, a Florida resident ("Employee").

Employee and the Company are parties to that Employment Agreement dated as of October 25, 2000, as amended by Amendment Number One, dated as of January 31, 2003, and Amendment Number Two, dated as of October 10, 2006 (collectively, the "Existing Employment Agreement").

As of the date hereof, Employee continues to be an employee of the Company and is considered a valued employee that the Company desires to retain in accordance with the terms of the Existing Employment Agreement.

For convenience of incorporating the previous amendments and making certain clarifying changes to the Existing Employment Agreement, including the incorporation in this Agreement of references to certain provisions of the Company's Executive Incentive Plan which otherwise governs certain incentive bonuses generally available to all participants under such Plan, including Employee, and in order to memorialize the agreement by Employee to the cessation of the accrual of a tax gross-up on future deferrals of compensation, Employee and the Company desire to enter into this Amended and Restated Employment Agreement (this "Agreement").

In consideration of the premises set forth above, the mutual representations, warranties, covenants and agreements contained in this Agreement and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment.

(a) Retention. The Company agrees to employ and/or continue the employment of Employee as its Senior Vice President and Chief Financial Officer, and Employee agrees to accept such employment, subject to the terms and conditions of this Agreement.

(b) Employment Period. This Agreement shall commence on the Effective Date and, unless terminated in accordance with the terms of this Agreement shall continue in effect on a rolling two-year basis, such that at any time during the term of this Agreement there will be two years remaining (the "Employment Period"). Notwithstanding the evergreen nature of the Employment Period, the Company may terminate Employee at any time in accordance with the provisions of Section 3 of this Agreement.

(c) Duties and Responsibilities. During the Employment Period, Employee shall serve as Senior Vice President and Chief Financial Officer and shall have such authority and responsibility and perform such duties as may be assigned to him from time to time by the Chief Executive Officer of the Company, and in the absence of such assignment, such duties as are

customary to Employee's office and as are necessary or appropriate to the business and operations of the Company. During the Employment Period, Employee's employment shall be full time and Employee shall perform his duties honestly, diligently, in good faith and in the best interests of the Company and shall use his best efforts to promote the interests of the Company.

(d) Other Activities. Except upon the prior written consent of the Company, Employee, during the Employment Period, will not accept any other employment. Employee shall be permitted to engage in any non-competitive businesses, not-for-profit organizations and other ventures, such as passive real estate investments, serving on charitable and civic boards and organizations, and similar activities, so long as such activities do not materially interfere with or detract from the performance of Employee's duties or constitute a breach of any of the provisions contained in Section 7 of this Agreement.

## 2. Compensation.

(a) Base Salary and Adjusted Salary. In consideration for Employee's services hereunder and the restrictive covenants contained herein, Employee shall be paid an annual base salary of \$408,000 for the 2007 Fiscal Year, subject to adjustment pursuant to Section 2(l) hereof (the "Base Salary"), payable in accordance with the Company's customary payroll practices. Notwithstanding the foregoing, Employee's annual Base Salary may be increased at anytime and from time to time to levels greater than the levels set forth in the preceding sentence at the discretion of the Board of Directors of the Company to reflect merit or other increases. In lieu of cash increases to the Base Salary, commencing with the 2004 Fiscal Year and continuing for each Fiscal Year thereafter through 2006, Employee has been awarded shares of restricted stock of the Company, as follows: (i) 2004 — 1,500 shares; (ii) 2005 — 2,000 shares; and 2006 — 2,500 shares. Similar deferrals in lieu of cash increases in Base Salary may be made for 2007 and/or future Fiscal Years during the term of this Agreement, in the discretion of the Compensation Committee of the Board of Directors. For the purposes of this Agreement, the term "Adjusted Salary" means (x) with respect to the 2004 Fiscal Year, the Base Salary plus the value (determined as described below) of the shares of restricted stock initially granted to Employee in lieu of a cash increase to Base Salary for such year, and (y) with respect to the 2005 Fiscal Year and each Fiscal Year thereafter during the term of this Agreement, the greater of (1) the Adjusted Salary for the immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the value (determined as described below) of the shares of restricted stock granted to Employee for such Fiscal Year. For the purposes of this Section, the value of shares of restricted stock shall be the value, determined at the closing price of the Company's shares on the New York Stock Exchange ("NYSE") as of the date of grant of the restricted stock award (or if the NYSE is not open for business on such date of grant, then on the next regular business day on which the NYSE is open for business). Based on the foregoing formula, Employee's Adjusted Salary for 2006 was \$505,525, which was determined as reflected on Schedule 2(a) hereto, which Schedule also sets forth an example of how such Adjusted Salary amount would be computed for future years. The Base Salary and Adjusted Salary for each Fiscal Year shall become effective as of January 1 of such Fiscal year. Employee's Base Salary for any Fiscal Year after 2007 shall remain as set for the 2007 Fiscal Year unless the Board of Directors increases such Base Salary and the Adjusted Salary shall be determined each Fiscal Year in the manner described above. The term "Fiscal Year" as used

herein shall mean each period of twelve (12) calendar months commencing on January 1st of each calendar year during the Employment Period and expiring on December 31st of such year.

(b) Annual Awards. In addition to the Base Salary and/or Adjusted Salary, Employee shall be eligible to receive Annual Awards in an amount equal to 70 % of the Employee's Base Salary in effect for the Performance Period with respect to which such Annual Award is granted, as established pursuant to the terms of the Company's Executive Incentive Plan, as amended, restated and renamed effective as of January 1, 2003 (the "Plan"). The Annual Award shall be based on the achievement of such Performance Goals as are established by the Compensation Committee of the Board of Directors pursuant to the Plan. The achievement of said Performance Goals shall be determined by the Compensation Committee of the Board of Directors. Except as otherwise provided in Sections 3(d), 3(e) and 22, with respect to any Fiscal Year during which Employee is employed by the Company for less than the entire Fiscal Year, the Annual Award shall be prorated for the period during which Employee was so employed. The Annual Award shall be payable within sixty (60) days after the end of the Company's Fiscal Year. To the extent of any conflict between the provisions of this Agreement and the Plan, the terms of this Agreement shall control.

(c) Merit and Other Bonuses. Employee shall be entitled to such other bonuses as may be determined by the Board of Directors of the Company or by a committee of the Board of Directors as determined by the Board of Directors, in its sole discretion.

(d) Existing Stock Options and Shares of Restricted Stock. The Company has issued to Employee options to purchase shares of the Company's Common Stock pursuant to the terms of various Option Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Option Grants"). The Company has also granted to Employee restricted shares of the Company's Common Stock pursuant to the terms of various Executive Restricted Stock Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Restricted Stock Grants"). The options issued or to be issued under the Outstanding Option Grants shall continue to be subject to the terms of the Option Agreements, except to the extent otherwise provided for in this Agreement. The shares of restricted stock granted or to be granted under the Outstanding Restricted Stock Grants shall continue to be subject to the terms of the Executive Restricted Stock Agreements, except to the extent otherwise provided for in this Agreement.

(e) Other Stock Options. Employee shall be entitled to participate and receive option grants under the 1998 Stock Incentive Plan and such other incentive or stock option plans as may be in effect from time-to-time, as determined by the Board of Directors of the Company.

(f) Other Compensation Programs. Employee shall be entitled to participate in the Company's incentive and deferred compensation programs and such other programs as are established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans or programs.

(g) Health Insurance. The Company shall pay for Employee's and his family's health insurance including without limitation comprehensive major medical and hospitalization coverage including dental and optical coverage under all group medical plans from time to time in effect for the benefit of the Company's employees or executive officers.

(h) Life Insurance. The Company shall purchase and maintain in effect one or more term insurance policies on the life of Employee in an aggregate amount not less than two times his Base Salary in effect from time to time during the term of employment. The beneficiary of such policy shall be the person or persons who Employee designates in writing to the Company.

(i) Disability Insurance. The Company shall pay for Employee to participate in the Company's disability insurance in effect from time to time. The Company shall pay for the maximum coverage commercially available. To the extent the Company does not have a disability insurance plan or other retirement plan, then the Company shall arrange, at its expense, for Employee to participate in such plan.

(j) Other Benefits. During the term of this Agreement, Employee shall also be entitled to participate in any other health insurance programs, life insurance programs, disability programs, stock option plans, bonus plans, pension plans and other fringe benefit plans and programs as are from time to time established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans and programs.

(k) Expenses. Employee shall be reimbursed for all out-of-pocket expenses reasonably incurred by him on behalf of or in connection with the business of the Company, pursuant to the normal standards and guidelines followed from time to time by the Company.

(l) Tax and Estate Planning Reimbursement for 2007. Employee's Base Salary for Fiscal Year 2007 shall be reduced by that amount of out-of-pocket expenses for financial, tax and estate planning that was submitted by Employee and reimbursed by the Company during such year.

(m) Long Term Awards. On April 26, 2001, the Board of Directors adopted the Republic Services, Inc. Long Term Incentive Plan, effective January 1, 2001 to provide for long term incentive cash grants for specific employees of the Company, including Employee. Effective January 1, 2003, the Long Term Incentive Plan was amended, restated and renamed to the Executive Incentive Plan (as previously defined in Section 2, clause (b), the "Plan") to provide not only for long term incentive cash grants but also to include the Annual Awards referred to above. Employee has participated in the Long Term Incentive Plan and the Plan since inception, and Employee shall be entitled to continue to participate in the Plan for purposes of receiving Long Term Awards pursuant to the terms of this Agreement and the Plan.



### 3. Termination.

(a) For Cause. The Company shall have the right to terminate this Agreement and to discharge Employee for Cause (as defined below), at any time during the term of this Agreement. Termination for Cause shall mean, during the term of this Agreement, (i) Employee's willful and continued failure to substantially perform his duties after he has received written notice from the Company identifying the actions or omissions constituting willful and continued failure to perform, (ii) Employee's conduct that would constitute a crime under federal or state law, (iii) Employee's actions or omissions that constitute fraud, dishonesty or gross misconduct, (iv) Employee's breach of any fiduciary duty that causes material injury to the Company, (v) Employee's breach of any duty causing material injury to the Company, (vi) Employee's inability to perform his material duties to the reasonable satisfaction of the Company due to alcohol or other substance abuse, or (vii) any violation of the Company's policies or procedures involving discrimination, harassment, substance abuse or work place violence. Any termination for Cause pursuant to this Section shall be given to Employee in writing and shall set forth in detail all acts or omissions upon which the Company is relying to terminate Employee for Cause.

Upon any determination by the Company that Cause exists to terminate Employee, the Company shall cause a special meeting of the Board of Directors to be called and held at a time mutually convenient to the Board of Directors and Employee, but in no event later than ten (10) business days after Employee's receipt of the notice that the Company intends to terminate Employee for Cause. Employee shall have the right to appear before such special meeting of the Board of Directors with legal counsel of his choosing to refute such allegations and shall have a reasonable period of time to cure any actions or omissions which provide the Company with a basis to terminate Employee for Cause (provided that such cure period shall not exceed 30 days). A majority of the members of the Board of Directors must affirm that Cause exists to terminate Employee. No finding by the Board of Directors will prevent Employee from contesting such determination through appropriate legal proceedings provided that Employee's sole remedy shall be to sue for damages, not reinstatement, and damages shall be limited to those that would be paid to Employee if he had been terminated without Cause. In the event the Company terminates Employee for Cause, the Company shall only be obligated to continue to pay in the ordinary and normal course of its business to Employee his Base Salary plus accrued but unused vacation time through the termination date and the Company shall have no further obligations to Employee from and after the date of termination.

(b) Resignation by Employee Without Good Reason. If Employee shall resign or otherwise terminate his employment with the Company at anytime during the term of this Agreement, other than for Good Reason (as defined below), Employee shall only be entitled to receive his accrued and unpaid Base Salary through the termination date, and the Company shall have no further obligations under this Agreement from and after the date of resignation.

(c) Termination by Company Without Cause and by Employee For Good Reason. At any time during the term of this Agreement, (i) the Company shall have the right to terminate this Agreement and to discharge Employee without Cause effective upon delivery of written notice to Employee, and (ii) Employee shall have the right to terminate this Agreement for Good Reason effective upon delivery of written notice to the Company. For purposes of this Agreement, "Good

Reason” shall mean: (i) the Company has materially reduced the duties and responsibilities of Employee to a level not appropriate for an officer of a publicly-traded company holding the position provided for in Section 1(a), (ii) the Company has breached any material provision of this Agreement and has not cured such breach within 30 days of receipt of written notice of such breach from Employee, (iii) Company has reduced Employee’s annual Adjusted Salary by more than 10% from the prior Fiscal Year (nothing in this clause implies that the Company may reduce Employee’s Adjusted Salary below the levels provided for in Section 2(a)), (iv) the Company has terminated Employee’s participation in one or more of the Company’s sponsored benefit or incentive plans and no other executive officer has had his participation terminated, (v) a failure by the Company (1) to continue any bonus plan, program or arrangement in which Employee is entitled to participate (“Bonus Plans”), provided that any such Bonus Plans may be modified at the Company’s discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Employee with substantially similar benefits are not substituted therefor (“Substitute Plans”), or (2) to continue Employee as a participant in the Bonus Plans and Substitute Plans on at least a basis which is substantially the same as to potential amount of the bonus Employee participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans (a plan shall be considered to be on a basis substantially the same as another if the potential amount payable thereunder is at least 90% of the potential amount payable under the other plan), (vi) Employee’s office is relocated by the Company to a location which is not located within the Florida counties of Miami-Dade, Broward or Palm Beach, or (vii) the Company’s termination without Cause of the continuation of the Employment Period provided in this Agreement. Upon any such termination by the Company without Cause, or by Employee for Good Reason, the Company shall pay to Employee all of Employee’s accrued but unpaid Base Salary through the date of termination, and continue to pay to or provide for Employee (a) a sum equal to his Adjusted Salary payable in accordance with Section 2(a) for two (2) years from the date of termination, when and as Base Salary would have been due and payable hereunder but for such termination, (b) all health benefits in which Employee was entitled to participate at any time during the 12-month period prior to the date of termination, until the earliest to occur of the second anniversary of the date of termination, Employee’s death, or the date on which Employee becomes covered by a comparable health benefit plan by a subsequent employer; provided, however, that in the event that Employee’s continued participation in any health benefit plan of the Company is prohibited, the Company will arrange to provide Employee with benefits substantially similar to those which Employee would have been entitled to receive under such plan for such period on a basis which provides Employee with no additional after tax cost, (c) all stock option grants or restricted stock grants, whether or not part of the Outstanding Option Grant or any options issued during the term of this Agreement, will immediately vest and any such options will remain exercisable for the lesser of the unexpired term of the option without regard to the termination of Employee’s employment or two (2) years from the date of termination of employment, (d) all Annual Awards shall vest and be paid on a pro-rated basis in an amount equal to the Annual Awards payment that the Compensation Committee of the Board of Directors determines would have been paid to Employee pursuant to the Plan had Employee’s employment continued to the end of the Performance Period, multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total

number of months in the Performance Period, (e) all Long Term Awards shall vest and be paid on a pro-rated basis in an amount equal to the maximum Long Term Awards that would have been paid to Employee pursuant to the Plan had Employee's employment continued to the end of the Performance Periods established under the Plan multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total number of months in the Performance Period, and (f) as of the termination date Employee shall be paid the balance of all amounts credited or eligible to be credited to Employee's deferred compensation account, plus, for all such amounts credited or eligible to be credited to such account based upon Company's performance on or before December 31, 2006 (herein referred to as the "December 31, 2006 deferral amount") whether or not such amount is actually credited to such account prior to or after such date, a gross-up payment to reimburse Employee for all income and other taxes imposed with respect to the payment of such amounts and all income and other taxes arising as a result of said gross-up payment such that the payment of such December 31, 2006 deferral amount of Employee is made to Employee free of all taxes thereon whatsoever (collectively, the foregoing consideration payable to Employee shall be referred to herein as the "Severance Payment"). Other than the Severance Payment, the Company shall have no further obligation to Employee except for the obligations set forth in Section 14 of this Agreement after the date of such termination; provided, however, that Employee shall only be entitled to continuation of the Severance Payments as long as he is in compliance with the provisions of Sections 6 and 7 of this Agreement.

(d) Disability of Employee. This Agreement may be terminated by the Company upon the Disability of Employee. "Disability" shall mean any mental or physical illness, condition, disability or incapacity which prevents Employee from reasonably discharging his duties and responsibilities under this Agreement for a period of 180 consecutive days. In the event that any disagreement or dispute shall arise between the Company and Employee as to whether Employee suffers from any Disability, then, in such event, Employee shall submit to the physical or mental examination of a physician licensed under the laws of the State of Florida, who is mutually agreeable to the Company and Employee, and such physician shall determine whether Employee suffers from any Disability. In the absence of fraud or bad faith, the determination of such physician shall be final and binding upon the Company and Employee. The entire cost of such examination shall be paid for solely by the Company. In the event the Company has purchased Disability insurance for Employee, Employee shall be deemed disabled if he is completely (fully) disabled as defined by the terms of the Disability policy. In the event that at any time during the term of this Agreement Employee shall suffer a Disability and the Company terminates Employee's employment for such Disability, such Disability shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee to the same extent and in the same manner as provided for in paragraph (c) above, except that (i) to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee shall be paid, within thirty (30) days following the date of Employee's termination due to his Disability, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his

or her employment continued through the end of the Performance Period related to such Award and had all Performance Goals been met and (ii) payment of the sum equal to the Adjusted Salary in accordance with said paragraph shall be mitigated to the extent payments are made to Employee pursuant to disability insurance programs maintained by the Company.

(e) Death of Employee. If during the term of this Agreement Employee shall die, then the employment of Employee by the Company shall automatically terminate on the date of Employee's death. In such event, Employee's death shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee's personal representative or estate to the same extent and in the same manner as provided for in paragraph (c) above, without mitigation for any insurance policies or other benefits held by Employee, except that to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee's beneficiary or estate shall be paid, within thirty (30) days following the date of Employee's death, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all Performance Goals been met. Once such payments have been made to Employee's personal representative, beneficiary or estate, as the case may be, the Company shall have no further obligations under this Agreement or otherwise to said personal representative, beneficiary or estate, or to any heirs of Employee.

#### 4. Termination of Employment by Employee for Change of Control.

(a) Termination Rights. Notwithstanding the provisions of Section 2 and Section 3 of this Agreement, in the event that there shall occur a Change of Control (as defined below) of the Company and within two years after such Change of Control Employee's employment hereunder is terminated by the Company without Cause or by Employee for Good Reason, then the Company shall be required to pay to Employee (i) the Severance Payment provided in Section 3(c), except that the continuation of Adjusted Salary under 3(c) shall be for three (3) years from the date of termination and that the Severance Payment shall be paid in a single lump sum in full, (ii) the product of three multiplied by the maximum amount of the Awards, including both Annual Awards and Long Term Awards, that Employee would have been eligible for under the Plan with respect to the Fiscal Year in which such termination occurs, in a single lump sum. The foregoing payments shall be made no later than 10 days after Employee's termination pursuant to this Section 4. To the extent that payments are owed by the Company to Employee pursuant to this Section 4, they shall be made in lieu of payments pursuant to Section 3, and in no event shall the Company be required to make payments or provide benefits to Employee under both Section 3 and Section 4.

(b) Change of Control of the Company Defined. For purposes of this Section 4, the term "Change of Control of the Company" shall mean any change in control of the Company of a nature which would be required to be reported (i) in response to Item 6(e) of Schedule 14A of Regulation 14A, as in effect on the date of this Agreement, promulgated under the Securities

Exchange Act of 1934, as amended (the “Exchange Act”), (ii) in response to Item 1 of the Current Report on Form 8-K, as in effect on the date of this Agreement, promulgated under the Exchange Act, or (iii) in any filing by the Company with the Securities and Exchange Commission; provided, however, that without limitation, a Change of Control of the Company shall be deemed to have occurred if:

(i) Any “person” (as such term is defined in Sections 13(d)(3) and Section 14(d)(3) of the Exchange Act), other than the Company, any majority-owned subsidiary of the Company, or any compensation plan of the Company or any majority-owned subsidiary of the Company, becomes the “beneficial owner” (as such term is defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company;

(ii) During any period of three consecutive years during the term of this Agreement, the individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority of such Board of Directors, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of such period; or

(iii) The shareholders of the Company approve (1) a reorganization, merger, or consolidation with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger, or consolidation do not immediately thereafter own more than 50% of the combined voting power entitled to vote generally in the election of the directors of the reorganized, merged or consolidated entity; (2) a liquidation or dissolution of the Company; or (3) the sale of all or substantially all of the assets of the Company or of a subsidiary of the Company that accounts for 30% of the consolidated revenues of the Company, but not including a reorganization, merger or consolidation of the Company.

#### 5. Gross-Up Payment.

(a) Amount. If any payment or benefit provided to Employee by the Company (a “Base Payment”) is subject to the tax (the “Excise Tax”) imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”) (or any other similar tax that may hereafter be imposed), the Company shall pay to Employee the “Gross-Up Payment” determined as follows. The “Gross-Up Payment” shall be equal to the sum of (i) the Excise Tax imposed with respect to the Base Payment, plus (ii) the Excise Tax imposed with respect to the Gross-Up Payment, plus (iii) all other taxes imposed on Employee with respect to the Gross-Up Payment, including income taxes and Employee’s share of FICA, FUTA and other payroll taxes. The Gross-Up Payment shall not include the payment of any tax on the Base Payment other than the Excise Tax. The Gross-Up Payment is intended to place Employee in the same economic position Employee would have been in if the Excise Tax did not apply, and shall be calculated in accordance with such intent.

(b) Tax Rates and Assumptions. For purposes of determining the amount of the Gross-Up Payment, Employee shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of Employee's residence on the date of termination, net of the maximum reduction in Federal income taxes which could be obtained from deduction of such state and local taxes.

(c) Payment and Calculation Procedures. The Gross-Up Payment attributable to a Base Payment shall be paid to Employee in cash and at such times as such Base Payment is paid or provided pursuant to this Agreement. Simultaneously with or prior to the Company's payment of a Base Payment, the Company shall deliver to Employee a written statement specifying the total amount of the Base Payment and the Excise Tax and Gross-Up Payment relating to the Base Payment, if any, together with all supporting calculations and conclusions. If Employee disagrees with the Company's determination of the Excise Tax or Gross-Up Payment, Employee shall submit to the Company, no later than 30 days after receipt of the Company's written statement, a written notice advising the Company of the disagreement and setting forth Employee's calculation of said amounts. Employee's failure to submit such notice within such period shall be conclusively deemed to be an agreement by Employee as to the amount of the Excise Tax and Gross-Up Payment, if any. If the Company agrees with Employee's calculations, it shall pay any shortfall in the Gross-Up Payment to Employee within 20 days after receipt of such a notice from Employee. If the Company does not agree with Employee's calculations, it shall provide Employee with a written notice within 20 days after the receipt of Employee's calculations advising Employee that the disagreement is to be referred to an independent accounting firm for resolution. Such disagreement shall be referred to a nationally recognized independent accounting firm which is not the regular accounting firm of the Company and which is designated by the Company. The Company shall be required to designate such accounting firm within 10 days after issuance of the Company's notice of disagreement. The accounting firm shall review all information provided to it by the parties and submit a written report to the parties setting forth its calculation of the Excise Tax and the Gross-Up Payment within 15 days after submission of the matter to it, and such decision shall be final and binding on all of the parties. The fees and expenses charged by said accounting firm shall be paid by the Company. If the amount of the Gross-Up Payment actually paid by the Company was less than the amount calculated by the accounting firm, the Company shall pay the shortfall to Employee within 5 days after the accounting firm submits its written report. If the amount of the Gross-Up Payment actually paid by the Company was greater than the amount calculated by the accounting firm, Employee shall pay the excess to the Company within 5 days after the accounting firm submits its written report.

(d) Subsequent Recalculation. In the event the Internal Revenue Service or other applicable governmental authority imposes an Excise Tax with respect to a Base Payment that is greater than the amount of the Excise Tax determined pursuant to the immediately preceding paragraph, the Company shall reimburse Employee for the full amount of such additional Excise Tax plus any interest and penalties which may be imposed in connection therewith, and pay to Employee a Gross-up Payment sufficient to make Employee whole and reimburse Employee for any Excise

Tax, income tax and other taxes imposed on the reimbursement of such additional Excise Tax and interest and penalties, in accordance with the principles set forth above.

(e) Example. The calculation of the Gross-Up Payment is illustrated by the example set forth in Schedule 5(e), attached to this Agreement and hereby incorporated by reference. The amounts set forth in such example are for illustration purposes only and no implication shall be drawn from such example as to the amounts otherwise payable to Employee by the Company.

6. Successor To Company. The Company shall require any successor, whether direct or indirect, to all or substantially all of the business, properties and assets of the Company whether by purchase, merger, consolidation or otherwise, prior to or simultaneously with such purchase, merger, consolidation or other acquisition to execute and to deliver to Employee a written instrument in form and in substance reasonably satisfactory to Employee pursuant to which any such successor shall agree to assume and to timely perform or to cause to be timely performed all of the Company's covenants, agreements and obligations set forth in this Agreement (a "Successor Agreement"). The failure of the Company to cause any such successor to execute and deliver a Successor Agreement to Employee shall constitute a material breach of the provisions of this Agreement by the Company.

7. Restrictive Covenants. In consideration of his employment and the other benefits arising under this Agreement, Employee agrees that during the term of this Agreement, and for a period of three (3) years following the termination of this Agreement, Employee shall not directly or indirectly:

(a) alone or as a partner, joint venturer, officer, director, member, employee, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, (i) engage in the business of solid waste collection, disposal or recycling (the "Solid Waste Services Business") in any market in which the Company or any of its subsidiaries or affiliates does business, or any other line of business which is entered into by the Company or any of its subsidiaries or affiliates during the term of this Agreement, or (ii) compete with the Company or any of its subsidiaries or affiliates in acquiring or merging with any other business or acquiring the assets of such other business; or

(b) for any reason, (i) induce any customer of the Company or any of its subsidiaries or affiliates to patronize any business directly or indirectly in competition with the Solid Waste Services Business conducted by the Company or any of its subsidiaries or affiliates in any market in which the Company or any of its subsidiaries or affiliates does business; (ii) canvass, solicit or accept from any customer of the Company or any of its subsidiaries or affiliates any such competitive business; or (iii) request or advise any customer or vendor of the Company or any of its subsidiaries or affiliates to withdraw, curtail or cancel any such customer's or vendor's business with the Company or any of its subsidiaries or affiliates; or

(c) for any reason, employ, or knowingly permit any company or business directly or indirectly controlled by him, to employ, any person who was employed by the Company or any of

its subsidiaries or affiliates at or within the prior six months, or in any manner seek to induce any such person to leave his or her employment.

Notwithstanding the foregoing, the beneficial ownership of less than five percent (5%) of the shares of stock of any corporation having a class of equity securities actively traded on a national securities exchange or over-the-counter market shall not be deemed, in and of itself, to violate the prohibitions of this Section.

8. Confidentiality. Employee agrees that at all times during the term of this Agreement and after the termination of employment for as long as such information remains non-public information, Employee shall (i) hold in confidence and refrain from disclosing to any other party all information, whether written or oral, tangible or intangible, of a private, secret, proprietary or confidential nature, of or concerning the Company or any of its subsidiaries or affiliates and their business and operations, and all files, letters, memoranda, reports, records, computer disks or other computer storage medium, data, models or any photographic or other tangible materials containing such information (“Confidential Information”), including without limitation, any sales, promotional or marketing plans, programs, techniques, practices or strategies, any expansion plans (including existing and entry into new geographic and/or product markets), and any customer lists, (ii) use the Confidential Information solely in connection with his employment with the Company or any of its subsidiaries or affiliates and for no other purpose, (iii) take all precautions necessary to ensure that the Confidential Information shall not be, or be permitted to be, shown, copied or disclosed to third parties, without the prior written consent of the Company or any of its subsidiaries or affiliates, and (iv) observe all security policies implemented by the Company or any of its subsidiaries or affiliates from time to time with respect to the Confidential Information. In the event that Employee is ordered to disclose any Confidential Information, whether in a legal or regulatory proceeding or otherwise, Employee shall provide the Company or any of its subsidiaries or affiliates with prompt notice of such request or order so that the Company or any of its subsidiaries or affiliates may seek to prevent disclosure. In addition to the foregoing Employee shall not at any time libel, defame, ridicule or otherwise disparage the Company.

9. Specific Performance; Injunction. The parties agree and acknowledge that the restrictions contained in Sections 7 and 8 are reasonable in scope and duration and are necessary to protect the Company or any of its subsidiaries or affiliates. If any provision of Section 7 or 8 as applied to any party or to any circumstance is adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other circumstance or the validity or enforceability of any other provision of this Agreement. If any such provision, or any part thereof, is held to be unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, and in its reduced form, such provision shall then be enforceable and shall be enforced. Employee agrees and acknowledges that the breach of Section 7 or 8 will cause irreparable injury to the Company or any of its subsidiaries or affiliates and upon breach of any provision of such Sections, the Company or any of its subsidiaries or affiliates shall be entitled to injunctive relief, specific performance or other equitable relief, without being required to



post a bond; provided, however, that, this shall in no way limit any other remedies which the Company or any of its subsidiaries or affiliates may have (including, without limitation, the right to seek monetary damages).

10. Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be deemed given if delivered by hand delivery, by certified or registered mail (first class postage pre-paid), guaranteed overnight delivery or facsimile transmission if such transmission is confirmed by delivery by certified or registered mail (first class postage pre-paid) or guaranteed overnight delivery to, the following addresses and telecopy numbers (or to such other addresses or telecopy numbers which such party shall designate in writing to the other parties): (a) if to the Company, at its principal executive offices, addressed to the President, with a copy to the General Counsel; and (b) if to Employee, at the address listed on the signature page hereto.

11. Amendment; Waiver. This Agreement may not be modified, amended, or supplemented, except by written instrument executed by all parties. No failure to exercise, and no delay in exercising, any right, power or privilege under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any right, power or privilege hereunder preclude the exercise of any other right, power or privilege. No waiver of any breach of any provision shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other provision, nor shall any waiver be implied from any course of dealing between the parties. No extension of time for performance of any obligations or other acts hereunder or under any other agreement shall be deemed to be an extension of the time for performance of any other obligations or any other acts. The rights and remedies of the parties under this Agreement are in addition to all other rights and remedies, at law or equity, that they may have against each other.

12. Assignment; Third Party Beneficiary. This Agreement, and Employee's rights and obligations hereunder, may not be assigned or delegated by him. The Company may assign its rights, and delegate its obligations, hereunder to any affiliate of the Company, or any successor to the Company or its Solid Waste Services Business, specifically including the restrictive covenants set forth in Section 7 hereof. The rights and obligations of the Company under this Agreement shall inure to the benefit of and be binding upon its respective successors and assigns.

13. Severability; Survival. In the event that any provision of this Agreement is found to be void and unenforceable by a court of competent jurisdiction, then such unenforceable provision shall be deemed modified so as to be enforceable (or if not subject to modification then eliminated herefrom) to the extent necessary to permit the remaining provisions to be enforced in accordance with the parties intention. The provisions of Sections 7 and 8 will survive the termination for any reason of Employee's relationship with the Company.

14. Indemnification. The Company agrees to indemnify Employee during the term and after termination of this Agreement in accordance with the provisions of the Company's certificate of incorporation and bylaws and the Delaware General Corporation Law.

15. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

16. Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Florida applicable to contracts executed and to be wholly performed within such State.

17. Entire Agreement. This Agreement contains the entire understanding of the parties in respect of its subject matter and supersedes all prior agreements and understandings (oral or written) between or among the parties with respect to such subject matter. Upon the execution of this Agreement the provisions of the Existing Employment Agreement shall be superseded and shall be of no further force and effect except as specifically preserved by the terms of this Agreement.

18. Headings. The headings of Paragraphs and Sections are for convenience of reference and are not part of this Agreement and shall not affect the interpretation of any of its terms.

19. Construction. This Agreement shall be construed as a whole according to its fair meaning and not strictly for or against any party. The parties acknowledge that each of them has reviewed this Agreement and has had the opportunity to have it reviewed by their respective attorneys and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Agreement. Words of one gender shall be interpreted to mean words of another gender when necessary to construe this Agreement, and in like manner words in singular may be interpreted to be in the plural, and vice versa.

20. Attorneys' Fees. If at any time following a Change of Control of the Company, there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Employee (and Employee shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly provide sums sufficient to pay on a current basis (either directly or by reimbursing Employee) Employee's costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Employee in

connection with any such dispute or any litigation, provided that Employee shall repay any such amounts paid or advanced if Employee is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. If at any time when there has not previously been a Change of Control of the Company, there should arise any dispute or litigation as to the validity, interpretation or application of any term or condition of the Agreement, the prevailing party in such dispute or litigation shall be entitled to recover from the non-prevailing party its costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred in such dispute or litigation. The provisions of this Section 20, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and Employee's employment hereunder.

21. Withholding. All payments made to Employee shall be made net of any applicable withholding for income taxes, Excise Tax and Employee's share of FICA, FUTA or other taxes. The Company shall withhold such amounts from such payments to the extent required by applicable law and remit such amounts to the applicable governmental authorities in accordance with applicable law.

22. Retirement Eligibility. Upon Employee's retirement, the Company shall pay to Employee all of Employee's accrued but unpaid Base Salary through the date of retirement. In addition, for all stock option or restricted stock awards ("Equity Awards") and all monetary awards (including Annual Awards and Long Term Awards pursuant to the Plan and any retirement contributions to the deferred compensation program) ("Monetary Awards"), in each case granted to Employee prior to July 26, 2006 ("Prior Awards"), such Employee shall be eligible to retire for purposes of the Prior Awards, and such Prior Awards shall fully vest in the event of such retirement, upon attaining either (a) the age of fifty-five (55) and having completed six (6) years of service with the Company or (b) the age of sixty-five (65) without regard to years of service with the Company (the "Original Retirement Policy"). For all Equity Awards and/or Monetary Awards granted to Employee following July 26, 2006 ("Prospective Awards"), the Original Retirement Policy shall apply, and such Prospective Awards shall fully vest in the event of such retirement, provided, and only to the extent that, Employee shall provide the Company with not less than twelve (12) months prior written notice of Employee's intent to retire. Failure by Employee to provide such written notice shall cause the Revised Retirement Policy (as hereinafter defined) to apply with respect to the vesting of Prospective Awards, but such failure shall have no effect whatsoever on the Prior Awards, all of which shall continue to be subject to the Original Retirement Policy. For purposes of this Agreement, (i) "Revised Retirement Policy" shall mean Employee has attained the age of (x) sixty (60) and has completed fifteen (15) years of continuous service with the Company or (y) sixty-five (65) with five (5) years of continuous service with the Company, and (ii) the Annual Awards and Long Term Awards includable within the Monetary Awards to be fully vested as provided above shall include all such Awards which have been granted to Employee, but which, as of the date of his retirement, have not been determined to have been earned pursuant to the Plan and in such instance Employee shall be paid, within thirty (30) days following the date of Employee's retirement, an amount with respect to each such open Award equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all performance goals been met.

23. Timing of Severance Payments. Notwithstanding anything in this Agreement to the contrary, if Employee is deemed to be a “key employee” for purposes of Internal Revenue Code Section 409A (“Section 409A”), no Severance Payment or other payments pursuant to, or contemplated by, this Agreement shall be made to Employee by the Company until the amount of time has elapsed that is necessary to avoid incurring excise taxes under Section 409A. Should this result in a delay of payments to Employee, on the first day any such payments may be made without incurring a penalty pursuant to Section 409A (the “409A Payment Date”), the Company shall begin to make such payments as described in this Section 23, provided that any amounts that would have been payable earlier but for the application of this Section 23 shall be paid in a lump-sum on the 409A Payment Date.

**[SIGNATURES ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

REPUBLIC SERVICES, INC., a Delaware  
corporation

By: /s/ Harris W. Hudson  
Harris W. Hudson, Vice Chairman

EMPLOYEE:

/s/ Tod C. Holmes  
Tod C. Holmes

Address for Notices:

\_\_\_\_\_  
\_\_\_\_\_

## Schedule 2(a)

### Adjusted Salary Example

#### Calculation of 2006 Adjusted Salary

Adjusted Salary for 2005: \$462,000  
Base Salary: \$408,000  
Shares of Company Restricted Stock Granted: 2,500  
Closing Price of Company Shares: \$39.01 per share (2,500 x \$39.01 = \$97,525)  
Base Salary + Closing Price of Restricted Shares = \$408,000 + \$97,525 = \$505,525  
Adjusted Salary for 2006: \$505,525 (since greater than the Adjusted Salary for 2005)

#### Examples of Calculation of Future Adjusted Salary

##### Example 1:

Assume the following: (i) Employee's Base Salary is \$350,000.00; (ii) Employee's Adjusted Salary for the Fiscal Year immediately preceding the Fiscal Year for which the computation is to be made was \$400,000.00; (iii) for the Fiscal Year of determination Employee is granted 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$40.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

- (i) \$400,000.00; or
- (ii)  $\$350,000.00 + (1,500 \times \$40.00) =$   
 $\$350,000.00 + \$60,000 = \$410,000.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 1 is \$410,000.00.

Example 2:

Assume, with respect to the Fiscal Year immediately following the Fiscal Year described in Example 1 above, the following: (i) Employee's Base Salary remains at \$350,000.00; (ii) as indicated above in Example 1, Employee's Adjusted Salary for the immediately preceding Fiscal Year immediately was \$410,000.00; (iii) for the Fiscal Year of determination Employee is granted an additional 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$45.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

(i) \$410,000.00; or

(ii)  $\$350,000.00 + (1,500 \times \$45.00) =$

$\$350,000.00 + \$67,500 = \$417,500.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 2 is \$417,500.00.

**Schedule 5(e)**

**Gross-Up Payment Example**

Assume that the Company makes a Base Payment to Employee of \$900,000, and that \$600,000 is subject to an Excise Tax of 20%. Also assume that the maximum combined effective federal, state and local tax rate, including Employee's share of payroll taxes but not including the Excise Tax rate, is 45%. Under these circumstances, the Gross-Up Payment would be \$342,857.14.

The Gross-Up Payment in this example is equal to the amount of the Base Payment subject to the Excise Tax (\$600,000), multiplied by the Excise Tax rate, expressed as a decimal (.20), and divided by the remainder of 1 minus the Excise Tax rate, expressed as a decimal, and minus the effective rate of tax of Employee exclusive of the Excise Tax, expressed as a decimal (1-.20-.45). Hence, the Gross-Up Payment is  $\$600,000 \times .20 / (1-.20-.45) = \$342,857.14$ .

The Gross-Up Payment of \$342,857.14 represents the sum of the amounts referred to in clauses (i), (ii) and (iii) of Section 5(a) of this Agreement, as set forth below.

clause (i):	
Excise Tax on Base Payment ( $600,000 \times .20$ )	120,000.00
clause (ii):	
Excise Tax on Gross-Up Payment ( $342,857.14 \times .20$ )	68,571.43
clause (iii):	
Other taxes on Gross-Up Payment ( $342,857.14 \times .45$ )	<u>154,285.71</u>
Total taxes subject to gross-up	<u><u>342,857.14</u></u>



**AMENDED AND RESTATED  
EMPLOYMENT AGREEMENT**

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT is effective as of the 21st day of February, 2007 (the "Effective Date"), by and between REPUBLIC SERVICES, INC., a Delaware corporation (the "Company"), and DAVID A. BARCLAY, a Florida resident ("Employee").

Employee and the Company are parties to that Employment Agreement dated as of October 25, 2000, as amended by Amendment Number One, dated as of January 31, 2003, and Amendment Number Two, dated as of October 10, 2006 (collectively, the "Existing Employment Agreement").

As of the date hereof, Employee continues to be an employee of the Company and is considered a valued employee that the Company desires to retain in accordance with the terms of the Existing Employment Agreement.

For convenience of incorporating the previous amendments and making certain clarifying changes to the Existing Employment Agreement, including the incorporation in this Agreement of references to certain provisions of the Company's Executive Incentive Plan which otherwise governs certain incentive bonuses generally available to all participants under such Plan, including Employee, and in order to memorialize the agreement by Employee to the cessation of the accrual of a tax gross-up on future deferrals of compensation, Employee and the Company desire to enter into this Amended and Restated Employment Agreement (this "Agreement").

In consideration of the premises set forth above, the mutual representations, warranties, covenants and agreements contained in this Agreement and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment.

(a) Retention. The Company agrees to employ and/or continue the employment of Employee as its Senior Vice President and General Counsel, and Employee agrees to accept such employment, subject to the terms and conditions of this Agreement.

(b) Employment Period. This Agreement shall commence on the Effective Date and, unless terminated in accordance with the terms of this Agreement shall continue in effect on a rolling two-year basis, such that at any time during the term of this Agreement there will be two years remaining (the "Employment Period"). Notwithstanding the evergreen nature of the Employment Period, the Company may terminate Employee at any time in accordance with the provisions of Section 3 of this Agreement.

(c) Duties and Responsibilities. During the Employment Period, Employee shall serve as Senior Vice President and General Counsel and shall have such authority and responsibility

and perform such duties as may be assigned to him from time to time by the Chief Executive Officer of the Company, and in the absence of such assignment, such duties as are customary to Employee's office and as are necessary or appropriate to the business and operations of the Company. During the Employment Period, Employee's employment shall be full time and Employee shall perform his duties honestly, diligently, in good faith and in the best interests of the Company and shall use his best efforts to promote the interests of the Company.

(d) Other Activities. Except upon the prior written consent of the Company, Employee, during the Employment Period, will not accept any other employment. Employee shall be permitted to engage in any non-competitive businesses, not-for-profit organizations and other ventures, such as passive real estate investments, serving on charitable and civic boards and organizations, and similar activities, so long as such activities do not materially interfere with or detract from the performance of Employee's duties or constitute a breach of any of the provisions contained in Section 7 of this Agreement.

## 2. Compensation.

(a) Base Salary and Adjusted Salary. In consideration for Employee's services hereunder and the restrictive covenants contained herein, Employee shall be paid an annual base salary of \$331,500 for the 2007 Fiscal Year, subject to adjustment pursuant to Section 2(l) hereof (the "Base Salary"), payable in accordance with the Company's customary payroll practices. Notwithstanding the foregoing, Employee's annual Base Salary may be increased at anytime and from time to time to levels greater than the levels set forth in the preceding sentence at the discretion of the Board of Directors of the Company to reflect merit or other increases. In lieu of cash increases to the Base Salary, commencing with the 2004 Fiscal Year and continuing for each Fiscal Year thereafter through 2006, Employee has been awarded shares of restricted stock of the Company, as follows: (i) 2004 — 1,500 shares; (ii) 2005 — 2,000 shares; and 2006 — 2,500 shares. Similar deferrals in lieu of cash increases in Base Salary may be made for 2007 and/or future Fiscal Years during the term of this Agreement, in the discretion of the Compensation Committee of the Board of Directors. For the purposes of this Agreement, the term "Adjusted Salary" means (x) with respect to the 2004 Fiscal Year, the Base Salary plus the value (determined as described below) of the shares of restricted stock initially granted to Employee in lieu of a cash increase to Base Salary for such year, and (y) with respect to the 2005 Fiscal Year and each Fiscal Year thereafter during the term of this Agreement, the greater of (1) the Adjusted Salary for the immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the value (determined as described below) of the shares of restricted stock granted to Employee for such Fiscal Year. For the purposes of this Section, the value of shares of restricted stock shall be the value, determined at the closing price of the Company's shares on the New York Stock Exchange ("NYSE") as of the date of grant of the restricted stock award (or if the NYSE is not open for business on such date of grant, then on the next regular business day on which the NYSE is open for business). Based on the foregoing formula, Employee's Adjusted Salary for 2006 was \$429,025, which was determined as reflected on Schedule 2(a) hereto, which Schedule also sets forth an example of how such Adjusted Salary amount would be computed for future years. The Base Salary and Adjusted Salary for each Fiscal Year shall become effective as of January 1 of

such Fiscal year. Employee's Base Salary for any Fiscal Year after 2007 shall remain as set for the 2007 Fiscal Year unless the Board of Directors increases such Base Salary and the Adjusted Salary shall be determined each Fiscal Year in the manner described above. The term "Fiscal Year" as used herein shall mean each period of twelve (12) calendar months commencing on January 1st of each calendar year during the Employment Period and expiring on December 31st of such year.

(b) Annual Awards. In addition to the Base Salary and/or Adjusted Salary, Employee shall be eligible to receive Annual Awards in an amount equal to 60 % of the Employee's Base Salary in effect for the Performance Period with respect to which such Annual Award is granted, as established pursuant to the terms of the Company's Executive Incentive Plan, as amended, restated and renamed effective as of January 1, 2003 (the "Plan"). The Annual Award shall be based on the achievement of such Performance Goals as are established by the Compensation Committee of the Board of Directors pursuant to the Plan. The achievement of said Performance Goals shall be determined by the Compensation Committee of the Board of Directors. Except as otherwise provided in Sections 3(d), 3(e) and 22, with respect to any Fiscal Year during which Employee is employed by the Company for less than the entire Fiscal Year, the Annual Award shall be prorated for the period during which Employee was so employed. The Annual Award shall be payable within sixty (60) days after the end of the Company's Fiscal Year. To the extent of any conflict between the provisions of this Agreement and the Plan, the terms of this Agreement shall control.

(c) Merit and Other Bonuses. Employee shall be entitled to such other bonuses as may be determined by the Board of Directors of the Company or by a committee of the Board of Directors as determined by the Board of Directors, in its sole discretion.

(d) Existing Stock Options and Shares of Restricted Stock. The Company has issued to Employee options to purchase shares of the Company's Common Stock pursuant to the terms of various Option Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Option Grants"). The Company has also granted to Employee restricted shares of the Company's Common Stock pursuant to the terms of various Executive Restricted Stock Agreements and the terms of the Company's 1998 Stock Incentive Plan (the "Outstanding Restricted Stock Grants"). The options issued or to be issued under the Outstanding Option Grants shall continue to be subject to the terms of the Option Agreements, except to the extent otherwise provided for in this Agreement. The shares of restricted stock granted or to be granted under the Outstanding Restricted Stock Grants shall continue to be subject to the terms of the Executive Restricted Stock Agreements, except to the extent otherwise provided for in this Agreement.

(e) Other Stock Options. Employee shall be entitled to participate and receive option grants under the 1998 Stock Incentive Plan and such other incentive or stock option plans as may be in effect from time-to-time, as determined by the Board of Directors of the Company.

(f) Other Compensation Programs. Employee shall be entitled to participate in the Company's incentive and deferred compensation programs and such other programs as are

established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans or programs.

(g) Health Insurance. The Company shall pay for Employee's and his family's health insurance including without limitation comprehensive major medical and hospitalization coverage including dental and optical coverage under all group medical plans from time to time in effect for the benefit of the Company's employees or executive officers.

(h) Life Insurance. The Company shall purchase and maintain in effect one or more term insurance policies on the life of Employee in an aggregate amount not less than two times his Base Salary in effect from time to time during the term of employment. The beneficiary of such policy shall be the person or persons who Employee designates in writing to the Company.

(i) Disability Insurance. The Company shall pay for Employee to participate in the Company's disability insurance in effect from time to time. The Company shall pay for the maximum coverage commercially available. To the extent the Company does not have a disability insurance plan or other retirement plan, then the Company shall arrange, at its expense, for Employee to participate in such plan.

(j) Other Benefits. During the term of this Agreement, Employee shall also be entitled to participate in any other health insurance programs, life insurance programs, disability programs, stock option plans, bonus plans, pension plans and other fringe benefit plans and programs as are from time to time established and maintained for the benefit of the Company's employees or executive officers, subject to the provisions of such plans and programs.

(k) Expenses. Employee shall be reimbursed for all out-of-pocket expenses reasonably incurred by him on behalf of or in connection with the business of the Company, pursuant to the normal standards and guidelines followed from time to time by the Company.

(l) Tax and Estate Planning Reimbursement for 2007. Employee's Base Salary for Fiscal Year 2007 shall be reduced by that amount of out-of-pocket expenses for financial, tax and estate planning that was submitted by Employee and reimbursed by the Company during such year.

(m) Long Term Awards. On April 26, 2001, the Board of Directors adopted the Republic Services, Inc. Long Term Incentive Plan, effective January 1, 2001 to provide for long term incentive cash grants for specific employees of the Company, including Employee. Effective January 1, 2003, the Long Term Incentive Plan was amended, restated and renamed to the Executive Incentive Plan (as previously defined in Section 2, clause (b), the "Plan") to provide not only for long term incentive cash grants but also to include the Annual Awards referred to above. Employee has participated in the Long Term Incentive Plan and the Plan since inception, and Employee shall be entitled to continue to participate in the Plan for purposes of receiving Long Term Awards pursuant to the terms of this Agreement and the Plan.

### 3. Termination.

(a) For Cause. The Company shall have the right to terminate this Agreement and to discharge Employee for Cause (as defined below), at any time during the term of this Agreement. Termination for Cause shall mean, during the term of this Agreement, (i) Employee's willful and continued failure to substantially perform his duties after he has received written notice from the Company identifying the actions or omissions constituting willful and continued failure to perform, (ii) Employee's conduct that would constitute a crime under federal or state law, (iii) Employee's actions or omissions that constitute fraud, dishonesty or gross misconduct, (iv) Employee's breach of any fiduciary duty that causes material injury to the Company, (v) Employee's breach of any duty causing material injury to the Company, (vi) Employee's inability to perform his material duties to the reasonable satisfaction of the Company due to alcohol or other substance abuse, or (vii) any violation of the Company's policies or procedures involving discrimination, harassment, substance abuse or work place violence. Any termination for Cause pursuant to this Section shall be given to Employee in writing and shall set forth in detail all acts or omissions upon which the Company is relying to terminate Employee for Cause.

Upon any determination by the Company that Cause exists to terminate Employee, the Company shall cause a special meeting of the Board of Directors to be called and held at a time mutually convenient to the Board of Directors and Employee, but in no event later than ten (10) business days after Employee's receipt of the notice that the Company intends to terminate Employee for Cause. Employee shall have the right to appear before such special meeting of the Board of Directors with legal counsel of his choosing to refute such allegations and shall have a reasonable period of time to cure any actions or omissions which provide the Company with a basis to terminate Employee for Cause (provided that such cure period shall not exceed 30 days). A majority of the members of the Board of Directors must affirm that Cause exists to terminate Employee. No finding by the Board of Directors will prevent Employee from contesting such determination through appropriate legal proceedings provided that Employee's sole remedy shall be to sue for damages, not reinstatement, and damages shall be limited to those that would be paid to Employee if he had been terminated without Cause. In the event the Company terminates Employee for Cause, the Company shall only be obligated to continue to pay in the ordinary and normal course of its business to Employee his Base Salary plus accrued but unused vacation time through the termination date and the Company shall have no further obligations to Employee from and after the date of termination.

(b) Resignation by Employee Without Good Reason. If Employee shall resign or otherwise terminate his employment with the Company at anytime during the term of this Agreement, other than for Good Reason (as defined below), Employee shall only be entitled to receive his accrued and unpaid Base Salary through the termination date, and the Company shall have no further obligations under this Agreement from and after the date of resignation.

(c) Termination by Company Without Cause and by Employee For Good Reason. At any time during the term of this Agreement, (i) the Company shall have the right to terminate this Agreement and to discharge Employee without Cause effective upon delivery of written notice to Employee, and (ii) Employee shall have the right to terminate this Agreement for Good Reason

effective upon delivery of written notice to the Company. For purposes of this Agreement, "Good Reason" shall mean: (i) the Company has materially reduced the duties and responsibilities of Employee to a level not appropriate for an officer of a publicly-traded company holding the position provided for in Section 1(a), (ii) the Company has breached any material provision of this Agreement and has not cured such breach within 30 days of receipt of written notice of such breach from Employee, (iii) Company has reduced Employee's annual Adjusted Salary by more than 10% from the prior Fiscal Year (nothing in this clause implies that the Company may reduce Employee's Adjusted Salary below the levels provided for in Section 2(a)), (iv) the Company has terminated Employee's participation in one or more of the Company's sponsored benefit or incentive plans and no other executive officer has had his participation terminated, (v) a failure by the Company (1) to continue any bonus plan, program or arrangement in which Employee is entitled to participate ("Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Employee with substantially similar benefits are not substituted therefor ("Substitute Plans"), or (2) to continue Employee as a participant in the Bonus Plans and Substitute Plans on at least a basis which is substantially the same as to potential amount of the bonus Employee participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans (a plan shall be considered to be on a basis substantially the same as another if the potential amount payable thereunder is at least 90% of the potential amount payable under the other plan), (vi) Employee's office is relocated by the Company to a location which is not located within the Florida counties of Miami-Dade, Broward or Palm Beach, or (vii) the Company's termination without Cause of the continuation of the Employment Period provided in this Agreement. Upon any such termination by the Company without Cause, or by Employee for Good Reason, the Company shall pay to Employee all of Employee's accrued but unpaid Base Salary through the date of termination, and continue to pay to or provide for Employee (a) a sum equal to his Adjusted Salary payable in accordance with Section 2(a) for two (2) years from the date of termination, when and as Base Salary would have been due and payable hereunder but for such termination, (b) all health benefits in which Employee was entitled to participate at any time during the 12-month period prior to the date of termination, until the earliest to occur of the second anniversary of the date of termination, Employee's death, or the date on which Employee becomes covered by a comparable health benefit plan by a subsequent employer; provided, however, that in the event that Employee's continued participation in any health benefit plan of the Company is prohibited, the Company will arrange to provide Employee with benefits substantially similar to those which Employee would have been entitled to receive under such plan for such period on a basis which provides Employee with no additional after tax cost, (c) all stock option grants or restricted stock grants, whether or not part of the Outstanding Option Grant or any options issued during the term of this Agreement, will immediately vest and any such options will remain exercisable for the lesser of the unexpired term of the option without regard to the termination of Employee's employment or two (2) years from the date of termination of employment, (d) all Annual Awards shall vest and be paid on a pro-rated basis in an amount equal to the Annual Awards payment that the Compensation Committee of the Board of Directors determines would have been paid to Employee pursuant to the Plan had Employee's employment continued to the end of the Performance Period, multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total

number of months in the Performance Period, (e) all Long Term Awards shall vest and be paid on a pro-rated basis in an amount equal to the maximum Long Term Awards that would have been paid to Employee pursuant to the Plan had Employee's employment continued to the end of the Performance Periods established under the Plan multiplied by a fraction, the numerator of which is the number of completed months of employment during such Performance Period and the denominator of which is the total number of months in the Performance Period, and (f) as of the termination date Employee shall be paid the balance of all amounts credited or eligible to be credited to Employee's deferred compensation account, plus, for all such amounts credited or eligible to be credited to such account based upon Company's performance on or before December 31, 2006 (herein referred to as the "December 31, 2006 deferral amount") whether or not such amount is actually credited to such account prior to or after such date, a gross-up payment to reimburse Employee for all income and other taxes imposed with respect to the payment of such amounts and all income and other taxes arising as a result of said gross-up payment such that the payment of such December 31, 2006 deferral amount of Employee is made to Employee free of all taxes thereon whatsoever (collectively, the foregoing consideration payable to Employee shall be referred to herein as the "Severance Payment"). Other than the Severance Payment, the Company shall have no further obligation to Employee except for the obligations set forth in Section 14 of this Agreement after the date of such termination; provided, however, that Employee shall only be entitled to continuation of the Severance Payments as long as he is in compliance with the provisions of Sections 6 and 7 of this Agreement.

(d) Disability of Employee. This Agreement may be terminated by the Company upon the Disability of Employee. "Disability" shall mean any mental or physical illness, condition, disability or incapacity which prevents Employee from reasonably discharging his duties and responsibilities under this Agreement for a period of 180 consecutive days. In the event that any disagreement or dispute shall arise between the Company and Employee as to whether Employee suffers from any Disability, then, in such event, Employee shall submit to the physical or mental examination of a physician licensed under the laws of the State of Florida, who is mutually agreeable to the Company and Employee, and such physician shall determine whether Employee suffers from any Disability. In the absence of fraud or bad faith, the determination of such physician shall be final and binding upon the Company and Employee. The entire cost of such examination shall be paid for solely by the Company. In the event the Company has purchased Disability insurance for Employee, Employee shall be deemed disabled if he is completely (fully) disabled as defined by the terms of the Disability policy. In the event that at any time during the term of this Agreement Employee shall suffer a Disability and the Company terminates Employee's employment for such Disability, such Disability shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee to the same extent and in the same manner as provided for in paragraph (c) above, except that (i) to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee shall be paid, within thirty (30) days following the date of Employee's termination due to his Disability, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and

had all Performance Goals been met and (ii) payment of the sum equal to the Adjusted Salary in accordance with said paragraph shall be mitigated to the extent payments are made to Employee pursuant to disability insurance programs maintained by the Company.

(e) Death of Employee. If during the term of this Agreement Employee shall die, then the employment of Employee by the Company shall automatically terminate on the date of Employee's death. In such event, Employee's death shall be considered to be a termination by the Company without Cause or a termination by Employee for Good Reason and the Severance Payments shall be paid to Employee's personal representative or estate to the same extent and in the same manner as provided for in paragraph (c) above, without mitigation for any insurance policies or other benefits held by Employee, except that to the extent any Awards have been granted under the Plan, but, as of the date of such termination, have not been determined to be earned pursuant to the terms of the Plan, Employee's beneficiary or estate shall be paid, within thirty (30) days following the date of Employee's death, an amount with respect to each such open Award which is equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all Performance Goals been met. Once such payments have been made to Employee's personal representative, beneficiary or estate, as the case may be, the Company shall have no further obligations under this Agreement or otherwise to said personal representative, beneficiary or estate, or to any heirs of Employee.

#### 4. Termination of Employment by Employee for Change of Control.

(a) Termination Rights. Notwithstanding the provisions of Section 2 and Section 3 of this Agreement, in the event that there shall occur a Change of Control (as defined below) of the Company and within two years after such Change of Control Employee's employment hereunder is terminated by the Company without Cause or by Employee for Good Reason, then the Company shall be required to pay to Employee (i) the Severance Payment provided in Section 3(c), except that the continuation of Adjusted Salary under 3(c) shall be for three (3) years from the date of termination and that the Severance Payment shall be paid in a single lump sum in full, (ii) the product of three multiplied by the maximum amount of the Awards, including both Annual Awards and Long Term Awards, that Employee would have been eligible for under the Plan with respect to the Fiscal Year in which such termination occurs, in a single lump sum. The foregoing payments shall be made no later than 10 days after Employee's termination pursuant to this Section 4. To the extent that payments are owed by the Company to Employee pursuant to this Section 4, they shall be made in lieu of payments pursuant to Section 3, and in no event shall the Company be required to make payments or provide benefits to Employee under both Section 3 and Section 4.

(b) Change of Control of the Company Defined. For purposes of this Section 4, the term "Change of Control of the Company" shall mean any change in control of the Company of a nature which would be required to be reported (i) in response to Item 6(e) of Schedule 14A of Regulation 14A, as in effect on the date of this Agreement, promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (ii) in response to Item 1 of the Current Report on Form 8-K, as in effect on the date of this Agreement, promulgated under the Exchange



Act, or (iii) in any filing by the Company with the Securities and Exchange Commission; provided, however, that without limitation, a Change of Control of the Company shall be deemed to have occurred if:

(i) Any “person” (as such term is defined in Sections 13(d)(3) and Section 14(d)(3) of the Exchange Act), other than the Company, any majority-owned subsidiary of the Company, or any compensation plan of the Company or any majority-owned subsidiary of the Company, becomes the “beneficial owner” (as such term is defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company;

(ii) During any period of three consecutive years during the term of this Agreement, the individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority of such Board of Directors, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of such period; or

(iii) The shareholders of the Company approve (1) a reorganization, merger, or consolidation with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger, or consolidation do not immediately thereafter own more than 50% of the combined voting power entitled to vote generally in the election of the directors of the reorganized, merged or consolidated entity; (2) a liquidation or dissolution of the Company; or (3) the sale of all or substantially all of the assets of the Company or of a subsidiary of the Company that accounts for 30% of the consolidated revenues of the Company, but not including a reorganization, merger or consolidation of the Company.

#### 5. Gross-Up Payment.

(a) Amount. If any payment or benefit provided to Employee by the Company (a “Base Payment”) is subject to the tax (the “Excise Tax”) imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”) (or any other similar tax that may hereafter be imposed), the Company shall pay to Employee the “Gross-Up Payment” determined as follows. The “Gross-Up Payment” shall be equal to the sum of (i) the Excise Tax imposed with respect to the Base Payment, plus (ii) the Excise Tax imposed with respect to the Gross-Up Payment, plus (iii) all other taxes imposed on Employee with respect to the Gross-Up Payment, including income taxes and Employee’s share of FICA, FUTA and other payroll taxes. The Gross-Up Payment shall not include the payment of any tax on the Base Payment other than the Excise Tax. The Gross-Up Payment is intended to place Employee in the same economic position Employee would have been in if the Excise Tax did not apply, and shall be calculated in accordance with such intent.

(b) Tax Rates and Assumptions. For purposes of determining the amount of the Gross-Up Payment, Employee shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made,

and state and local income taxes at the highest marginal rate of taxation in the state and locality of Employee's residence on the date of termination, net of the maximum reduction in Federal income taxes which could be obtained from deduction of such state and local taxes.

(c) Payment and Calculation Procedures. The Gross-Up Payment attributable to a Base Payment shall be paid to Employee in cash and at such times as such Base Payment is paid or provided pursuant to this Agreement. Simultaneously with or prior to the Company's payment of a Base Payment, the Company shall deliver to Employee a written statement specifying the total amount of the Base Payment and the Excise Tax and Gross-Up Payment relating to the Base Payment, if any, together with all supporting calculations and conclusions. If Employee disagrees with the Company's determination of the Excise Tax or Gross-Up Payment, Employee shall submit to the Company, no later than 30 days after receipt of the Company's written statement, a written notice advising the Company of the disagreement and setting forth Employee's calculation of said amounts. Employee's failure to submit such notice within such period shall be conclusively deemed to be an agreement by Employee as to the amount of the Excise Tax and Gross-Up Payment, if any. If the Company agrees with Employee's calculations, it shall pay any shortfall in the Gross-Up Payment to Employee within 20 days after receipt of such a notice from Employee. If the Company does not agree with Employee's calculations, it shall provide Employee with a written notice within 20 days after the receipt of Employee's calculations advising Employee that the disagreement is to be referred to an independent accounting firm for resolution. Such disagreement shall be referred to a nationally recognized independent accounting firm which is not the regular accounting firm of the Company and which is designated by the Company. The Company shall be required to designate such accounting firm within 10 days after issuance of the Company's notice of disagreement. The accounting firm shall review all information provided to it by the parties and submit a written report to the parties setting forth its calculation of the Excise Tax and the Gross-Up Payment within 15 days after submission of the matter to it, and such decision shall be final and binding on all of the parties. The fees and expenses charged by said accounting firm shall be paid by the Company. If the amount of the Gross-Up Payment actually paid by the Company was less than the amount calculated by the accounting firm, the Company shall pay the shortfall to Employee within 5 days after the accounting firm submits its written report. If the amount of the Gross-Up Payment actually paid by the Company was greater than the amount calculated by the accounting firm, Employee shall pay the excess to the Company within 5 days after the accounting firm submits its written report.

(d) Subsequent Recalculation. In the event the Internal Revenue Service or other applicable governmental authority imposes an Excise Tax with respect to a Base Payment that is greater than the amount of the Excise Tax determined pursuant to the immediately preceding paragraph, the Company shall reimburse Employee for the full amount of such additional Excise Tax plus any interest and penalties which may be imposed in connection therewith, and pay to Employee a Gross-up Payment sufficient to make Employee whole and reimburse Employee for any Excise Tax, income tax and other taxes imposed on the reimbursement of such additional Excise Tax and interest and penalties, in accordance with the principles set forth above.

(e) Example. The calculation of the Gross-Up Payment is illustrated by the example set forth in Schedule 5(e), attached to this Agreement and hereby incorporated by reference. The amounts set forth in such example are for illustration purposes only and no implication shall be drawn from such example as to the amounts otherwise payable to Employee by the Company.

6. Successor To Company. The Company shall require any successor, whether direct or indirect, to all or substantially all of the business, properties and assets of the Company whether by purchase, merger, consolidation or otherwise, prior to or simultaneously with such purchase, merger, consolidation or other acquisition to execute and to deliver to Employee a written instrument in form and in substance reasonably satisfactory to Employee pursuant to which any such successor shall agree to assume and to timely perform or to cause to be timely performed all of the Company's covenants, agreements and obligations set forth in this Agreement (a "Successor Agreement"). The failure of the Company to cause any such successor to execute and deliver a Successor Agreement to Employee shall constitute a material breach of the provisions of this Agreement by the Company.

7. Restrictive Covenants. In consideration of his employment and the other benefits arising under this Agreement, Employee agrees that during the term of this Agreement, and for a period of three (3) years following the termination of this Agreement, Employee shall not directly or indirectly:

(a) alone or as a partner, joint venturer, officer, director, member, employee, consultant, agent, independent contractor or stockholder of, or lender to, any company or business, (i) engage in the business of solid waste collection, disposal or recycling (the "Solid Waste Services Business") in any market in which the Company or any of its subsidiaries or affiliates does business, or any other line of business which is entered into by the Company or any of its subsidiaries or affiliates during the term of this Agreement, or (ii) compete with the Company or any of its subsidiaries or affiliates in acquiring or merging with any other business or acquiring the assets of such other business; or

(b) for any reason, (i) induce any customer of the Company or any of its subsidiaries or affiliates to patronize any business directly or indirectly in competition with the Solid Waste Services Business conducted by the Company or any of its subsidiaries or affiliates in any market in which the Company or any of its subsidiaries or affiliates does business; (ii) canvass, solicit or accept from any customer of the Company or any of its subsidiaries or affiliates any such competitive business; or (iii) request or advise any customer or vendor of the Company or any of its subsidiaries or affiliates to withdraw, curtail or cancel any such customer's or vendor's business with the Company or any of its subsidiaries or affiliates; or

(c) for any reason, employ, or knowingly permit any company or business directly or indirectly controlled by him, to employ, any person who was employed by the Company or any of its subsidiaries or affiliates at or within the prior six months, or in any manner seek to induce any such person to leave his or her employment.

Notwithstanding the foregoing, the beneficial ownership of less than five percent (5%) of the shares of stock of any corporation having a class of equity securities actively traded on a national securities exchange or over-the-counter market shall not be deemed, in and of itself, to violate the prohibitions of this Section.

8. Confidentiality. Employee agrees that at all times during the term of this Agreement and after the termination of employment for as long as such information remains non-public information, Employee shall (i) hold in confidence and refrain from disclosing to any other party all information, whether written or oral, tangible or intangible, of a private, secret, proprietary or confidential nature, of or concerning the Company or any of its subsidiaries or affiliates and their business and operations, and all files, letters, memoranda, reports, records, computer disks or other computer storage medium, data, models or any photographic or other tangible materials containing such information (“Confidential Information”), including without limitation, any sales, promotional or marketing plans, programs, techniques, practices or strategies, any expansion plans (including existing and entry into new geographic and/or product markets), and any customer lists, (ii) use the Confidential Information solely in connection with his employment with the Company or any of its subsidiaries or affiliates and for no other purpose, (iii) take all precautions necessary to ensure that the Confidential Information shall not be, or be permitted to be, shown, copied or disclosed to third parties, without the prior written consent of the Company or any of its subsidiaries or affiliates, and (iv) observe all security policies implemented by the Company or any of its subsidiaries or affiliates from time to time with respect to the Confidential Information. In the event that Employee is ordered to disclose any Confidential Information, whether in a legal or regulatory proceeding or otherwise, Employee shall provide the Company or any of its subsidiaries or affiliates with prompt notice of such request or order so that the Company or any of its subsidiaries or affiliates may seek to prevent disclosure. In addition to the foregoing Employee shall not at any time libel, defame, ridicule or otherwise disparage the Company.

9. Specific Performance; Injunction. The parties agree and acknowledge that the restrictions contained in Sections 7 and 8 are reasonable in scope and duration and are necessary to protect the Company or any of its subsidiaries or affiliates. If any provision of Section 7 or 8 as applied to any party or to any circumstance is adjudged by a court to be invalid or unenforceable, the same shall in no way affect any other circumstance or the validity or enforceability of any other provision of this Agreement. If any such provision, or any part thereof, is held to be unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or area of such provision, and/or to delete specific words or phrases, and in its reduced form, such provision shall then be enforceable and shall be enforced. Employee agrees and acknowledges that the breach of Section 7 or 8 will cause irreparable injury to the Company or any of its subsidiaries or affiliates and upon breach of any provision of such Sections, the Company or any of its subsidiaries or affiliates shall be entitled to injunctive relief, specific performance or other equitable relief, without being required to post a bond; provided, however, that, this shall in no way limit any other remedies which the Company or any of its subsidiaries or affiliates may have (including, without limitation, the right to seek monetary damages).

10. Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be deemed given if delivered by hand delivery, by certified or registered

mail (first class postage pre-paid), guaranteed overnight delivery or facsimile transmission if such transmission is confirmed by delivery by certified or registered mail (first class postage pre-paid) or guaranteed overnight delivery to, the following addresses and telecopy numbers (or to such other addresses or telecopy numbers which such party shall designate in writing to the other parties): (a) if to the Company, at its principal executive offices, addressed to the President, with a copy to the General Counsel; and (b) if to Employee, at the address listed on the signature page hereto.

11. Amendment; Waiver. This Agreement may not be modified, amended, or supplemented, except by written instrument executed by all parties. No failure to exercise, and no delay in exercising, any right, power or privilege under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any right, power or privilege hereunder preclude the exercise of any other right, power or privilege. No waiver of any breach of any provision shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other provision, nor shall any waiver be implied from any course of dealing between the parties. No extension of time for performance of any obligations or other acts hereunder or under any other agreement shall be deemed to be an extension of the time for performance of any other obligations or any other acts. The rights and remedies of the parties under this Agreement are in addition to all other rights and remedies, at law or equity, that they may have against each other.

12. Assignment; Third Party Beneficiary. This Agreement, and Employee's rights and obligations hereunder, may not be assigned or delegated by him. The Company may assign its rights, and delegate its obligations, hereunder to any affiliate of the Company, or any successor to the Company or its Solid Waste Services Business, specifically including the restrictive covenants set forth in Section 7 hereof. The rights and obligations of the Company under this Agreement shall inure to the benefit of and be binding upon its respective successors and assigns.

13. Severability; Survival. In the event that any provision of this Agreement is found to be void and unenforceable by a court of competent jurisdiction, then such unenforceable provision shall be deemed modified so as to be enforceable (or if not subject to modification then eliminated herefrom) to the extent necessary to permit the remaining provisions to be enforced in accordance with the parties intention. The provisions of Sections 7 and 8 will survive the termination for any reason of Employee's relationship with the Company.

14. Indemnification. The Company agrees to indemnify Employee during the term and after termination of this Agreement in accordance with the provisions of the Company's certificate of incorporation and bylaws and the Delaware General Corporation Law.

15. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original but all of which together shall constitute one and the same instrument.

16. Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Florida applicable to contracts executed and to be wholly performed within such State.

17. Entire Agreement. This Agreement contains the entire understanding of the parties in respect of its subject matter and supersedes all prior agreements and understandings (oral or written) between or among the parties with respect to such subject matter. Upon the execution of this Agreement the provisions of the Existing Employment Agreement shall be superseded and shall be of no further force and effect except as specifically preserved by the terms of this Agreement.

18. Headings. The headings of Paragraphs and Sections are for convenience of reference and are not part of this Agreement and shall not affect the interpretation of any of its terms.

19. Construction. This Agreement shall be construed as a whole according to its fair meaning and not strictly for or against any party. The parties acknowledge that each of them has reviewed this Agreement and has had the opportunity to have it reviewed by their respective attorneys and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Agreement. Words of one gender shall be interpreted to mean words of another gender when necessary to construe this Agreement, and in like manner words in singular may be interpreted to be in the plural, and vice versa.

20. Attorneys' Fees. If at any time following a Change of Control of the Company, there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Employee (and Employee shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly provide sums sufficient to pay on a current basis (either directly or by reimbursing Employee) Employee's costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Employee in connection with any such dispute or any litigation, provided that Employee shall repay any such amounts paid or advanced if Employee is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. If at any time when there has not previously been a Change of Control of the Company, there should arise any dispute or litigation as to the validity, interpretation or application of any term or condition of the Agreement, the prevailing party in such dispute or litigation shall be entitled to recover from the non-prevailing party its costs and reasonable attorneys' fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred in such dispute or litigation. The provisions of this Section 20, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and Employee's employment hereunder.

21. Withholding. All payments made to Employee shall be made net of any applicable withholding for income taxes, Excise Tax and Employee's share of FICA, FUTA or other taxes. The Company shall withhold such amounts from such payments to the extent required by applicable law and remit such amounts to the applicable governmental authorities in accordance with applicable law.

22. Retirement Eligibility. Upon Employee's retirement, the Company shall pay to Employee all of Employee's accrued but unpaid Base Salary through the date of retirement. In addition, for all stock option or restricted stock awards ("Equity Awards") and all monetary awards (including Annual Awards and Long Term Awards pursuant to the Plan and any retirement contributions to the deferred compensation program) ("Monetary Awards"), in each case granted to Employee prior to July 26, 2006 ("Prior Awards"), such Employee shall be eligible to retire for purposes of the Prior Awards, and such Prior Awards shall fully vest in the event of such retirement, upon attaining either (a) the age of fifty-five (55) and having completed six (6) years of service with the Company or (b) the age of sixty-five (65) without regard to years of service with the Company (the "Original Retirement Policy"). For all Equity Awards and/or Monetary Awards granted to Employee following July 26, 2006 ("Prospective Awards"), the Original Retirement Policy shall apply, and such Prospective Awards shall fully vest in the event of such retirement, provided, and only to the extent that, Employee shall provide the Company with not less than twelve (12) months prior written notice of Employee's intent to retire. Failure by Employee to provide such written notice shall cause the Revised Retirement Policy (as hereinafter defined) to apply with respect to the vesting of Prospective Awards, but such failure shall have no effect whatsoever on the Prior Awards, all of which shall continue to be subject to the Original Retirement Policy. For purposes of this Agreement, (i) "Revised Retirement Policy" shall mean Employee has attained the age of (x) sixty (60) and has completed fifteen (15) years of continuous service with the Company or (y) sixty-five (65) with five (5) years of continuous service with the Company, and (ii) the Annual Awards and Long Term Awards includable within the Monetary Awards to be fully vested as provided above shall include all such Awards which have been granted to Employee, but which, as of the date of his retirement, have not been determined to have been earned pursuant to the Plan and in such instance Employee shall be paid, within thirty (30) days following the date of Employee's retirement, an amount with respect to each such open Award equal to the full target amount that the Compensation Committee of the Board of Directors was authorized to cause to be paid to Employee pursuant to the Plan had his or her employment continued through the end of the Performance Period related to such Award and had all performance goals been met.

23. Timing of Severance Payments. Notwithstanding anything in this Agreement to the contrary, if Employee is deemed to be a "key employee" for purposes of Internal Revenue Code Section 409A ("Section 409A"), no Severance Payment or other payments pursuant to, or contemplated by, this Agreement shall be made to Employee by the Company until the amount of time has elapsed that is necessary to avoid incurring excise taxes under Section 409A. Should this result in a delay of payments to Employee, on the first day any such payments may be made without incurring a penalty pursuant to Section 409A (the "409A Payment Date"), the Company shall begin to make such payments as described in this Section 23, provided that any amounts that would have been payable earlier but for the application of this Section 23 shall be paid in a lump-sum on the 409A Payment Date.

**[SIGNATURES ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

REPUBLIC SERVICES, INC., a Delaware

corporation

By: /s/ Harris W. Hudson

Harris W. Hudson, Vice Chairman

EMPLOYEE:

/s/ David A. Barclay

David A. Barclay

Address for Notices:

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## Schedule 2(a)

### Adjusted Salary Example

#### Calculation of 2006 Adjusted Salary

Adjusted Salary for 2005: \$387,000  
Base Salary: \$331,500  
Shares of Company Restricted Stock Granted: 2,500  
Closing Price of Company Shares: \$39.01 per share (2,500 x \$39.01 = \$97,525)  
Base Salary + Closing Price of Restricted Shares = \$331,500 + \$97,525 = \$429,025  
Adjusted Salary for 2006: \$429,025 (since greater than the Adjusted Salary for 2005)

#### Examples of Calculation of Future Adjusted Salary

##### Example 1:

Assume the following: (i) Employee's Base Salary is \$350,000.00; (ii) Employee's Adjusted Salary for the Fiscal Year immediately preceding the Fiscal Year for which the computation is to be made was \$400,000.00; (iii) for the Fiscal Year of determination Employee is granted 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$40.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

- (i) \$400,000.00; or
- (ii)  $\$350,000.00 + (1,500 \times \$40.00) =$   
 $\$350,000.00 + \$60,000 = \$410,000.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 1 is \$410,000.00.

Example 2:

Assume, with respect to the Fiscal Year immediately following the Fiscal Year described in Example 1 above, the following: (i) Employee's Base Salary remains at \$350,000.00; (ii) as indicated above in Example 1, Employee's Adjusted Salary for the immediately preceding Fiscal Year immediately was \$410,000.00; (iii) for the Fiscal Year of determination Employee is granted an additional 1,500 shares of Company restricted stock in lieu of a cash adjustment to Base Salary for such year; and the closing price of the Company's shares on the NYSE on the date of grant was \$45.00 per share.

Based on the foregoing assumptions, the Adjusted Salary for such year would be determined as follows:

Adjusted Salary for year of determination = Greater of (1) Adjusted Salary for immediately preceding Fiscal Year or (2) the sum of the Base Salary plus the product of (x) the number of shares of restricted stock granted for the year of determination, multiplied by (y) the closing price per share of the Company's stock on the NYSE.

Adjusted Salary = Greater of:

- (i) \$410,000.00; or
- (ii)  $\$350,000.00 + (1,500 \times \$45.00) =$   
 $\$350,000.00 + \$67,500 = \$417,500.00$

Therefore, the Adjusted Salary established for the year of determination under the foregoing Example 2 is \$417,500.00.

**Schedule 5(e)**

**Gross-Up Payment Example**

Assume that the Company makes a Base Payment to Employee of \$900,000, and that \$600,000 is subject to an Excise Tax of 20%. Also assume that the maximum combined effective federal, state and local tax rate, including Employee's share of payroll taxes but not including the Excise Tax rate, is 45%. Under these circumstances, the Gross-Up Payment would be \$342,857.14.

The Gross-Up Payment in this example is equal to the amount of the Base Payment subject to the Excise Tax (\$600,000), multiplied by the Excise Tax rate, expressed as a decimal (.20), and divided by the remainder of 1 minus the Excise Tax rate, expressed as a decimal, and minus the effective rate of tax of Employee exclusive of the Excise Tax, expressed as a decimal (1-.20-.45). Hence, the Gross-Up Payment is  $\$600,000 \times .20 / (1-.20-.45) = \$342,857.14$ .

The Gross-Up Payment of \$342,857.14 represents the sum of the amounts referred to in clauses (i), (ii) and (iii) of Section 5(a) of this Agreement, as set forth below.

clause (i):	
Excise Tax on Base Payment (600,000 x .20)	120,000.00
clause (ii):	
Excise Tax on Gross-Up Payment (342,857.14 x .20)	68,571.43
clause (iii):	
Other taxes on Gross-Up Payment (342,857.14 x .45)	<u>154,285.71</u>
Total taxes subject to gross-up	<u><u>342,857.14</u></u>

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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 officer(s) 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 the registrant's board of directors (or persons performing the equivalent functions):
  - 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: May 7, 2007

/s/ James E. O'Connor

James E. O'Connor

Chairman and Chief Executive Officer

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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 officer(s) 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 the registrant's board of directors (or persons performing the equivalent functions):
  - 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: May 7, 2007

/s/ Tod C. Holmes

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Tod C. Holmes

Senior Vice President and Chief Financial Officer

**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 March 31, 2007 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

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James E. O'Connor  
Chairman and Chief Executive Officer

May 7, 2007

**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 March 31, 2007 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

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Tod C. Holmes  
Senior Vice President and Chief Financial Officer

May 7, 2007