CASELLA WASTE SYSTEMS INC
Form 10-Q
December 03, 2009

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended October 31, 2009**

**OR**

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

**For the transition period from to**

**Commission file number 000-23211**

# CASELLA WASTE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **03-0338873**<br>(I.R.S. Employer Identification No.) |
| **25 Greens Hill Lane, Rutland, Vermont**<br>(Address of principal executive offices) | **05701**<br>(Zip Code) |

Registrant s telephone number, including area code: **(802) 775-0325**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of November 30, 2009:

| | |
|---|---|
| Class A Common Stock, $0.01 par value per share: | 24,745,079 |
| Class B Common Stock, $0.01 par value per share: | 988,200 |

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

**(in thousands)**

| | April 30, 2009 | October 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 1,838 | $ 2,004 |
| Restricted cash | 508 | 76 |
| Accounts receivable - trade, net of allowance for doubtful accounts of $2,014 and $1,706 | 51,296 | 56,179 |
| Notes receivable - officer/employees | 136 | 137 |
| Refundable income taxes | 1,195 | 1,623 |
| Prepaid expenses | 6,679 | 5,923 |
| Inventory | 3,114 | 3,431 |
| Deferred income taxes | 4,392 | 4,618 |
| Other current assets | 7,577 | 4,913 |
| Total current assets | 76,735 | 78,904 |
| Property, plant and equipment, net of accumulated depreciation and amortization of $549,952 and $580,646 | 490,360 | 487,003 |
| Goodwill | 125,709 | 125,709 |
| Intangible assets, net | 2,635 | 2,377 |
| Restricted assets | 127 | 211 |
| Notes receivable - officer/employees | 1,128 | 1,138 |
| Deferred income taxes | 428 | 763 |
| Investments in unconsolidated entities | 41,798 | 41,742 |
| Other non-current assets | 12,042 | 20,571 |
| | 674,227 | 679,514 |
| | $ 750,962 | $ 758,418 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS (Continued)**

**(Unaudited)**

**(in thousands, except for share and per share data)**

| | April 30, 2009 | October 31, 2009 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt and capital leases | $ 1,718 | $ 1,827 |
| Current maturities of financing lease obligations | 1,344 | 1,418 |
| Accounts payable | 34,623 | 34,270 |
| Accrued payroll and related expenses | 4,180 | 4,133 |
| Accrued interest | 6,407 | 11,984 |
| Current accrued capping, closure and post-closure costs | 6,426 | 1,009 |
| Other accrued liabilities | 22,337 | 22,778 |
| Total current liabilities | 77,035 | 77,419 |
| Long-term debt and capital leases, less current maturities | 547,145 | 555,743 |
| Financing lease obligations, less current maturities | 12,281 | 11,570 |
| Accrued capping, closure and post-closure costs, less current portion | 35,464 | 40,578 |
| Deferred income taxes | 2,684 | 3,552 |
| Other long-term liabilities | 10,043 | 9,194 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS EQUITY: | | |
| Class A common stock - | | |
| Authorized - 100,000,000 shares, $0.01 par value per share, issued and outstanding - 24,679,000 and 24,745,000 shares as of April 30, 2009 and October 31, 2009, respectively | 247 | 247 |
| Class B common stock - | | |
| Authorized - 1,000,000 shares, $0.01 par value per share, 10 votes per share, issued and outstanding - 988,000 shares | 10 | 10 |
| Accumulated other comprehensive income | 3,828 | 1,099 |
| Additional paid-in capital | 279,444 | 280,554 |
| Accumulated deficit | (217,219) | (221,548) |
| Total stockholders equity | 66,310 | 60,362 |
| | $ 750,962 | $ 758,418 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

**(in thousands)**

| | Three Months Ended October 31, 2008 | Three Months Ended October 31, 2009 | Six Months Ended October 31, 2008 | Six Months Ended October 31, 2009 |
|---|---|---|---|---|
| Revenues | $ 157,538 | $ 133,733 | $ 315,442 | $ 266,833 |
| Operating expenses: | | | | |
| Cost of operations | 103,728 | 86,674 | 208,170 | 174,560 |
| General and administration | 18,299 | 14,818 | 36,739 | 31,106 |
| Depreciation and amortization | 19,505 | 18,347 | 38,975 | 37,876 |
| | 141,532 | 119,839 | 283,884 | 243,542 |
| Operating income | 16,006 | 13,894 | 31,558 | 23,291 |
| Other expense/(income), net: | | | | |
| Interest income | (85) | (28) | (267) | (61) |
| Interest expense | 10,338 | 15,006 | 20,494 | 24,851 |
| Loss from equity method investments | 1,045 | 159 | 2,173 | 1,378 |
| Loss on debt modification | | | | 511 |
| Other income | (64) | (247) | (152) | (291) |
| Other expense, net | 11,234 | 14,890 | 22,248 | 26,388 |
| (Loss) income from continuing operations before income taxes and discontinued operations | 4,772 | (996) | 9,310 | (3,097) |
| Provision for income taxes | 2,706 | 555 | 5,023 | 1,232 |
| (Loss) income from continuing operations before discontinued operations | 2,066 | (1,551) | 4,287 | (4,329) |
| Discontinued Operations: | | | | |
| Loss from discontinued operations (net of income tax benefit of $8) | | | (11) | |
| Loss on disposal of discontinued operations (net of income tax provision of $262) | | | (34) | |
| Net (loss) income (applicable) available to common stockholders | $ 2,066 | $ (1,551) | $ 4,242 | $ (4,329) |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

**(Unaudited)**

**(in thousands, except for per share data)**

| | Three Months Ended October 31, 2008 | Three Months Ended October 31, 2009 | Six Months Ended October 31, 2008 | Six Months Ended October 31, 2009 |
|---|---|---|---|---|
| Earnings Per Share: | | | | |
| Basic: | | | | |
| (Loss) income from continuing operations before discontinued operations (applicable) available to common stockholders | $ 0.08 | $ (0.06) | $ 0.17 | $ (0.17) |
| Loss from discontinued operations, net | | | | |
| Loss on disposal of discontinued operations, net | | | | |
| Net (loss) income per common share (applicable) available to common stockholders | $ 0.08 | $ (0.06) | $ 0.17 | $ (0.17) |
| Basic weighted average common shares outstanding | 25,561 | 25,733 | 25,517 | 25,711 |
| Diluted: | | | | |
| (Loss) income from continuing operations before discontinued operations (applicable) available to common stockholders | $ 0.08 | $ (0.06) | $ 0.17 | $ (0.17) |
| Loss from discontinued operations, net | | | | |
| Loss on disposal of discontinued operations, net | | | | |
| Net (loss) income per common share (applicable) available to common stockholders | $ 0.08 | $ (0.06) | $ 0.17 | $ (0.17) |
| Diluted weighted average common shares outstanding | 25,745 | 25,733 | 25,720 | 25,711 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**(in thousands)**

| | Six Months Ended October 31, 2008 | Six Months Ended October 31, 2009 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net (loss) income | $ 4,242 | $ (4,329) |
| Loss from discontinued operations, net | 11 | |
| Loss on disposal of discontinued operations, net | 34 | |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities - | | |
| Gain on sale of equipment | (577) | (916) |
| Depreciation and amortization | 38,975 | 37,876 |
| Depletion of landfill operating lease obligations | 3,520 | 3,165 |
| Interest accretion on landfill and environmental remediation liabilities | 1,603 | 1,738 |
| Income from assets under contractual obligation | (114) | (150) |
| Amortization of premium on senior subordinated notes | (331) | (356) |
| Amortization of discount on term loan and second lien notes | | 626 |
| Loss from equity method investments | 2,173 | 1,378 |
| Loss on debt modification | | 511 |
| Stock-based compensation | 954 | 1,040 |
| Excess tax benefit on the exercise of stock options | (157) | |
| Deferred income taxes | 4,647 | 1,088 |
| Changes in assets and liabilities, net of effects of acquisitions and divestitures - | | |
| Accounts receivable | (3,978) | (4,883) |
| Accounts payable | (4,400) | (353) |
| Prepaid expenses, inventories and other assets | 1,851 | 1,453 |
| Accrued expenses and other liabilities | (9,236) | 2,664 |
| | 34,930 | 44,881 |
| Net Cash Provided by Operating Activities | 39,217 | 40,552 |
| | | |
| Cash Flows from Investing Activities: | | |
| Acquisitions, net of cash acquired | (458) | |
| Additions to property, plant and equipment - growth | (8,232) | (2,643) |
| - maintenance | (29,964) | (29,757) |
| Payments on landfill operating lease contracts | (1,825) | (4,538) |
| Proceeds from divestitures | 670 | |
| Proceeds from sale of equipment | 895 | 2,497 |
| Investment in unconsolidated entities | (2,510) | |
| Proceeds from assets under contractual obligation | 114 | 150 |
| Net Cash Used In Investing Activities | (41,310) | (34,291) |
| | | |
| Cash Flows from Financing Activities: | | |
| Proceeds from long-term borrowings | 60,000 | 413,144 |
| Principal payments on long-term debt | (59,104) | (405,344) |
| Payment of financing costs | | (13,980) |
| Proceeds from exercise of stock options | 1,289 | 85 |
| Excess tax benefit on the exercise of stock options | 157 | |
| Net Cash (Used in) Provided by Financing Activities | 2,342 | (6,095) |
| | | |
| Discontinued Operations: | | |
| Net Cash Provided by Operating Activities | 47 | |

| | | | | |
|---|---|---|---|---|
| Net increase in cash and cash equivalents | | 296 | | 166 |
| Cash and cash equivalents, beginning of period | | 2,814 | | 1,838 |
| Cash and cash equivalents, end of period | $ | 3,110 | $ | 2,004 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(Unaudited)**

**(in thousands)**

| | Six Months Ended October 31, 2008 | | Six Months Ended October 31, 2009 | |
|---|---|---|---|---|
| Supplemental Disclosures of Cash Flow Information: | | | | |
| Cash paid during the period for - | | | | |
| Interest | $ | 20,463 | $ | 17,212 |
| Income taxes, net of refunds | $ | 258 | $ | 550 |
| | | | | |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities: | | | | |
| Summary of entities acquired in purchase business combinations - | | | | |
| Fair value of assets acquired | $ | 458 | $ | |
| Cash paid, net | $ | (458) | $ | |
| | | | | |
| Property, plant and equipment acquired through financing lease obligations | $ | 11,940 | $ | |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(In thousands, except for per share data)**

## 1. BASIS OF PRESENTATION

Casella Waste Systems, Inc. ( the Parent ) and its subsidiaries (collectively, the Company ) is a regional, integrated solid waste services company which provides a full range of solid waste services including collection, transfer, recycling and disposal of non-hazardous solid waste. The Company also generates electricity through its solid waste processing and markets recyclable paper, metals, aluminum, plastics and glass which have been processed at its facilities or purchased from third parties.

The consolidated balance sheet of the Company as of October 31, 2009, the consolidated statements of operations for the three and six months ended October 31, 2008 and 2009 and the consolidated statements of cash flows for the six months ended October 31, 2008 and 2009 are unaudited. In the opinion of management, such financial statements, together with the consolidated balance sheet as of April 30, 2009, include all adjustments (which include normal recurring and nonrecurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented.

The preparation of the Company s financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company s significant accounting policies are more fully discussed in Item 7 of the Company s Annual Report on Form 10-K/A for the year ended April 30, 2009 (the Annual Report ), which was filed with the Securities and Exchange Commission (the SEC ) on July 24, 2009. The consolidated financial statements presented herein should be read in conjunction with the Company s audited consolidated financial statements as of and for the twelve months ended April 30, 2009 included in the Annual Report. The results for the three and six month period ended October 31, 2009 may not be indicative of the results that may be expected for any other interim period or the fiscal year ending April 30, 2010.

**Adoption of New Accounting Pronouncements**

*Fair Value Measurements and Disclosures*

In February 2008, the Financial Accounting Standards Board ( FASB ) issued fair value measurement guidance to allow filers to defer for one year the effective date of previously issued guidance as it relates to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. This additional guidance does not defer recognition and disclosure requirements for financial assets and financial liabilities or for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. Effective May 1, 2009, the Company adopted this guidance with respect to non-financial assets and liabilities measured on a non-recurring basis. The adoption did not have a material impact on the Company s financial position, results of operations or cash flows.

*Business Combinations*

In December 2007, the FASB issued new guidance on business combinations, which revised previous guidance on accounting for business combinations and retains the fundamental concept of the purchase method of accounting and introduces new requirements for the recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests. This guidance also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. This guidance applies prospectively to business combinations for which the acquisition date is on or after the Company s adoption date. The Company adopted this guidance on May 1, 2009 (See Note 3).

*Derivatives and Hedging Disclosures*

In March 2008, the FASB issued guidance which amends and expands the disclosure requirements for derivative instruments and hedging activities. This guidance requires entities to provide enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and disclosures about credit-risk-related contingent features in derivative agreements. The Company adopted this guidance on May 1, 2009. As this guidance relates specifically to disclosures, the adoption had no impact on the Company s financial position, results of operations or cash flows.

*Intangible Assets*

In April 2008, the FASB issued guidance on determining the useful life of intangible assets. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value. The Company adopted this guidance on May 1, 2009. The adoption of this guidance did not have a material impact on the Company s financial position, results of operations or cash flows.

*Subsequent Events*

In May 2009, the FASB issued guidance on subsequent events which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance addresses the period after the balance sheet date during which the management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted this guidance during the quarter ended July 31, 2009. The Company evaluated subsequent events through December 3, 2009, which was the date the accompanying financial statements were available to be issued. No material subsequent events have occurred since October 31, 2009 that require recognition or disclosure in the Company s current period financial statements.

**2. NEW ACCOUNTING PROUNOUNCEMENTS PENDING ADOPTION**

*Variable Interest Entities*

In June 2009, the FASB issued guidance for determining whether an entity is a variable interest entity ( VIE ) and requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a VIE. Under this guidance, an enterprise has a controlling financial interest when it has (i) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This guidance requires an enterprise to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has power to direct the activities of the VIE that most significantly impact the entity s economic performance. This guidance also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. This guidance is effective for annual reporting periods beginning after November 15, 2009. The Company does not believe the impact of adopting this guidance will have a material effect on the Company s consolidated financial position or results of operations.

**3. BUSINESS COMBINATIONS**

As disclosed in Note 1, the Company adopted new guidance on accounting for business combinations on May 1, 2009. Assets and liabilities that arose from business combinations that preceded the application of this guidance were not adjusted upon application of the new standard.

For all acquisitions completed prior to the Company s adoption of this guidance, acquisition purchase prices were allocated to the identified intangible assets and tangible assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition, with any residual amounts allocated to goodwill. The time period for finalizing purchase price allocations did not exceed one year from the consummation of a business combination. Any adjustments made during the one year allocation period were recorded prospectively as an adjustment to the acquired goodwill from the business combination.

For all acquisitions completed after the adoption of this guidance, as of the respective acquisition dates, the Company recognizes, separately from goodwill, the identifiable assets acquired and liabilities assumed at their estimated acquisition-date fair values. The Company measures and recognizes goodwill as of the acquisition date as the excess of: (a) the aggregate of the fair value of consideration transferred, the fair value of any noncontrolling interest in the acquiree (if any) and the acquisition-date fair value of the Company s previously held equity interest in the acquiree (if any), over (b) the fair value of net assets acquired and liabilities assumed. If information about facts and circumstances existing as of the acquisition date is incomplete by the end of the reporting period in which a business combination occurs, the Company will report provisional amounts for the items for which the accounting is incomplete. The measurement period ends once the Company receives the information it was seeking; however, this period will not extend beyond one year from the acquisition date. Any material adjustments recognized during the measurement period will be recognized retrospectively in the consolidated financial statements of the then current period. All acquisition-related transaction and restructuring costs are to be expensed as incurred rather than capitalized as part of the cost of the acquisition.

During the six months ended October 31, 2008, the Company acquired two solid waste hauling operations in exchange for total consideration of $458 in cash. The operating results of these businesses are included in the consolidated statements of operations from the dates of acquisition. The purchase price has been allocated to the net assets acquired based on their fair values at the dates of acquisition, including the value of non-compete agreements, with the residual amounts allocated to goodwill. Fair value of tangible assets is determined by the Company based on fair market value of similar property using industry accepted sources. The pro forma results, as if these acquisitions had been made on May 1, 2008, do not vary materially from actual reported results for the three and six months ended October 31, 2008 and 2009.

**4. GOODWILL AND INTANGIBLE ASSETS**

The following table shows the balances related to goodwill at April 30, 2009 and October 31, 2009:

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| Eastern Region | | Central Region | | Western Region | | FCR Recycling | | Total |
|---|---|---|---|---|---|---|---|---|
| $ | $ | 32,951 | $ | 55,302 | $ | 37,456 | $ | 125,709 |

Intangible assets at April 30, 2009 and October 31, 2009 consist of the following:

| | Covenants not to compete | Client Lists | Licensing Agreements | Contract Acquisition Costs | Total |
|---|---|---|---|---|---|
| Balance, April 30, 2009 | | | | | |
| Intangible assets | $ 14,125 | $ 1,597 | $ 920 | $ 424 | $ 17,066 |
| Less accumulated amortization | (13,308) | (817) | (235) | (71) | (14,431) |
| | $ 817 | $ 780 | $ 685 | $ 353 | $ 2,635 |
| | | | | | |
| Balance, October 31, 2009 | | | | | |
| Intangible assets | $ 14,142 | $ 1,597 | $ 920 | $ 424 | $ 17,083 |
| Less accumulated amortization | (13,481) | (863) | (268) | (94) | (14,706) |
| | $ 661 | $ 734 | $ 652 | $ 330 | $ 2,377 |

Intangible amortization expense for the three and six months ended October 31, 2008 and 2009 was $154, $133, $301 and $285, respectively. The intangible amortization expense estimated for the five fiscal years following fiscal year 2009 and thereafter is as follows:

| 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
|---|---|---|---|---|---|
| $ 520 | $ 412 | $ 331 | $ 269 | $ 221 | $ 899 |

**5. LONG-TERM DEBT**

On July 9, 2009, the Company successfully completed the refinancing of its existing senior credit facility with a senior secured first lien credit facility (the Senior Secured Credit Facility ), consisting of a $177,500 revolving credit facility (the New Revolver ) and a $130,000 aggregate principal term loan (the New Term Loan ). In connection with the Senior Secured Credit Facility, the Company simultaneously completed the offering of $180,000 aggregate principal amount of 11% senior second lien notes due 2014 (the Second Lien Notes ). The net proceeds from the Senior Secured Credit Facility and from the Second Lien Notes offering were used to refinance the borrowings under the Company s $525,000 senior credit facility due April 2010.

For the first two quarters after July 9, 2009, the interest rate for borrowings under the New Revolver will be LIBOR plus a margin of 4.50% per annum, and thereafter the applicable margin will be determined in accordance with the pricing grid as set forth in the Senior Secured Credit Facility Agreement dated July 9, 2009. The interest rate for the New Term Loan is LIBOR plus a margin of 5.00% per annum, provided that LIBOR shall not be less than 2.00% per annum. The New Term Loan was issued at an original issue price of 94.5% of the principal amount of the loan.

The Senior Secured Credit Facility is subject to customary affirmative, negative, and financial covenants, generally consistent with the Company s prior credit agreement. The New Revolver is due December 31, 2012 and the New Term Loan is due April 9, 2014. If the Company fails to refinance the Company s 9.75% Senior Subordinated Notes due February 2013 on or before October 31, 2012, the due date for the

New Term Loan shall be December 31, 2012. The Company has the right to increase the amount of the Senior Secured Credit Facility by an aggregate amount of $42,500, in its discretion, subject to certain conditions of the Senior Secured Credit Facility Agreement.

The Second Lien Notes were issued at an original issue price of 97.2% of the principal amount. The Second Lien Notes will pay interest on a semi-annual basis and are due on July 15, 2014.

The Second Lien Notes were sold in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act ), and to non-U.S. persons outside the United States under Regulation S under the Securities Act.

The Second Lien Notes have not been registered under the Securities Act, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws.

The Company recorded a charge of $511 as a loss on debt modification in the quarter ended July 31, 2009 relating to the unamortized deferred financing costs associated with the refinancing of its existing senior credit facility.

## 6. COMMITMENTS AND CONTINGENCIES

(a) Legal Proceedings

*North Country Landfill Expansion*

The North Country Environmental Services, Inc. ( NCES ) landfill is located in Bethlehem, New Hampshire, and is currently permitted to accept municipal solid waste and construction and demolition ( C&D ) material from a wide geographic region. NCES projects that its permitted and uncontested capacity will last into fiscal year 2010.

NCES and the Town of Bethlehem (the Town ) have been in prolonged zoning litigation over NCES s expansion of the landfill. Currently, there are two court actions between NCES and the Town, a declaratory judgment action initiated by NCES on September 12, 2001, and a zoning enforcement action initiated by the Town on February 2, 2009. In the declaratory judgment action, the New Hampshire Supreme Court ruled that NCES has all necessary local approvals to expand its landfill within a 51-acre area, but remanded to the Superior Court issues related to the validity of the Town s zoning ordinance as it relates to a proposed landfill expansion outside that 51-acre area. The remanded case remains pending and no trial date has been set. In the enforcement action, the Town has requested an injunction requiring NCES to remove a leachate force main, a landfill gas line, stormwater drainage lines, catch basins and outfalls, a landfill liner anchor trench, and storm water detention ponds that are located outside the 51-acre area. NCES and the Town filed cross-motions for summary judgment on the validity of the ordinance the Town is attempting to enforce, and the court denied both motions in October 2009. The enforcement action is currently scheduled for a bench trial in March 2010.

On December 12, 2008, the New Hampshire Department of Environmental Services ( NHDES ) denied a request by NCES to modify its standard permit to develop approximately eight years of capacity within the bounds of the 51-acre area. NCES revised and resubmitted its request, and the NHDES denied the revised request on March 25, 2009. NCES appealed each of these denials to the New Hampshire Waste Management Council ( WMC ). NCES obtained a stay of both appeals pending the outcome of the action for declaratory and injunctive relief described below.

NCES filed a petition for declaratory and injunctive relief with the Superior Court on February 10, 2009, related to the NHDES s December 12, 2008 denial. NCES amended this petition following NHDES s March 25, 2009 denial. In its amended petition, NCES sought declarations that NHDES s denials were unlawful on several grounds. NCES also sought preliminary injunctive relief that would have required NHDES to immediately resume its consideration of NCES s request to modify its standard permit. In addition, NCES sought permanent injunctive relief that would require NHDES to review the permit modification application in conformity with the Superior Court s declarations. On June 11, 2009, the Superior Court denied NCES s request for a preliminary injunction and also denied NHDES s request to dismiss the petition. Subsequently, NCES filed a motion for partial summary judgment on two of its claims for declaratory relief and NHDES filed a cross-motion for partial summary judgment. In October 2009, NCES agreed to the dismissal of one of its claims without prejudice, and moved successfully with NHDES s concurrence to stay the litigation so that NHDES may consider the results of certain remedial work NCES undertook during the 2009 construction season. NCES sought the stay because the outcome of this review by NHDES could affect the scope of the litigation.

In the event that the Company is unsuccessful obtaining the permits, the Company will assess the need for a potential landfill impairment charge (the carrying value of the NCES landfill assets as of October 31, 2009 was approximately $6,896). The Company would also assess the need for additional closure and post-closure charges.

*GR Technologies, Inc. Litigation*

The Company, on behalf of itself, its subsidiary FCR, LLC ( FCR ), and as a Majority Managing Member of Green Mountain Glass, LLC ( GMG ), initiated a declaratory judgment action against GR Technologies, Inc. ( GRT ), Anthony C. Lane and Robert Cameron Billmyer ( the Defendants ) on June 8, 2007 to resolve issues raised by GRT as the minority member of GMG. The issues addressed in the action included exercise of management discretion, right to intellectual property, and other related disputes. The Defendants counterclaimed in May 2008, seeking unspecified damages on a variety of allegations including, among others, breach of contract, breach of fiduciary duty, fraud, tortuous interference with business relations, induced infringement and other matters. Additionally, the Defendants filed a Derivative Action in Rutland Superior Court as a Managing Member of GMG on July 2, 2008 against several employees of the Company and its subsidiary, FCR, LLC, making similar allegations. On September 16, 2008, the Company filed a Motion for Summary Judgment, and a Proposed Order Decreeing Dissolution and Appointing a Special Master, alleging that the relationship of GRT and FCR in GMG is irretrievably broken. The Rutland Superior Court issued a decision on February 10, 2009 ordering that a suit for dissolution must be heard in the Delaware Chancery Court, as opposed to Rutland Superior Court, and the Company has brought such an action. A hearing has been set by the Delaware Chancery Court for the first week in February 2010.

The above described litigation is in discovery and, accordingly, it is not possible at this time to evaluate the likelihood of an unfavorable outcome or provide meaningful estimates as to amount or range of potential loss, but management currently believes that this litigation, regardless of its outcome, will not have a material adverse affect on the Company s financial condition, results of operations or cash flows.

*New York Department of Labor Prevailing Wage Dispute*

The Company has been involved in an inquiry by the New York Department of Labor ( DOL ) regarding the applicability of certain state Prevailing Wage laws pertaining to work being undertaken by the Company at certain landfill sites operated by the Company in New York State that are owned by municipalities (Chemung, Ontario and Clinton Counties). On August 21, 2009, the DOL issued a letter opinion with regard to cell construction and capping work and other activities at these landfills, concluding that: (1) the construction activity necessary for the recovery, use and sale of gases created by

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the landfill is not a public work project to which the Prevailing Wage Law applies; (2) cell construction and capping activities are public work where that work takes place on publicly owned lands in the furtherance of the operation of a publicly accessible landfill facility; (3) construction on lands acquired by Casella which adjoin a County-owned landfill are akin to a privately owned and operated landfill and would not be subject to the Prevailing Wage Law. The Company is negotiating with the DOL to resolve this matter and though a negotiated settlement appears more likely than not, the Company has not ruled out administrative or litigation relief. Any charge, excluding interest or penalties, incurred by the Company related to these claims will be capitalized as part of the related landfill asset, and amortized prospectively over the remaining life of the landfill as tons of waste are placed at each landfill site. The Company does not believe that the outcome of this matter will have a material adverse effect on the Company s business, financial condition, results of operations or cash flows.

*Southbridge Landfill Site Assignment Appeal*

On June 9, 2008, the Southbridge Board of Health ( Southbridge BOH ) issued a Decision and Statement of Findings pursuant to M.G.L. ch.111, §§150A and 150 A1/2 and 310 CMR 16.00 ( 2008 Site Assignment ) granting the Company s subsidiary, Southbridge Recycling and Disposal Park, Inc. ( SRD ), a minor modification to the existing site assignment for the Southbridge Sanitary Landfill (the Landfill ). The 2008 Site Assignment allows SRD, subject to numerous conditions, to accept into the Landfill up to 405,000 tons of MSW per year without regard to geographic origin.

On or about July 14, 2008, the Sturbridge Board of Health ( Sturbridge BOH ), an abutting municipality to Southbridge, together with several 10-citizen groups, filed a complaint in Worcester County Superior Court contesting the 2008 Site Assignment (the Appeal ). The Appeal names as defendants the Southbridge BOH and its individual members at the time of the 2008 Site Assignment, and SRD. On August 21, 2008, SRD reached a settlement with the Sturbridge BOH, pursuant to which SRD agreed to fund an escrow account to be controlled by the Sturbridge BOH, in the amount of $50. The Sturbridge BOH Appeal was formally withdrawn as to all parties on August 22, 2008, and only the 10-citizen groups remain as participants in the Appeal. A hearing on the merits occurred on August 18, 2009, and the court has not yet issued a decision. While it is too early to assess the outcome, SRD will continue to aggressively defend the Appeal.

*Port of Albany, New York Project Development*

Casella Albany Renewables, LLC ( CAR ), a wholly-owned subsidiary of Casella Renewable Systems, LLC, entered into an Option Agreement with Albany Renewable Energy, LLC ( ARE ) in September, 2008 ( Option Agreement ). In March 2008, ARE was the successful bidder to the Albany Port District Commission ( Port ) for the development of an ethanol facility to be located on a site owned by the Port ( Project ). ARE has entered into a lease agreement with the Port, and CAR has the option pursuant to the Option Agreement of entering into a sublease with ARE should CAR elect to become involved in the development of the Project.

On or about September 18, 2009, Empire State Ethanol & Energy, LLC ( Empire ), a putative member of a non-selected bidder for the Project, filed litigation in Albany County Supreme Court against the Port and certain of its officers, ARE and certain of its affiliates, and CAR and certain of its affiliates, seeking a declaratory judgment that the bidding process for the Project was flawed and an order finding the selection of ARE was illegal and requiring the Port to rebid the Project. Empire also moved on an expedited basis for a preliminary injunction in order to maintain the Project s status quo until a hearing could be held on the merits of the declaratory judgment action. Oral arguments were held on the preliminary injunction motion on October 30, 2009. The court has not issued a decision. The Company intends to vigorously defend against these claims and believes that regardless of its outcome, this matter

will not have a material adverse effect on the Company s business, financial condition or results of operations or cash flows.

*CRMC Bethlehem, LLC Litigation*

CRMC Bethlehem, LLC and Commonwealth Bethlehem Energy, LLC (collectively, CRMC ), has filed claims in the US District Court for the District of New Hampshire against NCES. CRMC seeks declaratory and injunctive relief and damages. CRMC alleges that NCES has breached the terms of a Gas Lease and Easement Agreement by and between CRMC and NCES, entered into on September 10, 1998, as amended on March 1, 2000 (the Gas Lease ). CRMC alleges that NCES has inappropriately interfered with CRMC rights pursuant to the Gas Lease to develop a landfill gas-to-energy project to be sited on the Landfill. NCES denies these allegations, and intends to vigorously defend against these claims. The Company does not believe that this matter will have a material adverse effect on the Company s business, financial condition or results of operations or cash flows.

*Other*

The Company is a defendant in certain other lawsuits alleging various claims incurred in the ordinary course of business, none of which, either individually or in the aggregate, the Company believes are material to its financial condition, results of operations or cash flows.

The Company offers no prediction of the outcome of any of the proceedings or negotiations described above. The Company is vigorously defending each of these lawsuits and claims. However, there can be no guarantee the Company will prevail or that any judgments against the Company, if sustained on appeal, will not have a material adverse effect on the Company s business, financial condition or results of operations or cash flows.

(b) Environmental Liability

The Company is subject to liability for environmental damage, including personal injury and property damage, that its solid waste, recycling and power generation facilities may cause to neighboring property owners, particularly as a result of the contamination of drinking water sources or soil, possibly including damage resulting from conditions existing before the Company acquired the facilities. The Company may also be subject to liability for similar claims arising from off-site environmental contamination caused by pollutants or hazardous substances if the Company or its predecessors arrange or arranged to transport, treat or dispose of those materials.

On December 20, 2000, the State of New York Department of Environmental Conservation ( DEC ) issued an Order on Consent ( Order ) which named Waste- Stream, Inc. ( WSI ), a Casella subsidiary, General Motors Corporation ( GM ) and Niagara Mohawk Power Corporation ( NiMo ) as Respondents. The Order required that the Respondents undertake certain work on a 25-acre scrap yard and solid waste transfer station owned by WSI, including the drafting of a Remedial Investigation and Feasibility Study (the Study ). A draft of the Study was submitted to DEC in January 2009. The Study estimates that the undiscounted costs associated with implementing the preferred remedies will be approximately $10,219 and it is unlikely that any costs relating to onsite remediation will be incurred until fiscal year 2011. WSI is jointly and severally liable for the total cost to remediate but expected to be responsible for approximately 30% upon implementation of a cost-sharing agreement. Based on these estimates, the Company recorded an environmental remediation charge of $2,823 in third quarter of fiscal 2009. In the fourth quarter of fiscal year 2009, the Company recognized an additional charge of $1,532, representing an additional 15% of the estimated costs, in recognition of the deteriorating financial condition and eventual bankruptcy filing of GM.  Such charges could be significantly higher if costs exceed estimates, one or more of the other responsible parties are not able to meet their obligation, or one or more of the other responsible parties declared bankruptcy. The Company inflates the cost in current dollars until the expected time of payment and discounts the cost to present value using an appropriate discount rate (average of 6.6%. in fiscal years 2009 and 2010). As of October 31, 2009, the Company has recorded $4,116 related to this liability, including the recognition of $56 and $111 of accretion expense in the three and six months ended October 31, 2009.

## 7. STOCK-BASED COMPENSATION

In the six months ended October 31, 2009, the Company granted a combination of restricted stock units and performance stock units under the 2006 Stock Incentive Plan (the 2006 Plan ) to certain employees. The stock units, each of which represents a share of Class A Common Stock, are subject to vesting, one half of which is based on the attainment by the Company of a targeted annual return on assets in fiscal year 2012 and the other half of which vests based on continued employment over a three year period starting on the first anniversary of the grant. As of October 31, 2009, at the one hundred percent level of attainment, the grantee pool would be entitled to a total of 570 shares of Class A Common Stock based on the attainment of a targeted annual return on assets in fiscal 2012 and 570 shares of Class A Common Stock based on vesting over a three year period starting on the first anniversary of the grant. The maximum payout of the performance stock units equals 200% of the established target.

The initial grant date of these awards was June 11, 2009. Subsequent to the initial grant, the Company determined that due to a clerical error, the number of awards made on June 11, 2009 exceeded the number of shares that were available for issuance under the 2006 Plan. As a result, the Company asked officers and certain employees who received a performance stock unit award on June 11, 2009 and July 28, 2008 to agree to a termination of the agreements evidencing such awards. Upon stockholder approval on October 13, 2009 to increase the number of shares authorized for issuance under the 2006 Plan, the Company granted performance stock units under the 2006 Plan for the same number of shares and subject to the same terms as those awards that had been terminated.

The performance and restricted stock units were granted at an average grant date fair value of $2.73 per share. As of October 31, 2009 there were 3,272 Class A Common Stock equivalents authorized for future grant under the 2006 Plan inclusive of additional Class A Common Stock equivalents which were previously issued under the Company s terminated plans because such awards expired or otherwise resulted in shares not being issued.

On October 13, 2009, the Company granted 104 restricted stock units under the 2006 Plan to non-employee directors of the Company. These shares were issued at a grant date fair value of $2.89 and will vest in equal amounts over a three year period starting on the first anniversary of the grant date.

Stock options granted generally vest over a one to four year period from the date of grant and are granted at prices at least equal to the prevailing fair market value at the issue date. In general, options are issued with a life not to exceed ten years. Shares issued by the Company upon exercise of stock options are issued from the pool of authorized shares of Class A Common Stock.

A summary of stock option and restricted / performance stock unit activity for the six months ended October 31, 2009 is as follows:

| | Stock Options | | Weighted Average Exercise Price | Restricted / Performance Stock Units - Unvested (1) |
|---|---|---|---|---|
| Outstanding, April 30, 2009 | 3,522 | $ | 11.88 | 275 |
| Granted | | | | 1,304 |
| Exercised | | | | |
| Class A Common Stock Issued | | | | (34) |
| Forfeited | (602) | | 12.58 | (71) |
| Outstanding, October 31, 2009 | 2,920 | | 11.73 | 1,474 |
| Exercisable, October 31, 2009 | 2,717 | $ | 11.68 | |

(1) Performance stock units are included at the 100% attainment level. Attainment of performance metrics at maximum levels could result in the issuance of an additional 674 shares of Class A Common Stock.

The Company recorded $536, $446, $899 and $953 of stock-based compensation expense related to stock options, performance stock units and restricted stock units during the three and six months ended October 31, 2008 and 2009, respectively. The Company also recorded $28, $64, $55 and $87 of stock-based compensation expense for the Company s Employee Stock Purchase Plan during the three and six months ended October 31, 2008 and 2009, respectively.

Stock-based compensation expense is included in general and administration expenses in the consolidated statement of operations. The unrecognized stock-based compensation expense at October 31, 2009 related to unvested stock options and restricted stock units was $2,445, to be recognized over a weighted average period of 1.6 years. Maximum unrecognized stock-based compensation expense at October 31, 2009 related to performance stock units was $6,786, to be recognized over a weighted average period of 2.4 years subject to the attainment of performance metrics.

The Company s calculations of stock-based compensation expense associated with stock options and the Company s Employee Stock Purchase Plan for the three and six months ended October 31, 2008 and 2009 were made using the Black-Scholes valuation model. The fair value of the Company s stock option grants was estimated assuming no expected dividend yield and the following weighted average assumptions were used for the three and six months ended October 31, 2008 and 2009:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2008 | 2009 | 2008 | 2009 |
| Stock Options: | | | | |
| Expected life | | | 6 years | |
| Risk-free interest rate | | | 3.73% | |
| Expected volatility | | | 36.80% | |
| Stock Purchase Plan: | | | | |
| Expected life | 0.5 years | 0.5 years | 0.5 years | 0.5 years |
| Risk-free interest rate | 2.49% | 0.35% | 2.49% | 0.35% |
| Expected volatility | 36.44% | 243.78% | 36.44% | 243.78% |

Expected life is calculated based on the weighted average historical life of the vested stock options, giving consideration to vesting schedules and historical exercise patterns. Risk-free interest rate is based on the U.S. treasury yield curve for the period of the expected life of the stock option. For stock options granted during the six months ended October 31, 2008, expected volatility is calculated using the average of weekly historical volatility of the Company s Class A Common Stock over the last six years.

The Black-Scholes valuation model requires extensive use of accounting judgment and financial estimation, including estimates of the expected term option holders will retain their vested stock options before exercising them, the estimated volatility of the Company s Class A Common Stock price over the expected term, and the number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation and consequently, the related amounts recognized in the consolidated statements of operations.

**8. EARNINGS PER SHARE**

The following table sets forth the numerator and denominator used in the computation of earnings per share ( EPS ):

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2008** | **2009** | **2008** | **2009** |
| Numerator: | | | | |
| Net (loss) income (applicable) available to common stockholders | $ 2,066 | $ (1,551) | $ 4,242 | $ (4,329) |
| | | | | |
| Denominator: | | | | |
| Number of shares outstanding, end of period: | | | | |
| Class A common stock | 24,601 | 24,745 | 24,601 | 24,745 |
| Class B common stock | 988 | 988 | 988 | 988 |
| Effect of weighted average shares outstanding during period | (28) | | (72) | (22) |
| Weighted average number of common shares used in basic EPS | 25,561 | 25,733 | 25,517 | 25,711 |
| Impact of potentially dilutive securities: | | | | |
| Dilutive effect of options and restricted stock units | 184 | | 203 | |
| Weighted average number of common shares used in diluted EPS | 25,745 | 25,733 | 25,720 | 25,711 |

For the three and six months ended October 31, 2008, 2,715 and 2,713 common stock equivalents related to options, warrants and restricted stock units, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

For the three and six months ended October 31, 2009, 4,267 common stock equivalents related to options and restricted stock units were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

**9. COMPREHENSIVE (LOSS) INCOME**

Comprehensive (loss) income is defined as the change in net assets of a business enterprise during a period from transactions generated from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive income included in the accompanying balance sheets consists of changes in the fair value of the

Company s interest rate derivatives and commodity hedge agreements. Also included in accumulated other comprehensive income is the change in fair value of certain securities classified as available for sale as well as the Company s portion of the change in the fair value of commodity hedge agreements of the Company s equity method investment, US GreenFiber, LLC ( GreenFiber ).

Comprehensive (loss) income for the three and six months ended October 31, 2008 and 2009 is as follows:

| | Three Months Ended October 31, 2008 | Three Months Ended October 31, 2009 | Six Months Ended October 31, 2008 | Six Months Ended October 31, 2009 |
|---|---|---|---|---|
| Net (loss) income | $ 2,066 | $ (1,551) | $ 4,242 | $ (4,329) |
| Other comprehensive (loss) income | 4,805 | (1,016) | 5,963 | (2,729) |
| Comprehensive (loss) income | $ 6,871 | $ (2,567) | $ 10,205 | $ (7,058) |

The components of other comprehensive (loss) income for the three and six months ended October 31, 2008 and 2009 are shown as follows:

| | Three Months Ended October 31, 2008 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Gross | Tax effect | Net of Tax | Gross | Tax effect | Net of Tax |
| Changes in fair value of marketable securities during the period | $ (89) | $ (32) | $ (57) | $ 13 | $ | $ 13 |
| Change in fair value of interest rate derivatives and commodity hedges during period | 6,525 | 2,627 | 3,898 | (592) | | (592) |
| Reclassification to earnings for interest rate derivatives and commodity hedge contracts | 1,614 | 650 | 964 | (732) | (295) | (437) |
| | $ 8,050 | $ 3,245 | $ 4,805 | $ (1,311) | $ (295) | $ (1,016) |

| | Six Months Ended October 31, 2008 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Gross | Tax effect | Net of Tax | Gross | Tax effect | Net of Tax |
| Changes in fair value of marketable securities during the period | $ (186) | $ (65) | $ (121) | $ 18 | $ | $ 18 |
| Change in fair value of interest rate derivatives and commodity hedges during period | 7,118 | 2,865 | 4,253 | (1,589) | | (1,589) |
| Reclassification to earnings for interest rate derivatives and commodity hedge contracts | 3,081 | 1,250 | 1,831 | (1,939) | (781) | (1,158) |
| | $ 10,013 | $ 4,050 | $ 5,963 | $ (3,510) | $ (781) | $ (2,729) |

The Company s strategy to hedge against fluctuations in the commodity prices of recycled paper is to enter into hedges to mitigate the variability in cash flows generated from the sales of recycled paper at floating prices, resulting in a fixed price being received from these sales. The Company has evaluated these hedges and believes that these instruments qualify for hedge accounting pursuant to derivative and hedging guidance. Designated as effective cash flow hedges, the changes in the fair value of these derivatives are recognized in other comprehensive (loss) income until the hedged item is settled and recognized as part of commodity revenue. The Company recognizes all derivatives on the balance sheet at fair value.

At October 31, 2009, the Company was party to twelve commodity hedge contracts for old corrugated cardboard ( OCC ) and twelve commodity hedge contracts for old newsprint ( ONP ) as follows:

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| Inception Date Range | Commodity Type | Contract Date Range | Monthly Notional Ton Range | Fixed Price Per Ton Received Range |
|---|---|---|---|---|
| December 2007 - September 2009 | OCC | April 2008 - June 2011 | 75 - 750 | $50 - $127 |
| June 2007 - September 2009 | ONP | February 2008 - December 2011 | 200 - 1500 | $70 - $127 |

If the price per short ton of the underlying commodity as reported on the Official Board Market is less than the contract price per short ton, the Company receives the difference between the average price and the contract price (multiplied by the notional tons) from the respective counter-party. If the price of the commodity exceeds the contract price per short ton, the Company pays the calculated difference to the counter-party.

The fair values of the commodity hedges are obtained or derived from third-party counter-parties and are determined using valuation models with assumptions about market prices for commodities being based on those in underlying active markets. The gross carrying value of the Company s commodity hedges was $4,053 at October 31, 2009 with $2,447 recorded in other current assets and $1,606 recorded in other non-current assets in the Company s Consolidated Balance Sheets. In accordance with derivative and hedging guidance, the offset to this, net of taxes of $2,557, is recorded to accumulated other comprehensive income.

**10. FAIR VALUE OF FINANCIAL INSTRUMENTS**

On May 1, 2008, the Company adopted FASB guidance relating to financial assets and liabilities that are being measured and reported at fair value on a recurring basis.

This guidance provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The Company s financial assets and liabilities recorded at fair value on a recurring basis include restricted assets derivative instruments. The Company s derivative instruments include commodity hedges. As of October 31, 2009, the Company had no interest rate derivatives. The Company uses commodity hedges to hedge against fluctuations in commodity pricing. The fair value of these hedges is based on futures pricing in the underlying commodities.

The Company uses valuation techniques that maximize the use of market prices and observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company s financial assets and liabilities, the Company relies on market data or assumptions that the Company believes market participants would use in pricing an asset or liability. During the three and six months ended October 31, 2009 there were no nonrecurring fair value measurements of assets and liabilities subsequent to initial measurement. As of October 31, 2009, the Company s assets that are measured at fair value on a recurring basis included the following:

| | Fair Value Measurement at October 31, 2009 Using: | | |
|---|---|---|---|
| | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Assets: | | | |
| Restricted assets | $ 211 | $ | $ |
| Commodity derivatives | | 2,780 | |
| Total | $ 211 | $ 2,780 | $ |

The Company s financial instruments include cash and cash equivalents, trade receivables, investments in closure trust funds and trade payables. The carrying values of these financial instruments approximate their respective fair values. At October 31, 2009, the fair market value of the Company s fixed rate debt including the Second Lien Notes and the 9.75% Senior Subordinated Notes due February 2013 was approximately $377,025 and the carrying value was $372,902. At October 31, 2009, the fair market value of the Company s Senior Secured Credit Facility which includes the New Revolver and New Term Loan was approximately $165,623 and the carry value was $158,217.

**11. DISCONTINUED OPERATIONS**

The Company completed the divestiture of its FCR Greenville operation in the quarter ended July 31, 2008 for cash proceeds of $670. The Company recorded a loss on disposal of discontinued operations (net of tax) of $34.

The operating results of this operation for the six months ended October 31, 2008 have been reclassified from continuing to discontinued operations in the accompanying consolidated financial statements. Revenues and loss before income taxes attributable to discontinued operations for the six months ended October 31, 2008 were $282 and $19, respectively.

The Company has recorded liabilities associated with previous divestitures amounting to approximately $434 at October 31, 2009.

The Company allocates interest to discontinued operations. The Company has also eliminated certain immaterial inter-company activity associated with discontinued operations.

**12. SEGMENT REPORTING**

The Company manages and evaluates its solid waste operations on a geographic basis through three regions, designated as Eastern, Central, Western regions, which include a full range of solid waste services including collection, transfer, recycling and disposal of non-hazardous solid waste. Solid waste operations also includes the Company s power generation operations. The Company s revenues in the FCR recycling segment are derived primarily from the processing and recycling and sale of paper, metals, aluminum, plastics and glass. Ancillary operations, major customer accounts, discontinued operations and earnings from equity method investments are included in Other.

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**Three Months Ended October 31, 2008 (1)**

| Segment | Outside revenues | Inter-company revenue | Depreciation and amortization | Operating income (loss) | Total assets |
|---|---|---|---|---|---|
| Eastern | $ 54,643 | $ 12,544 | $ 9,557 | $ 1,105 | $ 303,433 |
| Central | 31,815 | 14,982 | 4,041 | 4,717 | 157,772 |
| Western | 30,355 | 6,661 | 3,966 | 5,806 | 183,159 |
| FCR recycling | 31,918 | 168 | 1,562 | 4,731 | 113,241 |
| Other | 8,807 | | 379 | (353) | 98,851 |
| Eliminations | | (34,355) | | | |
| Total | $ 157,538 | $ | $ 19,505 | $ 16,006 | $ 856,456 |

**Three Months Ended October 31, 2009**

| Segment | Outside revenues | Inter-company revenue | Depreciation and amortization | Operating income (loss) | Total assets |
|---|---|---|---|---|---|
| Eastern | $ 47,253 | $ 11,002 | $ 8,677 | $ 1,788 | $ 232,606 |
| Central | 28,775 | 10,993 | 3,530 | 5,028 | 158,868 |
| Western | 25,116 | 6,025 | 3,764 | 4,783 | 177,648 |
| FCR recycling | 22,894 | 113 | 1,969 | 2,690 | 106,630 |
| Other | 9,695 | | 407 | (395) | 82,666 |
| Eliminations | | (28,133) | | | |
| Total | $ 133,733 | $ | $ 18,347 | $ 13,894 | $ 758,418 |

**Six Months Ended October 31, 2008**

| Segment | Outside revenues | Inter-company revenue | Depreciation and amortization | Operating income (loss) | Total assets |
|---|---|---|---|---|---|
| Eastern | $ 108,221 | $ 26,638 | $ 18,409 | $ 1,438 | $ 303,433 |
| Central | 65,409 | 30,497 | 8,536 | 9,415 | 157,772 |
| Western | 60,928 | 13,202 | 8,089 | 11,734 | 183,159 |
| FCR | 63,265 | 385 | 3,138 | 9,805 | 113,241 |
| Other | 17,619 | | 803 | (834) | 98,851 |
| Eliminations | | (70,722) | | | |
| Total | $ 315,442 | $ | $ 38,975 | $ 31,558 | $ 856,456 |

**Six Months Ended October 31, 2009**

| Segment | Outside revenues | Inter-company revenue | Depreciation and amortization | Operating income (loss) | Total assets |
|---|---|---|---|---|---|
| Eastern | $ 93,245 | $ 22,194 | $ 18,413 | $ (164) | $ 232,606 |
| Central | 58,622 | 22,877 | 7,164 | 9,772 | 158,868 |
| Western | 50,273 | 12,147 | 7,522 | 9,774 | 177,648 |
| FCR | 45,206 | 277 | 3,938 | 4,714 | 106,630 |
| Other | 19,487 | | 839 | (805) | 82,666 |
| Eliminations | | (57,495) | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total | $ | 266,833 | $ | | $ | 37,876 | $ | 23,291 | $ | 758,418 |

(1) Segment data as of and for the three and six months ended October 31, 2008 has been revised to reflect a change in the Company s internal reporting structure and a realignment of certain operations between segments.

Sources of the Company s total revenue are as follows:

| | Three Months Ended October 31, 2008 | Three Months Ended October 31, 2009 | Six Months Ended October 31, 2008 | Six Months Ended October 31, 2009 |
|---|---|---|---|---|
| Collection | $ 57,356 | $ 52,319 | $ 115,698 | $ 104,407 |
| Disposal | 33,691 | 28,633 | 66,051 | 58,375 |
| Power generation | 7,230 | 7,159 | 14,100 | 13,528 |
| Processing and recycling | 18,536 | 13,033 | 38,709 | 25,830 |
| Solid waste operations | 116,813 | 101,144 | 234,558 | 202,140 |
| Major accounts | 8,807 | 9,695 | 17,619 | 19,487 |
| FCR recycling | 31,918 | 22,894 | 63,265 | 45,206 |
| Total revenues | $ 157,538 | $ 133,733 | $ 315,442 | $ 266,833 |

The Company has revised its table of revenue by source to more closely align the types of revenue generated by its operating segments. Amounts for the three and six months ended October 31, 2008 have been revised to conform to this presentation.

## 13. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The Company entered into an agreement in July 2000 with Louisiana-Pacific Corporation ( LP ) to combine their respective cellulose insulation businesses into a single operating entity, GreenFiber, under a joint venture agreement effective August 1, 2000. The Company s investment in GreenFiber amounted to $26,723 and $26,667 at April 30, 2009 and October 31, 2009, respectively. The Company accounts for its 50% ownership in GreenFiber using the equity method of accounting.

On August 15, 2008, the Company and LP issued a joint and several guarantee of up to $2,000 to support the refinancing of a GreenFiber term loan that is due in August 2010. The guarantee can be drawn only upon a default (as defined) by GreenFiber under this term loan. As of October 31, 2009, the Company has recorded a liability of $75 related to the guarantee.

Summarized financial information for GreenFiber is as follows:

| | April 30, 2009 | October 31, 2009 |
|---|---|---|
| Current assets | $ 22,326 | $ 23,772 |
| Noncurrent assets | 63,529 | 60,877 |
| Current liabilities | 14,576 | 20,283 |
| Noncurrent liabilities | $ 16,324 | $ 10,249 |

| | Three Months Ended October 31, 2008 | Three Months Ended October 31, 2009 | Six Months Ended October 31, 2008 | Six Months Ended October 31, 2009 |
|---|---|---|---|---|
| Revenues | $ 35,496 | $ 28,897 | $ 65,729 | $ 50,016 |
| Gross profit | 4,628 | 6,931 | 9,074 | 11,691 |
| Net loss | $ (2,090) | $ (318) | $ (4,347) | $ (2,756) |

The Company also has a 12.8% interest in RecycleRewards, Inc., a company that markets an incentive based recycling service, and a 19.9% interest in Evergreen National Indemnity Company, a surety company which provides surety bonds to secure contractual performance for municipal solid waste collection contracts and landfill closure and post-closure obligations. The Company s investment in these interests amounted to $15,075 at April 30, 2009 and October 31, 2009.  The Company accounts for these investments under the cost method of accounting.

**14. NET ASSETS UNDER CONTRACTUAL OBLIGATION**

Effective June 30, 2003, the Company transferred its domestic brokerage operations, as well as a commercial recycling business to former employees who had been responsible for managing those businesses. Consideration for the transaction was in the form of two notes receivable amounting up to $6,925. These notes are payable within twelve years of the anniversary date of the transaction, to the extent of free cash flow generated from the operations.

Effective August 1, 2005, the Company transferred a certain Canadian recycling operation to a former employee who had been responsible for managing that business. Consideration for this transaction was in the form of a note receivable amounting up to $1,313, which is payable within six years of the anniversary date of the transaction to the extent of free cash flow generated from the operations.

The Company has not accounted for these transactions as sales based on an assessment that the risks and other incidents of ownership have not sufficiently transferred to the buyers. The net assets of the operations were disclosed in the balance sheet as net assets under contractual obligation , and were being reduced as payments are made. During the three and six months ended October 31, 2008 and 2009, the Company recognized income on the transactions in the amount of $25, $81, $114 and $150, respectively, as payments received on the notes receivable exceeded the balance of the net assets under contractual obligation. Minimum amounts owed to the Company under these notes amounted to $1,884 and $1,730 at April 30, 2009 and October 31, 2009, respectively.

**15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

The Company s Senior Subordinated Notes due 2013 and Second Lien Notes are guaranteed jointly and severally, fully and unconditionally, by the Company s significant wholly-owned subsidiaries. The Parent is the issuer and a non-guarantor of the senior subordinated notes. The information which follows presents the condensed consolidating financial position as of April 30, 2009 and October 31, 2009, and the condensed consolidating results of operations for the three and six months ended October 31, 2008 and 2009 and the condensed consolidating statements of cash flows for the six months ended October 31, 2008 and 2009 of (a) the Parent company only, (b) the combined guarantors ( the Guarantors ), each of which is 100% wholly-owned by the Parent, (c) the combined non-guarantors ( the Non-Guarantors ), (d) eliminating entries and (e) the Company on a consolidated basis.

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATING BALANCE SHEET**

**AS OF APRIL 30, 2009**

**(in thousands, except for share and per share data)**

| | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $ 873 | $ 965 | $ | $ | $ 1,838 |
| Restricted cash | 432 | 76 | | | 508 |
| Accounts receivable - trade, net of allowance for doubtful accounts | 3 | 51,293 | | | 51,296 |
| Refundable income taxes | 1,195 | | | | 1,195 |
| Deferred taxes | 4,392 | | | | 4,392 |
| Other current assets | 8,718 | 8,788 | | | 17,506 |
| Total current assets | 15,613 | 61,122 | | | 76,735 |
| | | | | | |
| Property, plant and equipment, net of accumulated depreciation and amortization | 2,922 | 487,438 | | | 490,360 |
| Goodwill | | 125,709 | | | 125,709 |
| Restricted cash | | 127 | | | 127 |
| Deferred income taxes | 428 | | | | 428 |
| Investment in subsidiaries | (49,753) | | | 49,753 | |
| Other non-current assets | 26,587 | 32,828 | 120 | (1,932) | 57,603 |
| | (19,816) | 646,102 | 120 | 47,821 | 674,227 |
| | | | | | |
| Intercompany receivable | 647,299 | (641,415) | (7,816) | 1,932 | |
| | | | | | |
| | $ 643,096 | $ 65,809 | $ (7,696) | $ 49,753 | $ 750,962 |

| | Parent | Guarantors | Non - Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Current maturities of long-term debt and capital leases | $ 1,109 | $ 609 | $ | $ | $ 1,718 |
| Current maturities of financing lease obligations | | 1,344 | | | 1,344 |
| Accounts payable | 3,070 | 31,542 | 11 | | 34,623 |
| Accrued payroll and related expenses | 497 | 3,683 | | | 4,180 |
| Accrued interest | 6,402 | 5 | | | 6,407 |
| Accrued closure and post-closure costs, current portion | | 6,426 | | | 6,426 |
| Other current liabilities | 13,126 | 9,209 | 2 | | 22,337 |
| Total current liabilities | 24,204 | 52,818 | 13 | | 77,035 |
| | | | | | |
| Long-term debt and capital leases, less current maturities | 546,145 | 1,000 | | | 547,145 |
| Financing lease obligations, less current maturities | | 12,281 | | | 12,281 |
| Deferred income taxes | 2,684 | | | | 2,684 |
| Other long-term liabilities | 3,753 | 41,723 | 31 | | 45,507 |

| | | | | | |
|---|---|---|---|---|---|
| STOCKHOLDERS EQUITY: | | | | | |
| Class A common stock - | | | | | |
| Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 24,679,000 shares | 247 | 100 | | (100) | 247 |
| Class B common stock - | | | | | |
| Authorized - 1,000,000 shares, $0.01 par value, 10 votes per share, issued and outstanding - 988,000 shares | 10 | | | | 10 |
| Accumulated other comprehensive income (loss) | 3,828 | (1,494) | | 1,494 | 3,828 |
| Additional paid-in capital | 279,444 | 46,392 | 1,679 | (48,071) | 279,444 |
| Accumulated deficit | (217,219) | (87,011) | (9,419) | 96,430 | (217,219) |
| Total stockholders equity | 66,310 | (42,013) | (7,740) | 49,753 | 66,310 |
| | | | | | |
| | $ 643,096 | $ 65,809 | $ (7,696) | $ 49,753 | $ 750,962 |

**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATING BALANCE SHEET**

**AS OF OCTOBER 31, 2009**

**(Unaudited)**

**(in thousands, except for share and per share data)**

| | Parent | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $ (239) | $ 2,243 | $ | $ | $ 2,004 |
| Restricted cash | | 76 | | | 76 |
| Accounts receivable - trade, net of allowance for doubtful accounts | 102 | 56,077 | | | 56,179 |
| Refundable income taxes | 1,623 | | | | 1,623 |
| Other current assets | 9,209 | 9,813 | | | 19,022 |
| Total current assets | 10,695 | 68,209 | | | 78,904 |