

CASELLA WASTE SYSTEMS INC  
Form 10-K/A  
February 13, 2009

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

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**FORM 10-K/A  
Amendment No. 1**

**FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended April 30, 2008

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 000-23211

**CASELLA WASTE SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**03-0338873**  
(I.R.S. Employer  
Identification No.)

**25 Greens Hill Lane, Rutland, VT**  
(Address of principal executive offices)

**05701**  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                                    | Name of each exchange on which registered                            |
|--|--|
| <b>Class A common stock, \$.01 per share par value</b> | <b>The NASDAQ Stock Market LLC<br/>(NASDAQ Global Select Market)</b> |

Securities registered pursuant to Section 12(g) of the Act:

**None.**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by checkmark 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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 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       Smaller reporting company   
(Do not check if a smaller reporting company)

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

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The aggregate market value of the common equity held by non-affiliates of the registrant, based on the last reported sale price of the registrant's Class A common stock on the NASDAQ Stock Market at the close of business on October 31, 2007 was \$337,114,669. The Company does not have any non-voting common stock outstanding.

There were 24,465,693 shares of Class A common stock, \$.01 par value per share, of the registrant outstanding as of May 31, 2008. There were 988,200 shares of Class B common stock, \$.01 par value per share, of the registrant outstanding as of May 31, 2008.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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**EXPLANATORY NOTE**

Casella Waste Systems, Inc. (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended April 30, 2008, as originally filed with the Securities and Exchange Commission (the "SEC") on June 20, 2008, for the sole purpose of filing a signed report of the Independent Registered Public Accounting Firm. The version of the report filed on June 20, 2008 accidentally omitted an Independent Registered Public Accounting Firm's conformed signature. This Amendment No. 1 on Form 10-K/A does not change or update the previously reported financial statements or any of the other disclosure contained in the original Form 10-K. In accordance with SEC rules, new certifications relating to this Amendment No. 1 are also being filed herewith.

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**PART II**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders  
of Casella Waste Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Casella Waste Systems, Inc. and subsidiaries (the Company) as of April 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years then ended. We also have audited the Company's internal control over financial reporting as of April 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Casella Waste Systems, Inc. and subsidiaries as

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of April 30, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended April 30, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Casella Waste Systems, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of April 30, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in Note 2 to the consolidated financial statements, the company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective May 1, 2007.

As discussed in Note 13 to the consolidated financial statements, the company adopted SFAS No. 123(R), *Share-Based Payment*, effective May 1, 2006.

/s/ Vitale, Caturano & Co. Ltd.

Boston, Massachusetts  
June 11, 2008

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Casella Waste Systems, Inc.:

In our opinion, the consolidated statements of operations, of stockholders' equity and of cash flows for the year ended April 30, 2006 present fairly, in all material respects, the results of operations and cash flows of Casella Waste Systems, Inc. and its subsidiaries (the "Company") for the year ended April 30, 2006, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended April 30, 2006 listed under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

June 21, 2006, except with respect to our opinion on the consolidated financial statements insofar as it relates to the effects of discontinued operations discussed in Note 17 as to which the date is June 20, 2008



Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands)**

|  | <b>April 30,<br/>2007</b> | <b>April 30,<br/>2008</b> |
|--|---------------------------|---------------------------|
| <b>ASSETS</b>  |                           |                           |
| <b>CURRENT ASSETS:</b>   |                           |                           |
| Cash and cash equivalents  | \$ 12,366                 | \$ 2,814                  |
| Restricted cash  | 73                        | 95                        |
| Accounts receivable trade, net of allowance for doubtful accounts of \$1,586 and \$1,752                   | 60,363                    | 62,233                    |
| Notes receivable officer/employees   | 87                        | 132                       |
| Refundable income taxes  | 1,340                     | 2,020                     |
| Prepaid expenses   | 5,448                     | 6,930                     |
| Inventory  | 3,423                     | 3,876                     |
| Deferred income taxes  | 8,215                     | 15,433                    |
| Other current assets   | 1,631                     | 1,692                     |
| Current assets of discontinued operations  | 1,854                     | 260                       |
| <b>Total current assets</b>  | <b>94,800</b>             | <b>95,485</b>             |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$414,980 and \$484,620 | 482,819                   | 488,028                   |
| Goodwill   | 168,998                   | 179,716                   |
| Intangible assets, net   | 2,217                     | 2,608                     |
| Restricted assets  | 12,734                    | 13,563                    |
| Notes receivable officer/employees   | 916                       | 1,101                     |
| Deferred income taxes  | 1,546                     |                           |
| Investments in unconsolidated entities   | 49,969                    | 44,617                    |
| Net assets under contractual obligation  | 55                        |                           |
| Other non-current assets   | 10,885                    | 10,487                    |
| Non-current assets of discontinued operations  | 9,154                     | 482                       |
|  | 739,293                   | 740,602                   |
|  | <b>\$ 834,093</b>         | <b>\$ 836,087</b>         |

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

Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Continued)**

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

|  | April 30,<br>2007 | April 30,<br>2008 |
|--|-------------------|-------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                   |
| <b>CURRENT LIABILITIES:</b>  |                   |                   |
| Current maturities of long-term debt   | \$ 1,215          | \$ 2,112          |
| Current maturities of capital lease obligations  | 1,104             | 646               |
| Series A redeemable, convertible preferred stock   | 74,018            |                   |
| Accounts payable   | 51,122            | 51,731            |
| Accrued payroll and related expenses   | 8,444             | 11,251            |
| Accrued interest   | 9,275             | 8,668             |
| Current accrued capping, closure and post-closure costs  | 8,921             | 9,265             |
| Other accrued liabilities  | 32,001            | 28,202            |
| Current liabilities of discontinued operations   | 2,052             | 949               |
| Total current liabilities  | 188,152           | 112,824           |
| Long-term debt, less current maturities  | 476,225           | 550,416           |
| Capital lease obligations, less current maturities   | 650               | 8,811             |
| Accrued capping, closure and post-closure costs, less current portion  | 29,451            | 32,864            |
| Deferred income taxes  |                   | 313               |
| Other long-term liabilities  | 10,062            | 6,007             |
| Non-current liabilities of discontinued operations   | 57                | 170               |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                   |                   |
| <b>STOCKHOLDERS' EQUITY:</b>   |                   |                   |
| <b>Class A common stock</b>  |                   |                   |
| Authorized 100,000,000 shares, \$0.01 par value; issued and outstanding 24,332,000 and 24,466,000 shares as of April 30, 2007 and 2008, respectively | 243               | 245               |
| <b>Class B common stock</b>  |                   |                   |
| Authorized 1,000,000 shares, \$0.01 par value, 10 votes per share, issued and outstanding 988,000 shares   | 10                | 10                |
| Accumulated other comprehensive loss   | (1,001)           | (2,568)           |
| Additional paid-in capital   | 273,345           | 276,189           |
| Accumulated deficit  | (143,101)         | (149,194)         |
| Total stockholders' equity   | 129,496           | 124,682           |
|  | \$ 834,093        | \$ 836,087        |

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

Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands)**

|  | <b>Fiscal Year Ended April 30,</b> |             |             |
|--|------------------------------------|-------------|-------------|
|  | <b>2006</b>                        | <b>2007</b> | <b>2008</b> |
| Revenues   | \$ 501,437                         | \$ 531,325  | \$ 579,517  |
| Operating expenses:  |                                    |             |             |
| Cost of operations   | 329,150                            | 347,550     | 383,009     |
| General and administration   | 65,617                             | 73,202      | 74,184      |
| Depreciation and amortization  | 63,481                             | 70,748      | 77,769      |
| Hardwick impairment and closing charges  |                                    | 26,892      | 1,400       |
| Development project charges  | 1,329                              | 752         | 534         |
|  | 459,577                            | 519,144     | 536,896     |
| Operating income   | 41,860                             | 12,181      | 42,621      |
| Other expense/(income), net:   |                                    |             |             |
| Interest income  | (928)                              | (1,265)     | (1,354)     |
| Interest expense   | 30,636                             | 38,392      | 42,859      |
| Loss (income) from equity method investments   | (5,742)                            | (1,051)     | 6,077       |
| Other income   | (1,880)                            | (571)       | (2,690)     |
| Other expense, net   | 22,086                             | 35,505      | 44,892      |
| (Loss) income from continuing operations before income taxes and discontinued operations     | 19,774                             | (23,324)    | (2,271)     |
| Provision (benefit) for income taxes   | 7,609                              | (7,849)     | 1,746       |
| (Loss) income from continuing operations before discontinued operations                      | 12,165                             | (15,475)    | (4,017)     |
| Discontinued Operations:   |                                    |             |             |
| Loss from discontinued operations (net of income tax benefit of \$649, \$1,029 and \$990)    | (1,061)                            | (1,691)     | (1,705)     |
| Loss on disposal of discontinued operations (net of income tax benefit of \$449 and \$1,130) |                                    | (717)       | (2,113)     |
| Net (loss) income  | 11,104                             | (17,883)    | (7,835)     |
| Preferred stock dividend   | 3,432                              | 3,588       |             |
| Net (loss) income (applicable) available to common stockholders                              | \$ 7,672                           | \$ (21,471) | \$ (7,835)  |

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

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**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

(in thousands)

|   | Fiscal Year Ended April 30, |           |           |
|---|-----------------------------|-----------|-----------|
|   | 2006                        | 2007      | 2008      |
| <b>Earnings Per Share:</b>  |                             |           |           |
| <b>Basic:</b>   |                             |           |           |
| (Loss) income from continuing operations before discontinued operations (applicable) available to common stockholders | \$ 0.35                     | \$ (0.75) | \$ (0.16) |
| Loss from discontinued operations, net  | (0.04)                      | (0.07)    | (0.07)    |
| Loss on disposal of discontinued operations, net  |                             | (0.03)    | (0.08)    |
| Net (loss) income per common share (applicable) available to common stockholders                                      | \$ 0.31                     | \$ (0.85) | \$ (0.31) |
| Basic weighted average common shares outstanding  | 24,980                      | 25,272    | 25,382    |
| <b>Diluted:</b>   |                             |           |           |
| (Loss) income from continuing operations before discontinued operations (applicable) available to common stockholders | \$ 0.34                     | \$ (0.75) | \$ (0.16) |
| Loss from discontinued operations, net  | (0.04)                      | (0.07)    | (0.07)    |
| Loss on disposal of discontinued operations, net  |                             | (0.03)    | (0.08)    |
| Net (loss) income per common share (applicable) available to common stockholders                                      | \$ 0.30                     | \$ (0.85) | \$ (0.31) |
| Diluted weighted average common shares outstanding  | 25,368                      | 25,272    | 25,382    |

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

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**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In thousands)

|  | Class A<br>Common<br>Stock |              | Class B<br>Common<br>Stock |              |
|--|----------------------------|--------------|----------------------------|--------------|
|  | # of<br>Shares             | Par<br>Value | # of<br>Shares             | Par<br>Value |
| Balance, April 30, 2005  | 23,860                     | \$ 239       | 988                        | \$ 10        |
| Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan   | 256                        | 2            |                            |              |
| Issuance of Class A common stock from the conversion of preferred stock  | 69                         | 1            |                            |              |
| Accrual of preferred stock dividend  |                            |              |                            |              |
| Net income   |                            |              |                            |              |
| Change in fair value of interest rate derivatives, commodity hedges and marketable securities, net of taxes and reclassification adjustments |                            |              |                            |              |
| Total comprehensive income   |                            |              |                            |              |
| Other  |                            |              |                            |              |
| Balance, April 30, 2006  | 24,185                     | \$ 242       | 988                        | \$ 10        |
| Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan   | 147                        | \$ 1         |                            | \$           |
| Equity compensation expense  |                            |              |                            |              |
| Accrual of preferred stock dividend  |                            |              |                            |              |
| Net loss   |                            |              |                            |              |
| Change in fair value of interest rate derivatives, commodity hedges and marketable securities, net of taxes and reclassification adjustments |                            |              |                            |              |
| Total comprehensive income   |                            |              |                            |              |
| Balance, April 30, 2007  | 24,332                     | \$ 243       | 988                        | \$ 10        |
| Cumulative effect of adoption of FIN 48 as of May 1, 2007  |                            | \$           |                            | \$           |
| Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan   | 134                        | 2            |                            |              |
| Equity compensation expense  |                            |              |                            |              |
| Net loss   |                            |              |                            |              |
| Change in fair value of interest rate derivatives, commodity hedges and marketable securities, net of taxes and reclassification adjustments |                            |              |                            |              |
| Total comprehensive income   |                            |              |                            |              |
| Balance, April 30, 2008  | 24,466                     | \$ 245       | 988                        | \$ 10        |

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

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## CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(In thousands)

|  | Additional<br>Paid-In<br>Capital | (Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity | Total<br>Comprehensive<br>Income |
|--|----------------------------------|--------------------------|---|----------------------------------|----------------------------------|
| Balance, April 30, 2005  | \$ 274,088                       | \$ (136,322)             | \$ 767  | \$ 138,782                       |                                  |
| Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan   | 2,675                            |                          |   | 2,677                            |                                  |
| Issuance of Class A common stock from the conversion of preferred stock  | 965                              |                          |   | 966                              |                                  |
| Accrual of preferred stock dividend  | (3,432)                          |                          |   | (3,432)                          |                                  |
| Net income   |                                  | 11,104                   |   | 11,104                           | \$ 11,104                        |
| Change in fair value of interest rate derivatives, commodity hedges and marketable securities, net of taxes and reclassification adjustments |                                  |                          | (608)   | (608)                            | (608)                            |
| Total comprehensive income   |                                  |                          |   |                                  | \$ 10,496                        |
| Other  | 1                                |                          |   | 1                                |                                  |
| Balance, April 30, 2006  | \$ 274,297                       | \$ (125,218)             | \$ 159  | \$ 149,490                       |                                  |
| Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan   | \$ 1,934                         | \$                       | \$  | \$ 1,935                         |                                  |
| Equity compensation expense  | 702                              |                          |   | 702                              |                                  |
| Accrual of preferred stock dividend  | (3,588)                          |                          |   | (3,588)                          |                                  |
| Net loss   |                                  | (17,883)                 |   | (17,883)                         | \$ (17,883)                      |
| Change in fair value of interest rate derivatives, commodity hedges and marketable securities, net of taxes and reclassification adjustments |                                  |                          | (1,160)   | (1,160)                          | (1,160)                          |
| Total comprehensive loss   |                                  |                          |   |                                  | \$ (19,043)                      |
| Balance, April 30, 2007  | \$ 273,345                       | \$ (143,101)             | \$ (1,001)                                      | \$ 129,496                       |                                  |
| Cumulative effect of adoption of FIN 48 as of May 1, 2007  | \$                               | \$ 1,742                 | \$  | \$ 1,742                         |                                  |
| Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan   | 1,468                            |                          |   | 1,470                            |                                  |

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|  |            |              |            |            |            |
|--|------------|--------------|------------|------------|------------|
| Equity compensation expense  | 1,376      |              |            | 1,376      |            |
| Net loss   |            | (7,835)      |            | (7,835)    | \$ (7,835) |
| Change in fair value of interest<br>rate derivatives, commodity<br>hedges and marketable securities,<br>net of taxes and reclassification<br>adjustments |            |              | (1,567)    | (1,567)    | (1,567)    |
| Total comprehensive loss   |            |              |            |            | \$ (9,402) |
| Balance, April 30, 2008  | \$ 276,189 | \$ (149,194) | \$ (2,568) | \$ 124,682 |            |

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

Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

|   | <b>Fiscal Year Ended April 30,</b> |                 |                 |
|---|------------------------------------|-----------------|-----------------|
|   | <b>2006</b>                        | <b>2007</b>     | <b>2008</b>     |
| <b>Cash Flows from Operating Activities:</b>  |                                    |                 |                 |
| Net (loss) income   | \$ 11,104                          | \$ (17,883)     | \$ (7,835)      |
| Loss from discontinued operations, net  | 1,061                              | 1,691           | 1,705           |
| Loss on disposal of discontinued operations, net  |                                    | 717             | 2,113           |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities |                                    |                 |                 |
| Gain on sale of equipment   | (105)                              | (806)           | (387)           |
| Depreciation and amortization   | 63,481                             | 70,748          | 77,769          |
| Depletion of landfill operating lease obligations                                       | 6,284                              | 7,021           | 6,010           |
| Hardwick impairment and closing charges   |                                    | 26,892          | 1,400           |
| Development project charges   | 1,329                              | 752             | 534             |
| Income from assets under contractual obligation   |                                    | (190)           | (1,605)         |
| Preferred stock dividend (included in interest expense)                                 |                                    |                 | 1,038           |
| Maine Energy settlement   |                                    |                 | (2,142)         |
| Loss (income) from equity method investments  | (5,742)                            | (1,051)         | 6,077           |
| Stock-based compensation  |                                    | 702             | 1,376           |
| Excess tax benefit on the exercise of stock options                                     |                                    |                 | (103)           |
| Deferred income taxes   | 4,984                              | (11,246)        | (2,373)         |
| Changes in assets and liabilities, net of effects of acquisitions and divestitures      |                                    |                 |                 |
| Accounts receivable   | (6,313)                            | (5,076)         | (1,476)         |
| Accounts payable  | (1,572)                            | 6,440           | (470)           |
| Other assets and liabilities  | 613                                | 2,345           | (9,816)         |
|   | 62,959                             | 96,531          | 75,832          |
| <b>Net Cash Provided by Operating Activities</b>  | <b>75,124</b>                      | <b>81,056</b>   | <b>71,815</b>   |
| <b>Cash Flows from Investing Activities:</b>  |                                    |                 |                 |
| Acquisitions, net of cash acquired  | (19,691)                           | (2,750)         | (11,881)        |
| Additions to property, plant and equipment  | (47,474)                           | (36,738)        | (18,950)        |
| growth  |                                    |                 |                 |
| maintenance   | (64,998)                           | (64,107)        | (54,224)        |
| Payments on landfill operating lease contracts  | (10,539)                           | (4,995)         | (7,143)         |
| Proceeds from divestitures  |                                    | 7,383           | 2,373           |
| Proceeds from sale of equipment   | 1,678                              | 1,708           | 2,634           |
| Restricted cash from revenue bond issuance  | (5,469)                            | 5,535           |                 |
| Investment in unconsolidated entities   | (3,047)                            | (4,378)         | (156)           |
| Proceeds from assets under contractual obligation                                       | 861                                | 1,072           | 1,660           |
| <b>Net Cash Used In Investing Activities</b>  | <b>(148,679)</b>                   | <b>(97,270)</b> | <b>(85,687)</b> |
| <b>Cash Flows from Financing Activities:</b>  |                                    |                 |                 |
| Proceeds from long-term borrowings  | 208,997                            | 267,525         | 301,200         |
| Principal payments on long-term debt  | (136,411)                          | (244,750)       | (223,692)       |
| Deferred financing costs  | (768)                              | (582)           | (554)           |
| Redemption of Series A redeemable, convertible preferred stock                          |                                    |                 | (75,056)        |
| Proceeds from exercise of stock options   | 2,200                              | 1,608           | 1,367           |
| Excess tax benefit on the exercise of stock options                                     |                                    |                 | 103             |
| <b>Net Cash Provided by Financing Activities</b>  | <b>74,018</b>                      | <b>23,801</b>   | <b>3,368</b>    |
| <b>Discontinued Operations:</b>   |                                    |                 |                 |
| Provided by (Used in) Operating Activities  | (64)                               | (667)           | 402             |



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|   |           |           |           |
|---|-----------|-----------|-----------|
| Provided by (Used in) Investing Activities                                      | (1,539)   | (1,979)   | 550       |
| Used in Financing Activities  | (13)      |           |           |
| Cash Provided by (Used in) Discontinued Operations                              | (1,616)   | (2,646)   | 952       |
| Net (decrease) increase in cash and cash equivalents                            | (1,153)   | 4,941     | (9,552)   |
| Cash and cash equivalents, beginning of period                                  | 8,578     | 7,425     | 12,366    |
| Cash and cash equivalents, end of period  | \$ 7,425  | \$ 12,366 | \$ 2,814  |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                       |           |           |           |
| Cash paid during the period for   |           |           |           |
| Interest  | \$ 27,984 | \$ 34,307 | \$ 40,792 |
| Income taxes, net of refunds  | \$ 1,286  | \$ 2,708  | \$ 1,426  |
| <b>Supplemental Disclosures of Non-Cash Investing and Financing Activities:</b> |           |           |           |
| Summary of entities acquired in purchase business combinations                  |           |           |           |
| Fair value of assets acquired   | \$ 26,077 | \$ 3,420  | \$ 12,305 |
| Cash paid, net  | (19,691)  | (2,750)   | (11,881)  |
| Notes payable, liabilities assumed and holdbacks to sellers                     | \$ 6,386  | \$ 670    | \$ 424    |
| Note receivable recorded upon divestiture                                       | \$        | \$        | \$ 2,500  |
| Property, plant and equipment acquired through financing arrangement            | \$        | \$        | \$ 3,612  |

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

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

**NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Casella Waste Systems, Inc. ("the Company" or "the Parent") together with its subsidiaries is a regional, integrated solid waste services company that provides collection, transfer, disposal and recycling services, primarily in the eastern United States. The Company markets recyclable metals, aluminum, plastics, paper and corrugated cardboard which have been processed at its facilities as well as recyclables purchased from third parties. The Company also generates and sells electricity under a contract at a waste-to-energy facility, Maine Energy Recovery Company LP ("Maine Energy").

A summary of the Company's significant accounting policies follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries and complies with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003) (FIN 46). All significant intercompany accounts and transactions are eliminated in consolidation.

(b) Use of Estimates and Assumptions

The Company's preparation of its financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the consolidated financial statements. The estimates and assumptions will also affect the reported amounts of revenues and expenses during the reporting period. Summarized below are the estimates and assumptions that the Company considers to be significant in the preparation of its consolidated financial statements.

Landfill Accounting-Capitalized Costs and Amortization

Capitalized landfill costs include expenditures for land and related airspace, permitting costs and preparation costs. Landfill permitting and preparation costs represent only direct costs related to these activities, including legal, engineering and construction. Landfill preparation costs include the costs of construction associated with excavation, liners, site berms and the installation of leak detection and leachate collection systems. Interest is capitalized on landfill construction projects while the assets are undergoing activities to ready them for their intended use. The interest capitalization rate is based on the Company's weighted average cost of indebtedness. Interest capitalized for the years ended April 30, 2006, 2007 and 2008 was \$1,239, \$1,397 and \$1,304, respectively.

Under life-cycle accounting, all costs related to acquisition and construction of landfill sites are capitalized and charged to income based on tonnage placed into each site. In determining the amortization rate for these landfills, preparation costs include the total estimated costs to complete construction of the landfills' permitted and permissible capacity. To be considered permissible, airspace must meet all of the following criteria:

the Company controls the land on which the expansion is sought;

all technical siting criteria have been met or a variance has been obtained or is reasonably expected to be obtained;

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the Company has not identified any legal or political impediments which the Company believes will not be resolved in our favor;

the Company is actively working on obtaining any necessary permits and we expect that all required permits will be received; and

senior management has approved the project.

Units-of-consumption amortization rates are determined annually for each of the Company's operating landfills, and such rates are based on estimates provided by its engineers and accounting personnel and consider the information provided by surveys, which are performed at least annually.

The Company routinely reviews its investment in operating landfills, transfer stations and other significant facilities to determine whether the carrying value of these investments is realizable. The Company's judgments regarding the existence of impairment indicators are based on regulatory factors, market conditions and operational performance of its landfills.

Landfill Accounting-Landfill Operating Lease Contracts

The Company entered into three landfill operation and management agreements in fiscal 2004 and one landfill operation and management agreement in fiscal 2006. These agreements are long-term landfill operating contracts with government bodies whereby the Company receives tipping revenue, pays normal operating expenses and assumes future capping, closure and post-closure liabilities. The government body retains ownership of the landfill. There is no bargain purchase option and title to the property does not pass to the Company at the end of the lease term. The Company allocates the consideration paid to the landfill airspace rights and underlying land lease based on the relative fair values.

In addition to up-front or one-time payments, the landfill operating agreements require the Company to make future minimum rental payments, including success/expansion fees, other direct costs and capping, closure, and post closure costs. The value of all future minimum lease payments are amortized and charged to cost of operations over the life of the contract. The Company amortizes the consideration allocated to airspace rights as airspace is utilized on a units-of-consumption basis and such amortization is charged to cost of operations as airspace is consumed i.e. as tons are placed into the landfill. The underlying value of the land lease is amortized to cost of operations on a straight-line basis over the estimated life of the operating agreement.

Landfill Accounting-Accrued Capping, Closure and Post-Closure Costs

Capping includes installation of liners, drainage, compacted soil layers and topsoil over areas of a landfill where total airspace has been consumed and waste is no longer being received. Capping activities occur throughout the life of the landfill. The Company's engineering personnel estimate the cost for each capping event based on the acreage to be capped and the capping materials and activities required. The estimates also consider when these costs would actually be paid and factor in inflation and discount rates. The engineers then quantify the landfill capacity associated with each capping event and the costs for each event are amortized over that capacity as waste is received at the landfill.

Closure and post-closure costs represent future estimated costs related to monitoring and maintenance of a solid waste landfill, after a landfill facility ceases to accept waste and closes. The Company estimates, based on input from our engineers, accounting personnel and consultants, the Company's future cost requirements for closure and post-closure monitoring and maintenance based on the Company's interpretation of the technical standards of the Subtitle D regulations and the air emissions standards under the Clean Air Act as they are being applied on a state-by-state basis. Closure and post-closure accruals for the cost of monitoring and maintenance include site inspection, groundwater monitoring, leachate management, methane gas control and recovery, and operation and

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maintenance costs to be incurred for a period which is generally for a term of 30 years after final closure of a landfill. In determining estimated future capping, closure and post-closure costs, the Company considers costs associated with permitted and permissible airspace.

The Company's estimates of costs to discharge capping, closure and post-closure asset retirement obligations for landfills are developed in today's dollars. These costs are then inflated to the period of performance using an estimate of inflation which is updated annually (2.8% for fiscal year 2007 and 2008, respectively). Capping, closure and post-closure liabilities are discounted using the credit adjusted risk-free rate in effect at the time the obligation is incurred (8.9% and 8.8% for fiscal year 2007 and 2008 respectively). Accretion expense is necessary to increase the accrued capping, closure and post-closure liabilities to the future anticipated obligation. To accomplish this, the Company accretes its capping, closure and post-closure accrual balances using the same credit-adjusted, risk-free rate that was used to calculate the recorded liability. Accretion expense on recorded landfill liabilities is recorded to cost of operations from the time the liability is recognized until the costs are paid. Accretion expense amounted to \$2,224, \$2,253 and \$3,010 in fiscal years 2006, 2007 and 2008, respectively.

The Company provides for the accrual and amortization of estimated future obligations for closure and post-closure based on tonnage placed into each site. With regards to capping, the liability is recognized and these costs are amortized based on the airspace related to the specific capping event.

Recovery of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews its long-lived assets held for use for impairment whenever events or changes in circumstances indicate that the remaining estimated useful life of such assets might warrant revision or that the balances may not be recoverable. An impairment loss is recorded if the amount by which the carrying amount of the assets exceeds their fair value. Fair value is usually determined based on the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved.

Allowance for Doubtful Accounts

The Company estimates the allowance for bad debts based on historical collection experience, current trends, credit policy and a review of accounts receivable by aging category.

Self Insurance Reserves

The Company is self insured for vehicles and worker's compensation. Our maximum exposure in fiscal 2008 under the worker's compensation plan is \$1,000 per individual event, after which reinsurance takes effect. Our maximum exposure under the automobile plan is \$750 per individual event, after which reinsurance takes effect. The liability for unpaid claims and associated expenses, including incurred but not reported losses, is determined by management with the assistance of a third party actuary and reflected in the Company's consolidated balance sheet as an accrued liability. The Company uses a third party to track and evaluate actual claims experience for consistency with the data used in the annual actuarial valuation. The actuarially determined liability is calculated based on historical data, which considers both the frequency and settlement amount of claims. The Company's self insurance reserves totaled \$13,564 and \$12,129 at April 30, 2007 and 2008, respectively.

Income Taxes

The Company uses estimates to determine its provision for income taxes and related assets and liabilities and any valuation allowance recorded against its net deferred tax assets. Valuation allowances have been established for the possibility that tax benefits may not be realized for certain deferred tax assets (see Note 1(k)).

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(c) Revenue Recognition

The Company recognizes collection, transfer, recycling and disposal revenues as the services are provided. Certain customers are billed in advance and, accordingly, recognition of the related revenues is deferred until the services are provided.

Revenues from the sale of electricity to utilities by the Company's waste-to-energy facility are recorded at the contract rate specified by its power purchase agreement as the electricity is delivered. Contractual rental payments associated with power purchase agreements accounted for as operating leases are recognized on a straight line basis over the life of the power purchase agreement.

Revenues from the sale of recycled materials are recognized upon shipment. Rebates to certain municipalities based on sales of recyclable materials are recorded upon the sale of such recyclables to third parties and are included as a reduction of revenues. Revenues for processing of recyclable materials are recognized when the related service is provided. Revenues from brokerage of recycled materials are recognized at the time of shipment.

(d) Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, investments in closure trust funds, trade payables and derivative instruments. The carrying values of these financial instruments approximate their respective fair values. At April 30, 2008, the fair market value of the Company's long term fixed rate debt was approximately \$192,075. See Note 10 for the terms and carrying values of the Company's various debt instruments.

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

(f) Investments

Collateral for the Company's financial obligations relative to its self insurance claims liability is invested in cash and cash equivalents along with investments in fixed-maturity securities and is included in non-current restricted assets (Note 4). These investments are classified as available for sale and consist of U.S. treasuries, obligations of government sponsored enterprises, corporate bonds and obligations of foreign governments. Available for sale investments are reported at their estimated fair values with unrealized holding gains and losses reported as a component of other accumulated loss, net of tax. Estimated fair values are based on quoted market prices. Realized gains and losses are determined using the specific identification method.

(g) Inventory

Inventory includes secondary fibers, recyclables ready for sale and supplies and is stated at the lower of cost (first-in, first-out) or market. Inventory consisted of finished goods and supplies of approximately \$3,423 and \$3,876 at April 30, 2007 and 2008, respectively.

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and amortization. The Company provides for depreciation and amortization using the straight-line method

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by charges to operations in amounts that allocate the cost of the assets over their estimated useful lives as follows (See Note 5):

| <b>Asset Classification</b> | <b>Estimated Useful Life</b> |
|-----------------------------|------------------------------|
| Buildings and improvements  | 10-35 years                  |
| Machinery and equipment     | 2-15 years                   |
| Rolling stock               | 1-12 years                   |
| Containers                  | 2-12 years                   |

The cost of maintenance and repairs is charged to operations as incurred.

## (i) Intangible Assets

Covenants not to compete and customer lists are amortized using the straight-line method over their estimated useful lives, typically no more than 10 years (See Note 6).

Under SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests at each fiscal year end. The Company evaluates goodwill for impairment based on fair value of each operating segment. The Company estimates fair value based on net future cash flows discounted using an estimated weighted average cost of capital. The Company recognizes an impairment if the net book value of the operating segment exceeds the fair value based upon the discounted future cash flows. Other intangible assets are amortized over their useful lives.

## (j) Investments in Unconsolidated Entities

The Company entered into an agreement in July 2000 with Louisiana-Pacific to combine their respective cellulose insulation businesses into a single operating entity, US GreenFiber LLC ("GreenFiber") under a joint venture agreement effective August 1, 2000. The Company's investment in GreenFiber amounted to \$33,054 and \$29,571 at April 30, 2007 and 2008, respectively. The Company accounts for its 50% ownership in GreenFiber under the equity method of accounting.

Summarized financial information for GreenFiber is as follows:

|                        | <b>April 30,<br/>2007</b> | <b>April 30,<br/>2008</b> |
|------------------------|---------------------------|---------------------------|
| Current assets         | \$ 25,432                 | \$ 23,095                 |
| Noncurrent assets      | 70,955                    | \$ 69,681                 |
| Current liabilities    | 18,371                    | \$ 16,229                 |
| Noncurrent liabilities | \$ 11,833                 | \$ 17,365                 |

|                   | <b>Fiscal Year Ended April 30,</b> |             |             |
|-------------------|------------------------------------|-------------|-------------|
|                   | <b>2006</b>                        | <b>2007</b> | <b>2008</b> |
| Revenue           | \$ 178,744                         | \$ 186,284  | \$ 151,635  |
| Gross profit      | 42,293                             | 44,421      | 24,335      |
| Net (loss) income | \$ 11,714                          | \$ 4,227    | \$ (8,103)  |

In January 2006, the Company acquired an interest in the common stock of RecycleBank, LLC ("RecycleBank") for total consideration of \$3,000. During fiscal year 2007, RecycleBank borrowed \$2,000 from the Company under a convertible loan agreement. In accordance with the terms of the agreement, the Company converted this note to equity thereby increasing the Company's investment. Additional investments in RecycleBank were made during fiscal year 2007 increasing the Company's total common stock ownership interest to 20.5% at April 30, 2007. In April 2008, RecycleBank

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completed an equity offering to third party investors that reduced the Company's interest to 16.2%. As a result of an internal reorganization by RecycleBank, the Company's investment is now held in RecycleRewards, Inc. ("RecycleRewards") the parent entity of RecycleBank. The Company's investment in RecycleRewards amounted to \$6,258 and \$4,389 at April 30, 2007 and 2008, respectively. Effective April 2008, the Company accounts for its investment in RecycleRewards under the cost method of accounting. Prior to April 2008 the Company accounted for this investment under the equity method of accounting. The Company recognized equity losses associated with its investment in RecycleRewards amounting to \$115, \$1,063 and \$2,025 in fiscal years 2006, 2007 and 2008, respectively.

In April 2003, the Company acquired a 9.9% interest in Evergreen National Indemnity Company ("Evergreen") for total consideration of \$5,329. In December, 2003, the Company acquired an additional 9.9% interest in Evergreen for total consideration of \$5,306. The Company's investment in Evergreen amounted to \$10,657 at April 30, 2007 and 2008. The Company accounts for its investment in Evergreen under the cost method of accounting.

(k) Income Taxes

The Company records income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under SFAS No. 109, deferred income taxes are recognized based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using currently enacted tax rates.

Effective May 1, 2007, the Company adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN No. 48"). FIN No. 48 prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. Additionally, FIN No. 48 provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under FIN No. 48, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. For additional information regarding FIN No. 48, see Notes 2 and 15.

(l) Accrued Capping, Closure and Post-Closure Costs

Accrued capping, closure and post-closure costs include the current and non-current portion of accruals associated with obligations for capping, closure and post-closure of the Company's operating and closed landfills. The Company, based on input from its engineers, accounting personnel and consultants, estimates its future cost requirements for capping, closure and post-closure monitoring and maintenance for solid waste landfills based on its interpretation of the technical standards of the U.S. Environmental Protection Agency's Subtitle D regulations and the air emissions standards under the Clean Air Act as they are being applied on a state-by-state basis. Capping, closure and post-closure monitoring and maintenance costs represent the costs related to cash expenditures yet to be incurred when a landfill facility ceases to accept waste and closes.

Accruals for capping, closure and post-closure monitoring and maintenance requirements consider final capping of the site, site inspection, groundwater monitoring, leachate management, methane gas control and recovery, and operation and maintenance costs to be incurred during the period after the facility closes. Certain of these environmental costs, principally capping and methane gas control costs, are also incurred during the operating life of the site in accordance with the landfill operation requirements of Subtitle D and the air emissions standards. Reviews of the future cost requirements for capping, closure and post-closure monitoring and maintenance for the Company's operating landfills by the Company's engineers, accounting personnel and consultants are performed at least annually and are the basis upon which the Company's estimates of these future costs and the related accrual rates are revised prospectively. The Company provides accruals for these estimated costs as the remaining permitted airspace of such facilities is consumed.

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The Company operates in states which require a certain portion of landfill capping, closure and post-closure obligations to be secured by financial assurance, which may take the form of restricted cash, surety bonds and letters of credit. Surety bonds securing closure and post-closure obligations at April 30, 2007 and 2008 totaled \$95,626 and \$98,273 respectively.

#### (m) 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 loss included in the accompanying balance sheets consists of changes in the fair value of the Company's interest rate derivative and commodity hedge agreements, marketable securities as well as the Company's portion of the changes in the fair value of GreenFiber's commodity hedge agreements.

The components of other comprehensive loss for the fiscal years ended April 30, 2006, 2007 and 2008 are shown as follows:

|  | Fiscal Year Ended April 30, |            |            |            |            |            |            |            |            |
|--|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
|  | 2006                        |            |            | 2007       |            |            | 2008       |            |            |
|  | Gross                       | Tax effect | Net of Tax | Gross      | Tax effect | Net of Tax | Gross      | Tax effect | Net of Tax |
| Changes in fair value of marketable securities during the period                         | \$ (105)                    | \$ (37)    | \$ (68)    | \$ 181     | \$ 63      | \$ 118     | \$ 228     | \$ 80      | \$ 148     |
| Change in fair value of interest rate derivatives and commodity hedges during period     | 571                         | 225        | 346        | (1,909)    | (778)      | (1,131)    | (5,772)    | (2,325)    | (3,447)    |
| Reclassification to earnings for interest rate derivatives and commodity hedge contracts | (1,193)                     | (307)      | (886)      | (241)      | (94)       | (147)      | 2,896      | 1,164      | 1,732      |
|  | \$ (727)                    | \$ (119)   | \$ (608)   | \$ (1,969) | \$ (809)   | \$ (1,160) | \$ (2,648) | \$ (1,081) | \$ (1,567) |

#### (n) Earnings per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is based on the combined weighted average number of common shares and potentially dilutive shares, which include, where appropriate, restricted stock, the assumed exercise of employee stock options and the conversion of convertible preferred stock. In computing diluted earnings per share, the Company utilizes the treasury stock method with regard to employee stock options and the "if converted" method with regard to its convertible preferred stock.

#### (o) Stock Based Compensation Plans

Effective May 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123(R)"). SFAS No. 123(R) establishes accounting for stock based awards exchanged for employee services. The Company previously accounted for these awards under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations and disclosure requirements established by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123").

Under APB 25, no expense was recorded in the Consolidated Statements of Operations for the Company's stock options granted at fair market value. The pro forma effects on income for stock options and the Company's employee stock purchase plan are instead disclosed in Note 13 for fiscal year 2006.

The Company adopted SFAS No. 123(R) using the modified prospective method on May 1, 2006. Under this method, all share-based compensation cost is measured at the grant date, based on the



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estimated fair value of the award, and is recognized as expense over the specified vesting period. Prior periods are not restated. See Note 13 for additional disclosures.

The Company has elected to adopt the alternative transition method for calculating the tax effects of stock-based compensation under SFAS No. 123(R). The alternative transition method represents a simplified approach to establish the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and the consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon the adoption of SFAS No. 123(R).

(p) Accounting for Derivatives and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company's objective for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the variable interest rates under its credit facility and changes in the commodity prices of recycled paper.

The Company's strategy to hedge against fluctuations in variable interest rates involves entering into interest rate derivative contracts that are specifically designated to existing interest payments under the credit facility and accounted for as cash flow hedges pursuant to SFAS No. 133.

The Company is party to four separate interest rate swap agreements with four banks for a notional amount of \$105,000. Three agreements, for a notional amount of \$75,000, effectively fix the interest index rate on the notional amount at 4.44% from May 4, 2006 through May 5, 2008. The remaining agreement for a notional amount of \$30,000 effectively fixes the interest rate index at 4.74% from November 4, 2007 through May 7, 2009. These agreements are specifically designated to interest payments under the Company's term B loan and are accounted for as effective cash flow hedges pursuant to SFAS No. 133.

On August 22, 2007, the Company entered into two separate interest rate swap agreements for a notional amount of \$75,000, which effectively fix the interest rate index at 4.68% from May 6, 2008 through May 6, 2009. These agreements are designated to interest payments under the Company's term B loan and are accounted for as effective cash flow hedges pursuant to SFAS No. 133.

The fair value of the Company's swaps was \$540 and (\$1,993), with the net amount (net of income tax (benefit) provision of \$219 and (\$807)) recorded as an unrealized gain (loss) in accumulated other comprehensive loss at April 30, 2007 and 2008, respectively. Amounts reclassified into earnings are dependent on future movements in interest rates.

The Company is party to two separate interest rate zero-cost collars with two banks for a notional amount of \$60,000. The collars have an interest index rate cap of 6.00% and an interest index rate floor of approximately 4.48% and are effective from November 6, 2006 through May 5, 2009. These agreements are specifically designated to interest payments under the revolving credit facility and are accounted for as effective cash flow hedges pursuant to SFAS No. 133. The fair value of the Company's collars was an obligation of \$216 and \$1,022, with the net amount (net of tax benefit of \$88 and \$413) recorded as an unrealized loss in accumulated other comprehensive loss at April 30, 2007 and 2008, respectively. Amounts reclassified into earnings are dependent on future movements in interest rates.

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The Company terminated an interest rate collar in the notional amount of \$20,000 during the three months ended July 31, 2007. The Company paid net proceeds of \$18, which was recorded to accumulated other comprehensive loss and is being amortized against interest expense over the remaining original term of the contract.

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 entered into twenty-eight commodity hedges, which expire at various times between May 2008 and March 2011. The Company has evaluated these hedges and believes that these instruments qualify for hedge accounting pursuant to SFAS No. 133. The fair value of these hedges was an obligation of \$2,204 and \$2,372, with the net amount (net of tax benefit of \$895 and \$960) recorded as an unrealized loss in accumulated other comprehensive loss at April 30, 2007 and 2008, respectively.

(q) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers comprise the Company's customer base, thus spreading the trade credit risk. For the years ended April 30, 2007 and 2008, no single group or customer represents greater than 2.7% of total accounts receivable. The Company controls credit risk through credit evaluations, credit limits, credit insurance and monitoring procedures. The Company performs credit evaluations for commercial and industrial customers and performs ongoing credit evaluations of its customers, but generally does not require collateral to support accounts receivable. Credit risk related to derivative instruments results from the fact the Company enters into interest rate derivative and commodity price hedge agreements with various counterparties. However, the Company monitors its derivative positions by regularly evaluating positions and the credit worthiness of the counterparties.

**2. NEW ACCOUNTING STANDARDS**

Effective May 1, 2007, the Company adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN No. 48"). FIN No. 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements. Additionally, FIN No. 48 provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under FIN No. 48, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold.

As a result of the implementation of FIN No. 48, the cumulative effect of the changes to the Company's reserve for uncertain tax positions was accounted for as a \$1,742 adjustment to increase the beginning balance of retained earnings and a \$468 decrease to goodwill on the Company's balance sheet. As of May 1, 2007, the Company had approximately \$5,497 of total gross unrecognized tax benefits. Of this total, approximately \$3,239 (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of May 1, 2007, the Company had accrued interest and penalties related to uncertain tax positions of \$326.

The amount of the cumulative effect of the change to the Company's reserve for uncertain tax positions, and related interest and taxes, which increased retained earnings as previously disclosed, has increased by \$540, as a result of the Company's final analysis.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to other existing accounting pronouncements that require or permit fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the application of this statement may change the current practice for fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, in February 2008, the FASB issued a final Staff Position to allow filers to defer the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB Staff Position ("FSP") 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. The Company is currently evaluating the impact this statement will have on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 155* ("SFAS No. 159"). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact this statement will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (revised 2007)* ("SFAS No. 141(R)"). SFAS No. 141(R) is a revision to previously existing guidance on accounting for business combinations. The statement 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. SFAS No. 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact this statement will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS No. 160"). The Statement requires that noncontrolling interests be reported as stockholders equity, a change that will affect the Company's financial statement presentation of minority interests in its consolidated subsidiaries. The Statement also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary as long as that ownership change does not result in deconsolidation. The statement is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS No. 160 and does not expect this statement to have a material impact on its financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and 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. This statement applies to all entities and all derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 and does not expect this statement to have a material impact on its financial position and results of operations.

Table of Contents**3. BUSINESS COMBINATIONS**

The Company acquired fifteen, thirteen and five solid waste hauling, landfill disposal or material recycling operations in fiscal years ended April 30, 2006, 2007 and 2008, respectively, in transactions accounted for as purchases. Accordingly, the operating results of these businesses are included in the accompanying consolidated statements of operations from the dates of acquisition, and the purchase prices have been allocated to the net assets acquired based on fair values at the dates of acquisition, with the residual amounts allocated to goodwill. In addition to these purchase transactions, in fiscal year 2008 the Company made a final earnout payment of \$11,136 to the members of Blue Mountain Recycling, LLC which was acquired in fiscal year 2006. All amounts allocated to goodwill are expected to be deductible for tax purposes. The purchase prices allocated to those net assets acquired were as follows:

|                               | April 30,   |               |
|-------------------------------|-------------|---------------|
|                               | 2007        | 2008          |
| Property, plant and equipment | \$ 905      | \$ 19         |
| Goodwill                      | 2,269       | 11,260        |
| Intangible assets             | 246         | 1,026         |
| Current liabilities           | (282)       |               |
| Other non-current liabilities | (388)       | (424)         |
| <br>Total                     | <br>\$2,750 | <br>\$ 11,881 |

The following unaudited pro forma combined information shows the results of the Company's continuing operations for the fiscal years ended April 30, 2007 and 2008 as though each of the acquisitions completed in the fiscal years ended April 30, 2007 and 2008 had occurred as of May 1, 2006.

|   | Fiscal Year Ended<br>April 30, |            |
|---|--------------------------------|------------|
|   | 2007                           | 2008       |
| Revenue                                     | \$ 536,796                     | \$ 581,743 |
| Operating income                            | 12,965                         | 42,822     |
| Net loss                                    | (17,571)                       | (7,749)    |
| Diluted net loss per common share           | \$ (0.70)                      | \$ (0.31)  |
| Weighted average diluted shares outstanding | 25,272                         | 25,382     |

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisitions taken place or the results of future operations of the Company. Furthermore, the pro forma results do not give effect to all cost savings or incremental costs that may occur as a result of the integration and consolidation of the completed acquisitions.

**4. RESTRICTED CASH / RESTRICTED ASSETS**

Restricted cash / restricted assets consists of cash and investments held in trust on deposit with various banks as collateral for the Company's financial obligations relative to its self insurance claims liability as well as landfill capping, closure and post-closure costs and other facilities' closure costs. Cash is also restricted by specific agreement for facilities' maintenance and other purposes.

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A summary of restricted cash / restricted assets is as follows:

|                  | April 30, |       |
|------------------|-----------|-------|
|                  | 2007      | 2008  |
| <b>Current:</b>  |           |       |
| Landfill closure | \$ 73     | \$ 75 |
| Other            |           | 20    |
| Total            | \$ 73     | \$ 95 |

|                     | April 30, |           |
|---------------------|-----------|-----------|
|                     | 2007      | 2008      |
| <b>Non Current:</b> |           |           |
| Insurance           | \$ 12,734 | \$ 13,494 |
| Landfill closure    |           | 69        |
| Total               | \$ 12,734 | \$ 13,563 |

Included in non current restricted assets are investments in fixed-maturity securities associated with collateral for the Company's financial obligations relative to its self insurance claims liability. The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair values of fixed-maturity securities by major security type at April 30, 2007 and 2008 are as follows:

|  | April 30, 2007    |                              |                               |                         |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| U.S. Treasury securities and obligations of U.S. Government agencies | \$ 4,350          | \$ 11                        | \$ (10)                       | \$ 4,351                |
| Obligations of Government sponsored enterprises                      | 577               | 1                            | (5)                           | 573                     |
| Corporate debt securities  | 7,059             | 35                           | (41)                          | 7,053                   |
| Foreign securities   | 205               | 3                            |                               | 208                     |
| Totals   | \$ 12,191         | \$ 50                        | \$ (56)                       | \$ 12,185               |

|  | April 30, 2008    |                              |                               |                         |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| U.S. Treasury securities and obligations of U.S. Government agencies | \$ 6,056          | \$ 128                       | \$ (10)                       | \$ 6,174                |
| Obligations of Government sponsored enterprises                      | 868               | 16                           | (1)                           | 883                     |
| Corporate debt securities  | 5,322             | 93                           | (14)                          | 5,401                   |
| Foreign securities   | 203               | 10                           |                               | 213                     |
| Totals   | \$ 12,449         | \$ 247                       | \$ (25)                       | \$ 12,671               |

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Amortized cost and estimated fair value of fixed-maturity securities at April 30, 2008 by contractual maturity, are as follows:

|                                       | Amortized<br>Cost | Estimated<br>Fair Value |
|---------------------------------------|-------------------|-------------------------|
| <b>Maturity:</b>                      |                   |                         |
| Due within one year                   | \$ 2,930          | \$ 2,956                |
| Due after one year through five years | 9,519             | 9,715                   |
| <b>Totals</b>                         | <b>\$ 12,449</b>  | <b>\$ 12,671</b>        |

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations without penalties.

The following tables show the estimated fair values and gross unrealized losses aggregated by security types and length of time securities have been in a continuous unrealized loss position, as of April 30, 2007 and 2008:

|  | April 30, 2007          |                    |                         |                    |                         |                    |
|--|-------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|
|  | Fewer than 12 Months    |                    | 12 Months or Greater    |                    | Total                   |                    |
|  | Estimated<br>Fair Value | Unrealized<br>Loss | Estimated<br>Fair Value | Unrealized<br>Loss | Estimated<br>Fair Value | Unrealized<br>Loss |
| U.S. Treasury securities and obligations of U.S. Government agencies | \$ 624                  | \$                 | \$ 989                  | \$ (10)            | \$ 1,613                | \$ (10)            |
| Obligations of Government sponsored enterprises                      | 346                     | (5)                |                         |                    | 346                     | (5)                |
| Corporate debt securities  |                         |                    | 3,799                   | (41)               | 3,799                   | (41)               |
| <b>Totals</b>  | <b>\$ 970</b>           | <b>\$ (5)</b>      | <b>\$ 4,788</b>         | <b>\$ (51)</b>     | <b>\$ 5,758</b>         | <b>\$ (56)</b>     |

|  | April 30, 2008          |                    |                         |                    |                         |                    |
|--|-------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|
|  | Fewer than 12 Months    |                    | 12 Months or Greater    |                    | Total                   |                    |
|  | Estimated<br>Fair Value | Unrealized<br>Loss | Estimated<br>Fair Value | Unrealized<br>Loss | Estimated<br>Fair Value | Unrealized<br>Loss |
| U.S. Treasury securities and obligations of U.S. Government agencies | \$ 1,068                | \$ (10)            | \$                      | \$                 | \$ 1,068                | \$ (10)            |
| Obligations of Government sponsored enterprises                      | 209                     | (1)                |                         |                    | 209                     | (1)                |
| Corporate debt securities  | 840                     | (7)                | 399                     | (7)                | 1,239                   | (14)               |
| <b>Totals</b>  | <b>\$ 2,117</b>         | <b>\$ (18)</b>     | <b>\$ 399</b>           | <b>\$ (7)</b>      | <b>\$ 2,516</b>         | <b>\$ (25)</b>     |

At April 30, 2008, the Company held fixed-maturity securities for which the amortized costs exceeds fair value by \$25. Based upon the changing interest rate environment and current economic circumstances affecting the market, the Company believes that there will be future recovery of the decline in these securities' fair value. The Company also has both the ability and the intent to hold these securities until they recover. Based upon that evaluation, the Company does not consider these securities to be other-than-temporarily impaired at April 30, 2008.

Table of Contents**5. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at April 30, 2007 and 2008 consist of the following:

|   | April 30, |           |
|---|-----------|-----------|
|   | 2007      | 2008      |
| Land  | \$ 20,453 | \$ 21,770 |
| Landfills                                       | 300,439   | 334,115   |
| Landfill operating lease contracts              | 64,853    | 71,995    |
| Buildings and improvements                      | 99,570    | 113,974   |
| Machinery and equipment                         | 213,504   | 232,068   |
| Rolling stock                                   | 142,105   | 138,867   |
| Containers                                      | 56,875    | 59,859    |
|   | 897,999   | 972,648   |
| Less: accumulated depreciation and amortization | 414,980   | 484,620   |
|   | \$482,819 | \$488,028 |

Depreciation expense for the fiscal years ended April 30, 2006, 2007 and 2008 was \$38,374, \$41,453 and \$42,001, respectively. Landfill amortization expense for the fiscal years ended April 30, 2006, 2007 and 2008 was \$23,823, \$28,452 and \$35,120, respectively. Depletion expense on landfill operating lease contracts for the fiscal years ended April 30, 2006, 2007 and 2008 was \$6,284, \$7,021 and \$6,010, respectively and was recorded in cost of operations.

**6. INTANGIBLE ASSETS**

Intangible assets at April 30, 2007 and 2008 consist of the following:

|                                | Covenants<br>not to<br>compete | Client<br>Lists | Licensing<br>Agreements | Contract<br>Acquisition<br>Costs | Total     |
|--------------------------------|--------------------------------|-----------------|-------------------------|----------------------------------|-----------|
| <b>Balance, April 30, 2007</b> |                                |                 |                         |                                  |           |
| Intangible assets              | \$ 15,091                      | \$ 688          | \$ 920                  | \$ 58                            | \$ 16,757 |
| Less accumulated amortization  | (13,748)                       | (688)           | (100)                   | (4)                              | (14,540)  |
|                                | \$ 1,343                       | \$              | \$ 820                  | \$ 54                            | \$ 2,217  |
| <b>Balance, April 30, 2008</b> |                                |                 |                         |                                  |           |
| Intangible assets              | \$ 15,125                      | \$ 1,597        | \$ 920                  | \$ 58                            | \$ 17,700 |
| Less accumulated amortization  | (14,189)                       | (726)           | (167)                   | (10)                             | (15,092)  |
|                                | \$ 936                         | \$ 871          | \$ 753                  | \$ 48                            | \$ 2,608  |

Intangible amortization expense for the fiscal years ended April 30, 2006, 2007 and 2008 was \$1,284, \$843 and \$648, respectively. The intangible amortization expense estimated as of April 30, 2008, for the five fiscal years following the fiscal year ended April 30, 2008 is as follows:

| 2009  | 2010  | 2011  | 2012  | 2013  | Thereafter |
|-------|-------|-------|-------|-------|------------|
| \$530 | \$417 | \$326 | \$248 | \$190 | \$ 897     |

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The following table shows the activity and balances related to goodwill from April 30, 2006 through April 30, 2008:

|                      | Balance<br>April 30,<br>2006 | Acquisitions    | Other(1)        | Balance<br>April 30,<br>2007 |
|----------------------|------------------------------|-----------------|-----------------|------------------------------|
| North Eastern region | \$ 23,030                    | \$ 714          | \$ (16)         | \$ 23,728                    |
| South Eastern region | 31,645                       |                 |                 | 31,645                       |
| Central region       | 31,106                       | 876             | (22)            | 31,960                       |
| Western region       | 54,080                       | 679             | (44)            | 54,715                       |
| FCR Recycling        | 27,042                       |                 | (92)            | 26,950                       |
| <b>Total</b>         | <b>\$ 166,903</b>            | <b>\$ 2,269</b> | <b>\$ (174)</b> | <b>\$ 168,998</b>            |

|                      | Balance<br>April 30,<br>2007 | Acquisitions     | Other(2)        | Balance<br>April 30,<br>2008 |
|----------------------|------------------------------|------------------|-----------------|------------------------------|
| North Eastern region | \$ 23,728                    | \$               | \$ (73)         | \$ 23,655                    |
| South Eastern region | 31,645                       |                  |                 | 31,645                       |
| Central region       | 31,960                       | 9                | (9)             | 31,960                       |
| Western region       | 54,715                       | 115              | (26)            | 54,804                       |
| FCR Recycling        | 26,950                       | 11,136           | (434)           | 37,652                       |
| <b>Total</b>         | <b>\$ 168,998</b>            | <b>\$ 11,260</b> | <b>\$ (542)</b> | <b>\$ 179,716</b>            |

(1)

Consists primarily of a decrease in Federal and state tax valuation allowances related to goodwill acquired as part of the KTI acquisition.

(2)

Consists primarily of a decrease in reserves for uncertain tax positions upon the adoption of FIN No. 48 and a decrease in state tax valuation allowances related to goodwill acquired as part of the KTI acquisition.

### **7. 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. Interest is payable only in the event of default in which case interest is payable on the unpaid principal balance at an adjustable rate equal to the Company's then current average composite borrowing rate plus 4.0% per annum.

Effective August 1, 2005, the Company transferred its 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. Interest is payable only in the event of default in which case interest is payable on the unpaid principal balance at an adjustable rate equal to the Company's then current average composite borrowing rate plus 4.0% per annum.

The Company has not accounted for these transactions as sales based on an assessment that the risks and other incidents of ownership did not initially and have not yet sufficiently transferred to the buyer. The net assets of these operations are disclosed in the balance sheet as "net assets under contractual obligations" and were reduced as payments are made. During the fiscal years ended April 30, 2007 and 2008, the Company recognized income on the transactions in the amount of \$190 and \$1,605, respectively, as payments received on the notes receivable exceeded the balance of the net





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assets under contractual obligation. Net assets under contractual obligation amounted to \$55 and \$0 at April 30, 2007 and 2008, respectively. Minimum amounts owed to the Company under these notes amounted to \$3,736 and \$2,076 at April 30, 2007 and 2008, respectively.

**8. ACCRUED CAPPING, CLOSURE AND POST CLOSURE**

Accrued capping, closure and post-closure costs include the current and non-current portion of costs associated with obligations for closure and post-closure of our landfills. The Company estimates its future capping, closure and post-closure costs in order to determine the capping, closure and post-closure expense per ton of waste placed into each landfill as further described in Note 1(1) to these consolidated financial statements. The anticipated timeframe for paying these costs varies based on the remaining useful life of each landfill, as well as the duration of the post-closure monitoring period. The changes to accrued capping, closure and post-closure liabilities are as follows:

|                           | Fiscal Year Ended<br>April 30, |           |
|---------------------------|--------------------------------|-----------|
|                           | 2007                           | 2008      |
| Beginning balance, May 1  | \$ 28,016                      | \$ 38,372 |
| Obligations incurred(1)   | 3,696                          | 5,848     |
| Revisions in estimates(2) | 7,697                          | 1,864     |
| Accretion expense         | 2,253                          | 3,010     |
| Payments(3)               | (3,290)                        | (6,965)   |
| Balance, April 30         | \$ 38,372                      | \$ 42,129 |

- 
- (1) The increase in fiscal year 2008 compared to fiscal year 2007 is due to an increase in landfill volumes and higher average obligation rates.
- (2) The increase in fiscal year 2007 is primarily from capping, closure and post closure costs provided in conjunction with the closure of the Hardwick landfill facility.
- (3) The increase in fiscal 2008 is primarily due to payments made in conjunction with the closure of the Hardwick landfill facility.

**9. OTHER ACCRUED LIABILITIES**

Other accrued liabilities, classified as current liabilities, at April 30, 2007 and 2008 consist of the following:

|  | April 30, |           |
|--|-----------|-----------|
|  | 2007      | 2008      |
| Self insurance reserve current portion | \$ 11,518 | \$ 10,231 |
| Other accrued liabilities              | 20,483    | 17,971    |
| Total other accrued liabilities        | \$ 32,001 | \$ 28,202 |

Table of Contents**10. LONG-TERM DEBT**

Long-term debt as of April 30, 2007 and 2008 consists of the following:

|  | April 30,<br>2007 | April 30,<br>2008 |
|--|-------------------|-------------------|
| Senior subordinated notes, due February 1, 2013, 9.75%, interest payable semiannually, unsecured and unconditionally guaranteed (including unamortized premium of \$4,345 and \$3,720)   | \$ 199,345        | \$ 198,720        |
| Senior secured revolving credit facility (the "revolver"), which provides for advances or letters of credit of up to \$350,000, due April 28, 2010, bearing interest at LIBOR plus 2.00%, (approximately 4.85% at April 30, 2008 based on three month LIBOR). This loan is secured by substantially all of the assets of the Company | 162,000           | 153,500           |
| Senior secured term B loan (the "term loan") due April 28, 2010, bearing interest at LIBOR plus 1.75% with principal payments of \$1,750 per year, beginning in July 2007 with the remaining principal balance due at maturity.  | 90,000            | 174,100           |
| Finance authority of Maine Solid Waste Disposal Revenue Bonds Series 2005, dated December 1, 2005, bearing interest at BMA Index (approximately 2.60% at April 30, 2008) enhanced by an irrevocable, transferable direct-pay letter of credit (2.125% at April 30, 2008). Due January 1, 2025  | 25,000            | 25,000            |
| Notes payable in connection with businesses acquired, bearing interest at rates of 0% - 7.51%, due in monthly, quarterly or annual installments varying to \$125, expiring May 2008 through February 2012  | 1,095             | 1,208             |
|  | 477,440           | 552,528           |
| Less current maturities  | 1,215             | 2,112             |
|  | \$476,225         | \$ 550,416        |

On January 24, 2003, the Company issued \$150,000 of 9.75% senior subordinated notes (the "notes"), due 2013. The senior subordinated note agreement contains covenants that restrict dividends, stock repurchases and other payments, and limits the incurrence of debt and issuance of preferred stock. The notes are guaranteed jointly and severally, fully and unconditionally by the Company and its significant subsidiaries.

On February 2, 2004, the Company issued an additional \$45,000 of 9.75% senior subordinated notes due 2013. The notes were issued at a premium of \$6,075, which will be amortized over the life of the notes. Premium amortization of \$536, \$579 and \$625 was recorded to interest expense in fiscal 2006, 2007 and 2008, respectively, using the effective interest rate method.

On April 29, 2005, the Company entered into a senior credit facility with a group of banks for which Bank of America is acting as agent. The facility originally consisted of a senior secured revolving credit facility in the amount of \$350,000. On July 25, 2006, the Company amended the facility to increase the amount of the facility per the original agreement to \$450,000. This increase took the form of a \$90,000 term loan and an increase of \$10,000 to the revolver. The Company further amended the credit facility agreement on May 9, 2007. The amendment increased the allowed borrowings under the facility to \$525,000 by increasing the term loan by \$85,000 and reducing the revolver by \$10,000. Proceeds from the term loan increase were used to pay down amounts drawn on the revolver. The amendment also reset the accordion provision in the agreement to permit an increase in the amount of the facility by an additional \$50,000 provided that the Company is not in default at the time of the increase, and subject to the receipt of commitments from lenders for such additional amount. The amendment also modified the definitions of "Consolidated Adjusted Net Income" and "Consolidated Net Worth" to adjust for various non recurring charges incurred or expected to be incurred. The

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various covenant ratios were revised to provide more flexibility. This credit facility is secured by all of the Company's assets, including the interests in the equity securities of the Company's subsidiaries. The revolving credit facility matures April 2010. Further advances were available under the revolver in the amount of \$145,479 and \$156,060 as of April 30, 2007 and 2008, respectively. These available amounts are net of outstanding irrevocable letters of credit totaling \$52,521 and \$40,440 as of April 30, 2007 and 2008. As of April 30, 2007 and 2008 no amounts had been drawn under the outstanding letters of credit.

The senior revolving credit facility agreement, as amended May 9, 2007, contains covenants that may limit the Company's activities including covenants that forbid the payment of dividends on common stock. As of April 30, 2008, these covenants restricted capital expenditures to 1.75 times depreciation and landfill amortization, set a minimum net worth requirement of \$85,796, a minimum interest coverage ratio of 2.15, a maximum consolidated total funded debt to consolidated EBITDA ratio of 5.75 and a maximum senior funded debt to consolidated EBITDA ratio of 3.85. As of April 30, 2008, the Company was in compliance with all covenants.

On December 28, 2005, the Company completed a \$25,000 financing transaction involving the issuance by the Finance Authority of Maine (the "Authority") of \$25,000 aggregate principal amount of its Solid Waste Disposal Revenue Bonds Series 2005 (the "Bonds"). The Bonds are issued pursuant to an indenture, dated as of December 1, 2005 (the "Indenture") and are enhanced by an irrevocable, transferable direct-pay letter of credit issued by Bank of America, N.A. Pursuant to a Financing Agreement, dated as of December 1, 2005, by and between the Company and the Authority, the Company borrowed the proceeds of the Bonds to pay for certain costs relating to (1) landfill development and construction, vehicle, container and related equipment acquisition for solid waste collection and transportation services, improvements to existing solid waste disposal, hauling, transfer station and other facilities, other infrastructure improvements, and machinery and equipment for solid waste disposal operations owned and operated by the Company, or a related party, all located in Maine; and (2) the issuance of the Bonds.

The Company has historically entered into interest rate derivative agreements to balance fixed and floating rate debt interest risk in accordance with management's criteria. The agreements are contracts to exchange fixed and floating interest rate payments periodically over a specified term without the exchange of the underlying notional amounts. The agreements provide only for the exchange of interest on the notional amounts at the stated rates, with no multipliers or leverage. Differences paid or received over the life of the agreements are recorded in the consolidated financial statements as additions to or reductions of interest expense on the underlying debt.

The Company is party to four separate interest rate swap agreements with four banks for a notional amount of \$105,000. Three agreements, for a notional amount of \$75,000, effectively fix the interest index rate on the notional amount at 4.44% from May 4, 2006 through May 5, 2008. The remaining agreement for a notional amount of \$30,000 effectively fixes the interest rate index at 4.74% from November 4, 2007 through May 7, 2009. These agreements are specifically designated to interest payments under the Company's term B loan and are accounted for as effective cash flow hedges pursuant to SFAS No. 133.

On August 22, 2007, the Company entered into two separate interest rate swap agreements for a notional amount of \$75,000, which effectively fix the interest rate index at 4.68% from May 6, 2008 through May 6, 2009. These agreements are specifically designated to interest payments under the Company's term B loan and are accounted for as effective cash flow hedges pursuant to SFAS No. 133.

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As of April 30, 2008, interest rate swap agreements in notional amounts and with terms as set forth in the following table were outstanding:

| <b>Bank</b> | <b>Notional<br/>Amounts</b> | <b>Receive</b> | <b>Pay</b> | <b>Range of Agreement</b>    |
|-------------|-----------------------------|----------------|------------|------------------------------|
| Bank A      | \$ 25,000                   | LIBOR          | 4.444%     | May 2006 to May 2008         |
| Bank B      | \$ 25,000                   | LIBOR          | 4.444%     | May 2006 to May 2008         |
| Bank C      | \$ 25,000                   | LIBOR          | 4.440%     | May 2006 to May 2008         |
| Bank D      | \$ 30,000                   | LIBOR          | 4.740%     | November 2007 to<br>May 2009 |
| Bank A      | \$ 25,000                   | LIBOR          | 4.675%     | May 2008 to May 2009         |
| Bank B      | \$ 50,000                   | LIBOR          | 4.673%     | May 2008 to May 2009         |

The Company is party to two separate interest rate zero-cost collars with two banks for a notional amount of \$60,000. The collars have an interest index rate cap of 6.00% and an interest index rate floor of approximately 4.48% and are effective from November 6, 2006 through May 5, 2009. These agreements are specifically designated to interest payments under the revolving credit facility and are accounted for as effective cash flow hedges pursuant to SFAS No. 133. As of April 30, 2008, interest rate collar agreements in notional amounts and with terms as set forth in the following table were outstanding:

| <b>Bank</b> | <b>Notional<br/>Amounts</b> | <b>Floor<br/>Rate</b> | <b>Cap<br/>Rate</b> | <b>Range of Agreement</b>    |
|-------------|-----------------------------|-----------------------|---------------------|------------------------------|
| Bank E      | \$ 20,000                   | 4.480%                | 6.000%              | November 2006 to<br>May 2009 |
| Bank F      | \$ 40,000                   | 4.480%                | 6.000%              | November 2006 to<br>May 2009 |

As of April 30, 2008, debt matures as follows:

| <b>Fiscal Year Ended April 30,</b> |                   |
|------------------------------------|-------------------|
| 2009                               | \$ 2,112          |
| 2010                               | 326,192           |
| 2011                               | 310               |
| 2012                               | 194               |
| 2013(1)                            | 198,720           |
| Thereafter                         | 25,000            |
|                                    | <b>\$ 552,528</b> |

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(1) Includes unamortized premium of \$3,720.

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## (a) Leases

The following is a schedule of future minimum lease payments, together with the present value of the net minimum lease payments under capital leases, as of April 30, 2008:

|  | <b>Operating<br/>Leases</b> | <b>Capital<br/>Leases</b> |
|--|-----------------------------|---------------------------|
| Fiscal Year Ended April 30,                              |                             |                           |
| 2009   | \$ 11,487                   | \$ 755                    |
| 2010   | 28,592                      | 8,021                     |
| 2011   | 9,640                       | 373                       |
| 2012   | 11,500                      | 299                       |
| 2013   | 7,833                       | 299                       |
| Thereafter   | 82,574                      |                           |
| <br>Total minimum lease payments                         | <br>\$ 151,626              | <br>9,747                 |
| <br>Less amount representing interest                    |                             | <br>290                   |
|  |                             | 9,457                     |
| <br>Less current maturities of capital lease obligations |                             | <br>646                   |
| <br>Present value of long term capital lease obligations |                             | <br>\$8,811               |

The Company leases real estate, compactors and hauling vehicles under leases that qualify for treatment as capital leases. The assets related to these leases have been capitalized and are included in property and equipment at April 30, 2007 and 2008. Also included in capital leases is an interim financing arrangement with a bank related to certain equipment for up to \$10,000 with a balance of \$7,561 at April 30, 2008 at a rate of LIBOR plus 2.5% (approximately 5.35% at April 30, 2008). The Company leases operating facilities and equipment under operating leases with monthly payments varying to \$50. Total rent expense under operating leases charged to operations was \$4,651, \$5,368 and \$6,070 in fiscal years ended April 30, 2006, 2007 and 2008, respectively.

During fiscal 2004, the Company entered into three landfill operation and management agreements and one landfill operation and management agreement in fiscal 2006. These agreements are long-term landfill operating contracts with government bodies whereby the Company receives tipping revenue, pays normal operating expenses and assumes future capping, closure and post-closure liabilities. The government body retains ownership of the landfill. There is no bargain purchase option and title to the property does not pass to the Company at the end of the lease term. The Company allocated the consideration paid to the landfill airspace rights and underlying land lease based on the relative fair values.

In addition to up-front or one-time payments, the landfill operating agreements require the Company to make future minimum rental payments, including success/expansion fees, other direct costs and capping, closure, and post closure costs. The value of all future probable lease payments are amortized and charged to cost of operations over the life of the contract. The Company amortizes the consideration allocated to airspace rights as airspace is utilized on a units-of-consumption basis and such depletion is charged to cost of operations as airspace is consumed i.e. as tons are placed into the landfill. The underlying value of the land lease is amortized to cost of operations on a straight-line basis over the estimated life of the operating agreement. Depletion expense on landfill operating lease contracts charged to operations was \$6,284, \$7,021 and \$6,010 in fiscal years ended April 30, 2006, 2007 and 2008, respectively.

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(b) Legal Proceedings

On September 12, 2001, the Company's subsidiary, North Country Environmental Services, Inc. ("NCES"), petitioned the New Hampshire Superior Court ("Superior Court") for a declaratory judgment concerning the extent to which the Town of Bethlehem, New Hampshire ("Town") could lawfully prohibit NCES's expansion of its landfill in Bethlehem. The Town filed counterclaims seeking contrary declarations and other relief. The parties appealed the Superior Court's decision to the New Hampshire Supreme Court ("Supreme Court"). On March 1, 2004, the Supreme Court ruled that NCES had all necessary local approvals to landfill within a 51-acre portion of its 105-acre parcel and the Town could not prevent expansion in that area. A significant portion of NCES's Stage IV expansion as originally designed and approved by the New Hampshire Department of Environmental Services ("NHDES"), however, was to lie outside the 51 acres. With respect to expansion outside the 51 acres, the Supreme Court remanded four issues to the Superior Court for further proceedings. On April 25, 2005, the Superior Court rendered summary judgment in NCES's favor on two of the four issues, leaving the other two issues for trial. The two issues that were decided on summary judgment remain subject to appeal by the Town. In March of 2005, the Town adopted a new zoning ordinance that prohibited landfilling outside of a new "District V," which corresponded to the 51 acres. The Town then amended its pleadings to seek a declaration that the new ordinance was valid. The parties each filed motions for partial summary judgment. Following the court's decisions on those motions, the validity of the new ordinance remained subject to trial based on two defenses raised by NCES. On March 30, 2007, NCES applied to the NHDES for a permit modification under which all Stage IV capacity (denominated "Stage IV, Phase II") would be relocated within the 51 acres. That application was superseded by a new application, filed on November 30, 2007, that would bring all berms along the perimeter of the landfill's footprint within the 51 acres as well. NCES sought a stay of the litigation on the ground that, if NHDES were to grant the permit modification, there would be no need for NCES to expand beyond the 51 acres for eight or more years, and the case could be dismissed as moot or unripe. The Superior Court granted the stay pending a decision by NHDES. The permit modification application currently remains pending before NHDES.

The Company, on behalf of itself, its subsidiary FCR, LLC, 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") in June 2007, to resolve issues raised by GRT as the minority member of GMG. The issues addressed in the action included exercise of management discretion, intellectual property, and other related disputes. The Defendants counterclaimed in May 2008 seeking unspecified damages on a variety of bases including, among others, breach of contract, breach of fiduciary duty, fraud, tortious interference with business relations, induced infringement and other matters. Management intends to vigorously contest those allegations, and it believes that the claims have no merit. The litigation is in its early stages 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 the litigation, regardless of its outcome, will not have a material adverse affect on the Company's business, financial condition, results of operations or cash flows.

The Company has been involved in discussions with 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 the Chemung County Landfill ("CCL"). On August 10, 2007, the DOL issued a letter opinion that cell construction work and other construction activities, with respect to landfill sites operated by the Company in New York State (Chemung, Ontario and Clinton County), is providing a "public purpose," and accordingly are subject to the Prevailing Wage laws. The Company will continue to work with the DOL to closely define which work may be subject to the DOL opinion, and the Company may yet pursue administrative and litigation relief. Discussions with the DOL continue with a goal of resolving this matter. Any charge incurred by the Company related to these claims will be

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capitalized as part of the related landfill asset, and amortized over the 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.

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.

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.

(c) Environmental Liability

The Company may be subject to liability for any environmental damage, including personal injury and property damage, that its solid waste, recycling and power generation facilities 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 also may 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 to transport, treat or dispose of those materials. Any substantial liability incurred by the Company arising from environmental damage could have a material adverse effect on the Company's business, financial condition and results of operations. The Company is not aware of any situations that it expects would have a material adverse impact on the results of operations or financial condition.

(d) Employment Contracts

The Company has entered into employment contracts with three of its senior officers. Contracts are dated June 18, 2001, January 8, 2008 and January 9, 2008, respectively. Each contract has an initial three year term and a two year covenant not to compete from the date of termination. These contracts automatically extend for a one year period at the end of the initial term and any renewal period. Total annual commitments for salaries under these contracts are \$966. In the event of a change in control of the Company, or in the event of involuntary termination without cause, the employment contracts provide for a payment ranging from one to three years of salary and bonuses.

(e) Maine Energy

During the first quarter of fiscal year 2008, the Company resolved all outstanding litigation regarding Maine Energy and agreed to settlements absolving the Company from any further residual cancellation payment obligations. The Company provided for the residual cancellation payment obligations to the City of Biddeford and the City of Saco in a prior year in an amount sufficient to cover the settlements. The Company recognized income in the amount of \$2,142 as other income related to the reversal of residual accruals originally established in connection with waste handling agreement disputes between Maine Energy and the fifteen municipalities which were party to the agreements. This matter is now resolved.

**12. PREFERRED STOCK**

The Company is authorized to issue up to 944 shares of preferred stock in one or more series. As of April 30, 2007 the Company had 56 shares of Series A Redeemable Convertible Preferred Stock ("Series A Preferred Stock") authorized, issued and outstanding, at \$1,000 per share, and as of



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April 30, 2008, the Company had zero shares authorized and issued. These shares of Series A Preferred were convertible into Class A common stock, at the option of the holders, at \$14 per share. Dividends were cumulative at a rate of 5%, compounded quarterly from the issuance date of August 11, 2000. The Company was required to redeem the Series A Preferred Stock on the seventh anniversary date of August 11, 2007.

On April 30, 2007, since the Company did not anticipate that the shares would be converted to Class A common stock by the redemption date, the Company reflected the redemption value of the shares as a current liability. The value included the liquidation preference of \$1,000 per share plus accrued but unpaid dividends. The redemption value amounted to \$74,018 at April 30, 2007. Consistent with this classification, the Company recorded the accrued dividends for the fiscal year ended April 30, 2008 in the amount of \$1,038 as interest expense.

The Series A Preferred Stock was redeemed effective August 11, 2007 in the amount of \$75,056, which was the liquidation value equal to the original price plus accrued but unpaid dividends through the date of redemption. As a result of the redemption, the rights of the holders of Series A Preferred Stock to receive cumulative dividends at a rate of 5%, compounded quarterly from the issuance date of August 11, 2000, and to elect one director to the Company's Board of Directors, among other rights, terminated. The Company borrowed against the senior credit facility to fund this redemption.

During the fiscal years ended April 30, 2006 and 2007, the Company accrued \$3,432 and \$3,588 of dividends, respectively, which are included in the carrying value of the preferred stock in the accompanying consolidated balance sheets.

### **13. STOCKHOLDERS' EQUITY**

#### **(a) Common Stock**

The holders of the Class A Common Stock are entitled to one vote for each share held. The holders of the Class B Common Stock are entitled to ten votes for each share held, except for the election of one director, who is elected by the holders of the Class A Common Stock exclusively. The Class B Common Stock is convertible into Class A Common Stock on a share-for-share basis at the option of the shareholder.

#### **(b) Stock Warrants**

At April 30, 2007 and 2008, there were outstanding warrants to purchase 78 and 74 shares of the Company's Class A Common Stock, respectively, at exercise prices between \$18.14 and \$43.63 per share, based on the fair value of the underlying common stock at the time of the warrants' issuance. The warrants are exercisable and expire at varying times through November 2008.

#### **(c) Stock Incentive Plans**

During 1996, the Company adopted a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. The 1996 Stock Option Plan (the "1996 Option Plan") provided for the issuance of a maximum of 918 shares of Class A Common Stock pursuant to the grant of either incentive stock options or non-statutory options. As of April 30, 2007, a total of 86 options to purchase Class A Common Stock were outstanding at a weighted average exercise price of \$16.00. As of April 30, 2008, a total of 0 options to purchase Class A common Stock were outstanding. No further options may be granted under this plan.

On July 31, 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan") a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. As of April 30, 2007, options to purchase 3,403 shares of Class A Common Stock at a weighted average exercise price of \$13.19 were outstanding under the 1997 Plan. As of April 30, 2008, options to

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purchase 3,402 shares of Class A Common Stock at a weighted average exercise price of \$12.87 were outstanding under the 1997 Plan. The 1997 Plan terminated as of July 31, 2007 and as a result no additional awards may be made pursuant to the 1997 Plan.

On July 31, 1997, the Company adopted a stock option plan for non-employee directors of the Company. The 1997 Non-Employee Director Stock Option Plan (the "Non-Employee Director Plan") provided for the issuance of a maximum of 200 shares of Class A Common Stock pursuant to the grant of non-statutory options. As of April 30, 2007 options to purchase 189 shares of Class A Common Stock at a weighted average exercise price of \$11.87 were outstanding. As of April 30, 2008 options to purchase 174 shares of Class A Common Stock at a weighted average exercise price of \$12.18 were outstanding. The Non-Employee Director Plan terminated as of July 31, 2007.

Additionally, options outstanding under the assumed KTI Stock Option Plan totaled 10 as of April 30, 2007, at a weighted average exercise price of \$21.56. There were no options outstanding as of April 30, 2008. Upon assumption of this plan, options under the KTI plan became exercisable for an equal number of shares of the Company's stock. The exercise price of the converted options was increased by 96.1% based on relative fair values of the underlying stock at the date of the KTI acquisition.

On October 10, 2006, the Company adopted the 2006 Stock Incentive Plan (the "2006 Plan"). Up to an aggregate amount equal to the sum of: (i) 1,275 shares of Class A Common Stock (subject to adjustment in the event of stock splits and other similar events), of which 275 are reserved for issuance to non-employee directors pursuant to the formula grants described below, plus (ii) such additional number of shares of Class A Common Stock as are currently subject to options granted under the Company's 1993 Incentive Stock Option Plan, 1994 Non-statutory Stock Option Plan, 1996 Option Plan, and 1997 Plan (the "Prior Plans") which are not actually issued under the Prior Plans because such options expire or otherwise result in shares not being issued, may be issued pursuant to awards granted under the 2006 Plan. As of April 30, 2007, options to purchase 45 shares of Class A Common Stock at a weighted average exercise price of \$10.22 were outstanding under the 2006 plan. As of April 30, 2008, options to purchase 208 shares of Class A Common Stock at a weighted average exercise price of \$12.55 were outstanding under the 2006 Plan. The Company also granted 11 restricted stock units under this plan in fiscal year 2008. As of April 30, 2008, awards for 1,865 shares were available for future grant.

Options granted under the plans described above 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.

On March 2, 2006, the Company's Compensation Committee of the Board of Directors approved the accelerated vesting of all outstanding unvested stock options to purchase shares of common stock of the Company. Accordingly, all of the Company's then outstanding unvested options became vested as of March 3, 2006. The decision to accelerate the vesting of stock options was made primarily to reduce non-cash compensation expense that would have been recorded in future periods. The estimated future compensation expense associated with these options was approximately \$705, net of tax, and would have been required to be recorded in the Company's income statement in future periods upon the adoption of SFAS No. 123R effective May 1, 2006.

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Stock option activity for the fiscal years ended April 30, 2006, 2007 and 2008 is as follows:

|                             | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price |
|-----------------------------|-------------------------|--|
| Outstanding, April 30, 2005 | 3,380                   | \$ 12.87                                 |
| Granted                     | 395                     | 12.06                                    |
| Terminated                  | (108)                   | (11.41)                                  |
| Exercised                   | (237)                   | (8.41)                                   |
| Outstanding, April 30, 2006 | 3,430                   | 13.13                                    |
| Granted                     | 498                     | 12.91                                    |
| Terminated                  | (63)                    | (13.24)                                  |
| Exercised                   | (130)                   | (11.13)                                  |
| Outstanding, April 30, 2007 | 3,735                   | 13.17                                    |
| Granted                     | 396                     | 11.84                                    |
| Terminated                  | (255)                   | (17.10)                                  |
| Exercised                   | (94)                    | (10.82)                                  |
| Outstanding, April 30, 2008 | 3,782                   | \$ 12.82                                 |
| Exercisable, April 30, 2006 | 3,430                   | \$ 13.13                                 |
| Exercisable, April 30, 2007 | 3,260                   | \$ 13.22                                 |
| Exercisable, April 30, 2008 | 3,142                   | \$ 12.93                                 |

Set forth below is a summary of options outstanding and exercisable as of April 30, 2008:

| Range of Exercise Price | Options Outstanding                    |   |  | Options Exercisable                    |  |
|-------------------------|--|---|--|--|--|
|                         | Number<br>of<br>Outstanding<br>Options | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price | Number<br>of<br>Exercisable<br>Options | Weighted<br>Average<br>Exercise<br>Price |
| \$4.61 - \$6.91         | 25                                     | 4.4   | \$ 5.77                                  | 25                                     | \$ 5.77                                  |
| \$6.92 - \$10.38        | 804                                    | 3.3   | 8.80                                     | 759                                    | 8.72                                     |
| \$10.39 - \$15.58       | 2,627                                  | 5.0   | 12.93                                    | 2,042                                  | 13.08                                    |
| \$15.59 - \$23.38       | 165                                    | 2.8   | 17.70                                    | 155                                    | 17.83                                    |
| Over \$23.39            | 161                                    | 0.1   | 27.31                                    | 161                                    | 27.31                                    |
| Totals                  | 3,782                                  | 4.4   | \$ 12.82                                 | 3,142                                  | \$ 12.93                                 |

#### (d) Stock-Based Compensation

Effective May 1, 2006, the Company adopted the provisions of SFAS No. 123(R) which establishes accounting for stock based awards exchanged for employee services using the modified prospective method. Under this method, all share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the specified vesting period. Prior periods are not restated.

The Company previously accounted for these awards under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations and disclosure requirements established by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"). Under APB 25, no expense was recorded in the income statement for the Company's stock options granted at fair market value. The pro forma effects on income for stock



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options and the Company's employee stock purchase plan were instead disclosed in a footnote to the financial statements. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair-value recognition provisions of SFAS No. 123 to stock options and the employee stock purchase program prior to adoption of SFAS No. 123(R).

|   | <b>Fiscal Year Ended</b> |
|---|--------------------------|
|   | <b>April 30, 2006</b>    |
| Net income available to common stockholders, as reported  | \$ 7,672                 |
| Add: Compensation expense, net recorded for the acceleration of vesting of options previously awarded | 24                       |
| Deduct: Total stock-based compensation expense determined under fair value based method, net          | (2,167)                  |
| Pro forma, net income available to common stockholders  | \$ 5,529                 |
| <b>Basic income per common share:</b>   |                          |
| As reported   | \$ 0.31                  |
| Pro forma   | \$ 0.22                  |
| <b>Diluted income per common share:</b>   |                          |
| As reported   | \$ 0.30                  |
| Pro forma   | \$ 0.22                  |

Effective March 2, 2006, the Company accelerated the vesting of all unvested stock options. As a result, stock-based compensation in periods subsequent to the acceleration is significantly reduced. The Company recognized stock-based compensation expense totaling \$39 (\$24 net of tax) related to the accelerated vesting of options previously awarded. This expense was included in General and Administration expenses in the Consolidated Statements of Operations for the fiscal year ended April 30, 2006.

The Company recognized stock-based compensation expense of \$702 and \$1,376 for the fiscal years ended April 30, 2007 and 2008, respectively, or approximately a \$0.03 and \$0.05 per share decrease to basic and diluted net income per common share for the fiscal years ended April 30, 2007 and 2008, respectively. Of these amounts, expense recorded with respect to stock options was \$601 and \$1,201, expense recorded with respect to the Company's employee stock purchase plan was \$101 and \$109, and expense recorded with respect to restricted stock units was \$0 and \$66 for the fiscal years ended April 30, 2007 and 2008, respectively. This expense is included in General and Administration expenses in the Consolidated Statements of Operations. The total compensation cost at April 30, 2008 related to unvested stock options was \$2,391 and that future expense will be recognized over the remaining vesting periods of the stock options. The weighted average remaining vesting period of those awards is approximately 2.1 years.

The Company recorded a tax benefit of \$0 and \$103 to additional paid in capital related to the exercise of stock options in the fiscal years ended April 30, 2007 and 2008, respectively. Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits net of deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-15, *Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option*. SFAS No. 123(R) requires the Company to reflect the tax savings resulting from tax deductions in excess of expense as a financing cash flow in its financial statements.

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The Company's calculations of stock-based compensation expense for the fiscal years April 30, 2006, 2007 and 2008 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 for the fiscal years ended April 30, 2006, 2007 and 2008 as follows:

|                             | <b>Fiscal Year Ended April 30,</b> |             |             |
|-----------------------------|------------------------------------|-------------|-------------|
|                             | <b>2006</b>                        | <b>2007</b> | <b>2008</b> |
| <b>Stock Options:</b>       |                                    |             |             |
| Expected life               | 5 years                            | 6 years     | 6 years     |
| Risk-free interest rate     | 3.81%                              | 5.10%       | 4.24%       |
| Expected volatility         | 30.42%                             | 31.02%      | 37.83%      |
| <b>Stock Purchase Plan:</b> |                                    |             |             |
| Expected life               | 0.5 years                          | 0.5 years   | 0.5 years   |
| Risk-free interest rate     | 4.30%                              | 5.10%       | 4.42%       |
| Expected volatility         | 30.42%                             | 33.03%      | 36.76%      |

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 fiscal year 2007, 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 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.

A summary of options outstanding as of April 30, 2007 and 2008, and changes during the fiscal year ended April 30, 2008, is presented below:

|                                    | <b>Unvested<br/>Options</b> | <b>Vested<br/>Options</b> | <b>Total<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Aggregate<br/>Intrinsic<br/>Value of<br/>Vested<br/>Options</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Term<br/>(Years)</b> |
|------------------------------------|-----------------------------|---------------------------|--------------------------|--|--|--|
| Outstanding, April 30, 2007        | 475                         | 3,260                     | 3,735                    | \$ 13.17   | \$ 582   | 5.0  |
| Granted                            | 229                         | 167                       | 396                      | 11.84  |  |  |
| Forfeited                          | (64)                        | (191)                     | (255)                    | 17.10  |  |  |
| Exercised                          |                             | (94)                      | (94)                     | 10.82  |  |  |
| <b>Outstanding, April 30, 2008</b> | <b>640</b>                  | <b>3,142</b>              | <b>3,782</b>             | <b>12.82</b>                                       | <b>1,631</b>   | <b>4.3</b>   |
| Exercisable, April 30, 2008        |                             | 3,142                     | 3,142                    | \$ 12.93   | \$ 1,602   | 3.4  |

The weighted average grant date fair value per share for the stock options granted during the fiscal years ended April 30, 2006, 2007 and 2008 was \$4.09, \$5.24 and \$5.22, respectively. The total intrinsic value of stock options exercised during the fiscal year ended April 30, 2008 was \$350. The total fair value of the 167 stock options vested during the fiscal year ended April 30, 2008 was approximately \$872.

Stock options exercisable as of April 30, 2008 have an aggregate intrinsic value of \$1,602 based on the market value of the Company's Class A common stock as of April 30, 2008.

Table of Contents**14. EMPLOYEE BENEFIT PLANS**

The Company offers its eligible employees the opportunity to contribute to a 401(k) plan. Effective May 1, 2008, the Company will contribute fifty cents for every dollar an employee invests in the 401(k) plan up to a maximum Company match of one thousand dollars per calendar year. Previously this amount was seven hundred fifty dollars per calendar year. Participants vest in employer contributions ratably over a three year period. Employer contributions for the fiscal years ended April 30, 2006, 2007 and 2008 amounted to \$570, \$587 and \$570, respectively.

In January 1998, the Company implemented its Employee Stock Purchase Plan. Under this plan, qualified employees may purchase shares of Class A Common Stock by payroll deduction at a 15% discount from the market price. 600 shares of Class A Common Stock have been reserved for this purpose. During the fiscal years ended April 30, 2006, 2007 and 2008, 26, 30 and 39 shares, respectively, of Class A Common Stock were issued under this plan. As of April 30, 2008, 343 shares of Class A Common Stock were available for distribution under this plan.

**15. INCOME TAXES**

The provision (benefit) for income taxes from continuing operations for the fiscal years ended April 30, 2006, 2007 and 2008 consists of the following:

|  | <b>Fiscal Year Ended April 30,</b> |             |             |
|--|------------------------------------|-------------|-------------|
|  | <b>2006</b>                        | <b>2007</b> | <b>2008</b> |
| <b>Federal</b>                         |                                    |             |             |
| Current                                | \$ 427                             | \$ 194      | \$          |
| Deferred                               | 6,408                              | (7,395)     | 877         |
|  | 6,835                              | (7,201)     | 877         |
| <b>State</b>                           |                                    |             |             |
| Current                                | 1,593                              | 913         | 788         |
| Deferred                               | (609)                              | (1,410)     | 108         |
| Deferred benefit of loss carryforwards | (210)                              | (151)       | (27)        |
|  | 774                                | (648)       | 869         |
|  | \$7,609                            | \$(7,849)   | \$1,746     |

The differences in the provision (benefit) for income taxes and the amounts determined by applying the Federal statutory rate to income before provision (benefit) for income taxes for the years ended April 30, 2006, 2007 and 2008 are as follows:

|  | <b>Fiscal Year Ended April 30,</b> |             |             |
|--|------------------------------------|-------------|-------------|
|  | <b>2006</b>                        | <b>2007</b> | <b>2008</b> |
| Federal statutory rate                           | 35%                                | 35%         | 35%         |
| Tax at statutory rate                            | \$6,921                            | \$(8,163)   | \$ (795)    |
| State income taxes, net of federal benefit       | 765                                | (910)       | 205         |
| Equity loss in RecycleRewards                    |                                    |             | 709         |
| (Decrease)/increase in valuation allowance       | (242)                              | 541         | 427         |
| Non-deductible stock option charges              |                                    | 235         | 378         |
| Preferred dividends                              |                                    |             | 363         |
| Nondeductible expenses                           |                                    |             | 520         |
| Change in state tax rate, net of federal benefit | (136)                              |             | (66)        |
| Other, net                                       | 301                                | 448         | 5           |
|  | \$7,609                            | \$(7,849)   | \$1,746     |

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Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes. Deferred tax assets and liabilities consist of the following at April 30, 2007 and 2008:

|  | <b>April 30,</b> |                  |
|--|------------------|------------------|
|  | <b>2007</b>      | <b>2008</b>      |
| <b>Deferred tax assets:</b>                                |                  |                  |
| Net operating loss carryforwards                           | \$ 33,197        | \$ 30,799        |
| Accrued expenses and reserves                              | 13,870           | 20,836           |
| Alternative minimum tax credit carryforwards               | 1,651            | 2,017            |
| Deferred revenue   | 1,537            | 1,455            |
| Unrealized loss on commodity hedges                        | 864              | 616              |
| Gain on business dispositions                              | 709              | 127              |
| Other  | 1,776            | 1,857            |
| <b>Total deferred tax assets</b>                           | <b>53,604</b>    | <b>57,707</b>    |
| Less: valuation allowance                                  | (5,459)          | (4,359)          |
| <b>Total deferred tax assets after valuation allowance</b> | <b>48,145</b>    | <b>53,348</b>    |
| <b>Deferred tax liabilities:</b>                           |                  |                  |
| Accelerated depreciation of property and equipment         | (25,781)         | (21,482)         |
| Amortization of intangibles                                | (11,872)         | (16,219)         |
| Basis difference in equity interests                       | (649)            | (527)            |
| Other  | (82)             |                  |
| <b>Total deferred tax liabilities</b>                      | <b>(38,384)</b>  | <b>(38,228)</b>  |
| <b>Net deferred tax asset</b>                              | <b>\$ 9,761</b>  | <b>\$ 15,120</b> |

At April 30, 2008 the Company has, for Federal income tax purposes, net operating loss carryforwards of approximately \$76,347 that expire in fiscal years 2014 through 2027 and state net operating loss carryforwards of approximately \$63,822 that expire in fiscal years 2009 through 2028. The net operating loss carryforwards include \$383 for which a benefit will be recorded in additional paid-in capital when realized. Substantial limitations restrict the Company's ability to utilize certain state loss carryforwards. Due to uncertainty of the utilization of the carryforwards, no tax benefit has been recognized for \$43,235 of the state net operating loss carryforwards. In addition, the Company has \$2,017 minimum tax credit carryforward available that is not subject to limitation.

The \$1,100 net decrease in the valuation allowance is primarily due to the expiration of certain state loss carryforwards, offset in part by an increase in the valuation allowance for other state loss carryforwards, and certain reclassifications related to the adoption of FIN No. 48.

The valuation allowance includes \$95 related to losses acquired through acquisitions. To the extent that future realization of such carryforwards exceeds the Company's current estimates, additional benefits received will be recorded as a reduction of goodwill. In assessing the realizability of carryforwards and other deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company adjusts the valuation allowance in the period management determines it is more likely than not that deferred tax assets will or will not be realized.

Effective May 1, 2007, the Company adopted the provisions of FIN No. 48. FIN No. 48 prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. Additionally, FIN No. 48 provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under FIN



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No. 48, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for fiscal year 2008 is as follows:

|   |         |
|---|---------|
| Balance at May 1, 2007  | \$5,497 |
| Gross increases for tax positions related to the current year | 871     |
| Gross decreases for tax positions related to the current year |         |
| Gross increases for tax positions of prior years              | 2       |
| Gross decreases for tax positions of prior years              | (109)   |
| Reductions resulting from lapse of statute of limitations     |         |
| Settlements   |         |
| Balance at April 30, 2008                                     | \$6,261 |

Included in the balance at April 30, 2008 are approximately \$3,194 of unrecognized tax benefits (net of the Federal benefit on state issues) that, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not anticipate that total unrecognized tax benefits will significantly change within the next 12 months due to the settlement of audits and the expiration of statute of limitations.

The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of April 30, 2008, the Company had accrued interest and penalties related to uncertain tax positions of \$493, including \$168 accrued in income tax expense during the year ended April 30, 2008. 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 income tax of multiple state jurisdictions. Due to Federal and state net operating loss carryforwards, income tax returns from fiscal years 1998 through 2008 remain open for examination, with limited exceptions.

## **16. HARDWICK IMPAIRMENT AND CLOSING CHARGES AND DEVELOPMENT PROJECT CHARGES.**

Hardwick impairment and closing charges:

In the fourth quarter of fiscal year 2007, the Company ceased operations at the Hardwick Landfill in the South Eastern region. At April 30, 2007, the Company recorded an impairment and closing charge associated with this site of \$26,892. Included in the amount is \$8,154 associated with future cash expenditures on capping, closure and post-closure activities at the landfill, \$2,323 of which had been previously accrued as part of normal operations.

In the fourth quarter of fiscal year 2008, the Company recorded additional closing charges amounting to \$1,400 associated with higher expected cash expenditures on capping, closure and post-closure activities.

Development project charges:

In fiscal years 2006, 2007 and 2008, the Company wrote-off \$1,329, \$752 and \$534 in deferred costs associated with certain development projects deemed no longer viable.

Table of Contents**17. DISCONTINUED OPERATIONS**

## Discontinued Operations:

During the fourth quarter of fiscal year 2007, the Company completed the sale of the assets of the Holliston Transfer Station in the South Eastern region for cash sale proceeds of \$7.4 million. A loss amounting to \$0.7 million (net of tax) was recorded to loss on disposal of discontinued operations. During the fourth quarter of fiscal year 2008, the Company recorded the true-up of certain contingent liabilities associated with the Holliston transaction amounting to a gain of \$0.3 million (net of tax) recorded to loss on disposal of discontinued operations.

During the second quarter of fiscal year 2008, the Company completed the sale of the Company's Buffalo, N.Y. transfer station, hauling operation and related equipment in the Western region for proceeds of \$4.9 million including a note receivable for \$2.5 million and net cash proceeds of \$2.4 million. A loss amounting to \$0.5 million (net of tax) has been recorded to loss on disposal of discontinued operations.

During the fourth quarter of fiscal year 2008, the Company terminated its operation of MTS Environmental, a soils processing operation in the North Eastern region. A charge was recorded amounting to \$3.2 million associated with the abandonment. Included in this charge was the write off of the carrying value of assets along with costs associated with vacating the site. A loss amounting to \$1.9 million (net of tax) has been recorded to loss on disposal of discontinued operations.

As of April 30, 2008, the Company has deemed its FCR Greenville operation as held for sale and has classified this as a discontinued operation pursuant to the requirements of SFAS No 144. The divestiture was completed in June 2008 and resulted in a small gain in fiscal year 2009.

The operating results of these operations, including those related to prior years, have been reclassified from continuing to discontinued operations in the accompanying consolidated financial statements.

Revenues and loss before income tax benefit attributable to discontinued operations for fiscal years 2006, 2007 and 2008 are as follows:

|                                | <b>Fiscal Year Ended April 30,</b> |             |             |
|--------------------------------|------------------------------------|-------------|-------------|
|                                | <b>2006</b>                        | <b>2007</b> | <b>2008</b> |
| Revenue                        | \$24,492                           | \$26,052    | \$ 8,204    |
| Loss before income tax benefit | \$ (1,714)                         | \$ (3,885)  | \$ (5,938)  |

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A summary of discontinued operations on the consolidated balance sheets at April 30, 2007 and 2008 is as follows:

|  | <b>April 30,<br/>2007</b> | <b>April 30,<br/>2008</b> |
|--|---------------------------|---------------------------|
| Accounts receivable trade, net                         | \$ 1,681                  | \$ 220                    |
| Prepaid expenses                                       | 70                        | 24                        |
| Inventory  | 101                       | 16                        |
| Other current assets                                   | 2                         |                           |
| <b>Current assets of discontinued operations</b>       | <b>\$ 1,854</b>           | <b>\$ 260</b>             |
| <br>Property, plant and equipment, net                 |                           |                           |
|  | \$ 4,802                  | \$ 55                     |
| Goodwill   | 4,352                     | 427                       |
| <br>Non-current assets of discontinued operations      | <br>\$ 9,154              | <br>\$ 482                |
| <br>Accounts payable                                   |                           |                           |
|  | \$ 1,249                  | \$ 152                    |
| Accrued payroll and related expenses                   | 111                       | 16                        |
| Other accrued liabilities                              | 692                       | 781                       |
| <br>Current liabilities of discontinued operations     | <br>\$ 2,052              | <br>\$ 949                |
| <br>Other long-term liabilities                        |                           |                           |
|  | \$ 57                     | \$ 170                    |
| <br>Non-current liabilities of discontinued operations | <br>\$ 57                 | <br>\$ 170                |

In accordance with EITF Issue No. 87-24, *Allocation of Interest to Discontinued Operations*, the Company allocates interest to discontinued operations. The Company has also eliminated certain immaterial intercompany activity associated with discontinued operations.

### **18. EARNINGS PER SHARE**

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

|   | <b>Fiscal Year Ended April 30,</b> |                |               |
|---|------------------------------------|----------------|---------------|
|   | <b>2006</b>                        | <b>2007</b>    | <b>2008</b>   |
| <b>Numerator:</b>   |                                    |                |               |
| (Loss) income from continuing operations before discontinued operations   | \$ 12,165                          | \$(15,475)     | \$(4,017)     |
| Less: preferred stock dividends   | (3,432)                            | (3,588)        |               |
| <br>(Loss) income from continuing operations before discontinued operations (applicable) available to common stockholders | <br>\$ 8,733                       | <br>\$(19,063) | <br>\$(4,017) |
| <br><b>Denominator:</b>   |                                    |                |               |
| Number of shares outstanding, end of period:  |                                    |                |               |
| Class A common stock  | 24,185                             | 24,332         | 24,466        |
| Class B common stock  | 988                                | 988            | 988           |
| Effect of weighted average shares outstanding during period   | (193)                              | (48)           | (72)          |
| <br>Weighted average number of common shares used in basic EPS  | <br>24,980                         | <br>25,272     | <br>25,382    |

Impact of potentially dilutive securities:

|   |     |
|---|-----|
| Dilutive effect of options, warrants and contingent stock | 388 |
|---|-----|

Weighted average number of common shares used in diluted EPS

|        |        |        |
|--------|--------|--------|
| 25,368 | 25,272 | 25,382 |
|--------|--------|--------|

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For the fiscal years ended April 30, 2006, 2007 and 2008, 6,453, 8,948 and 3,854, respectively, of potentially dilutive common stock related to restricted stock, options, warrants and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

**19. RELATED PARTY TRANSACTIONS**

(a) Services

During fiscal years ended April 30, 2006, 2007 and 2008, the Company retained the services of a related party, a company wholly owned by two of the Company's major stockholders and members of the Board of Directors (one of whom is also an officer), as a contractor in developing or closing certain landfills owned by the Company. Total purchased services charged to operations or capitalized to landfills for the fiscal years ended April 30, 2006, 2007 and 2008 were \$13,286, \$13,180 and \$9,109, respectively, of which \$1,890 and \$759 were outstanding and included in either accounts payable or other current liabilities at April 30, 2007 and 2008, respectively.

(b) Leases

On August 1, 1993, the Company entered into two leases for operating facilities with a partnership in which two of the Company's major stockholders and members of the Board of Directors (one of whom is also an officer) are the general partners. The leases are classified as capital leases in the accompanying consolidated balance sheets. The leases call for monthly payments of approximately \$24 and expire in April 2013. Total expense charged to operations for fiscal years ended April 30, 2006, 2007 and 2008 under these agreements was \$277, \$277 and \$273, respectively.

(c) Landfill Post-closure

The Company has agreed to pay the cost of post-closure on a landfill owned by certain principal shareholders. The Company paid the cost of closing this landfill in 1992, and the post-closure maintenance obligations are expected to last until 2012. In the fiscal years ended April 30, 2006, 2007 and 2008, the Company paid \$4, \$15 and \$8 respectively, pursuant to this agreement. As of April 30, 2007 and 2008, the Company has accrued \$120 and \$119 respectively, for costs associated with its post-closure obligations.

(d) Employee Loans

As of April 30, 2007 and 2008, the Company has recourse loans to officers and employees outstanding in the amount of \$1,033 and \$1,233, respectively. The interest on these notes is payable upon demand by the Company. The notes have no fixed repayment terms. Interest which has been fully accrued for as of April 30, 2008 is at the Wall Street Journal Prime Rate (5.00% at April 30, 2008). Non current assets includes notes from officers consisting of \$916 and \$1,101 at April 30, 2007 and 2008, respectively. Current assets include receivables associated with loans to employees of the Company amounting to \$87 and \$132 at April 30, 2007 and 2008, respectively.

(e) Commodity Sales

The Company sells recycled paper products to its equity method investee, GreenFiber. Revenue from sales to GreenFiber amounted to \$4,578, \$4,142 and \$5,160 for fiscal years ended April 30, 2006, 2007 and 2008, respectively.

Table of Contents**20. SEGMENT REPORTING**

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments in financial statements. In general, SFAS No. 131 requires that business entities report selected information about operating segments in a manner consistent with that used for internal management reporting.

The Company classifies its operations into North Eastern region, South Eastern region, Central region, Western region and FCR Recycling. The Company's revenues in the North Eastern region, South Eastern region, Central region and Western region segments are derived mainly from one industry segment, which includes the collection, transfer, recycling and disposal of non-hazardous solid waste. The North Eastern region also includes Maine Energy, which generates electricity from non-hazardous solid waste. The Company's revenues in the FCR Recycling segment are derived from integrated waste handling services, including processing and recycling of paper, cardboard, metals, aluminum, plastics and glass and brokerage of recycled materials. Ancillary operations, major customer accounts, discontinued operations and earnings from equity method investees, are included in Other.

|                                  | North Eastern<br>region | South Eastern<br>region | Central<br>region | Western<br>region | FCR<br>Recycling |
|----------------------------------|-------------------------|-------------------------|-------------------|-------------------|------------------|
| <b>Year Ended April 30, 2006</b> |                         |                         |                   |                   |                  |
| Outside revenues                 | \$ 106,471              | \$ 77,634               | \$ 117,792        | \$ 92,397         | \$ 88,253        |
| Inter-segment revenues           | 26,522                  | 31,667                  | 58,089            | 19,760            | 470              |
| Operating income                 | 6,906                   | (1,926)                 | 17,025            | 9,508             | 13,084           |
| Depreciation and amortization    | 18,300                  | 10,004                  | 15,673            | 12,675            | 4,917            |
| Interest expense (net)           | 4,554                   | 13,382                  | (2,897)           | 8,663             | 3,108            |
| Capital expenditures             | 23,798                  | 18,395                  | 26,924            | 20,314            | 20,835           |
| Goodwill                         | 23,029                  | 31,645                  | 31,106            | 54,081            | 27,042           |
| Total assets                     | \$ 176,520              | \$ 140,996              | \$ 143,562        | \$ 159,603        | \$ 90,406        |

|                                  | Other      | Eliminations | Total      |
|----------------------------------|------------|--------------|------------|
| <b>Year Ended April 30, 2006</b> |            |              |            |
| Outside revenues                 | \$ 18,890  | \$           | \$ 501,437 |
| Inter-segment revenues           |            | (136,508)    |            |
| Operating income                 | (2,737)    |              | 41,860     |
| Depreciation and amortization    | 1,912      |              | 63,481     |
| Interest expense (net)           | 2,898      |              | 29,708     |
| Capital expenditures             | 2,206      |              | 112,472    |
| Goodwill                         |            |              | 166,903    |
| Total assets                     | \$ 100,024 | \$           | \$ 811,111 |

|                                  | North Eastern<br>region | South Eastern<br>region | Central<br>region | Western<br>region | FCR<br>Recycling |
|----------------------------------|-------------------------|-------------------------|-------------------|-------------------|------------------|
| <b>Year Ended April 30, 2007</b> |                         |                         |                   |                   |                  |
| Outside revenues                 | \$ 112,967              | \$ 67,771               | \$ 126,018        | \$ 98,892         | \$ 100,700       |
| Inter-segment revenues           | 27,798                  | 34,674                  | 58,598            | 23,129            | 185              |
| Operating income                 | 6,361                   | (31,746)                | 14,213            | 12,122            | 14,394           |
| Depreciation and amortization    | 19,556                  | 9,267                   | 19,415            | 14,594            | 5,880            |
| Interest expense (net)           | 5,197                   | 15,892                  | (3,186)           | 9,374             | 3,911            |
| Capital expenditures             | 19,691                  | 19,540                  | 26,641            | 21,789            | 12,029           |
| Goodwill                         | 23,728                  | 31,645                  | 31,960            | 54,715            | 26,950           |
| Total assets                     | \$ 184,458              | \$ 128,455              | \$ 152,235        | \$ 169,428        | \$ 98,363        |

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|                                  | Other      | Eliminations | Total      |
|----------------------------------|------------|--------------|------------|
| <b>Year Ended April 30, 2007</b> |            |              |            |
| Outside revenues                 | \$ 24,977  | \$           | \$ 531,325 |
| Inter-segment revenues           |            | (144,384)    |            |
| Operating income                 | (3,163)    |              | 12,181     |
| Depreciation and amortization    | 2,036      |              | 70,748     |
| Interest expense (net)           | 5,939      |              | 37,127     |
| Capital expenditures             | 1,155      |              | 100,845    |
| Goodwill                         |            |              | 168,998    |
| Total assets                     | \$ 101,154 | \$           | \$ 834,093 |

|                                  | North Eastern<br>region | South Eastern<br>region | Central<br>region | Western<br>region | FCR<br>Recycling |
|----------------------------------|-------------------------|-------------------------|-------------------|-------------------|------------------|
| <b>Year Ended April 30, 2008</b> |                         |                         |                   |                   |                  |
| Outside revenues                 | \$ 118,381              | \$ 67,053               | \$ 127,081        | \$ 106,410        | \$ 128,373       |
| Inter-segment revenues           | 26,543                  | 23,283                  | 60,118            | 23,659            | (12)             |
| Operating income                 | 2,529                   | (6,723)                 | 14,818            | 11,893            | 21,938           |
| Depreciation and amortization    | 23,661                  | 10,256                  | 18,624            | 16,551            | 6,750            |
| Interest expense (net)           | 5,276                   | 15,894                  | (4,374)           | 9,377             | 3,335            |
| Capital expenditures             | 19,910                  | 9,245                   | 16,590            | 19,835            | 7,099            |
| Goodwill                         | 23,655                  | 31,645                  | 31,960            | 54,804            | 37,652           |
| Total assets                     | \$ 170,218              | \$ 127,149              | \$ 150,081        | \$ 179,634        | \$ 112,149       |

|                                  | Other     | Eliminations | Total      |
|----------------------------------|-----------|--------------|------------|
| <b>Year Ended April 30, 2008</b> |           |              |            |
| Outside revenues                 | \$ 32,219 | \$           | \$ 579,517 |
| Inter-segment revenues           |           | (133,591)    |            |
| Operating income                 | (1,834)   |              | 42,621     |
| Depreciation and amortization    | 1,927     |              | 77,769     |
| Interest expense (net)           | 11,997    |              | 41,505     |
| Capital expenditures             | 495       |              | 73,174     |
| Goodwill                         |           |              | 179,716    |
| Total assets                     | \$ 96,856 | \$           | \$ 836,087 |

Amounts of our total revenue attributable to services provided are as follows:

|                                | Fiscal Year Ended April 30, |            |            |
|--------------------------------|-----------------------------|------------|------------|
|                                | 2006                        | 2007       | 2008       |
| Collection                     | \$ 253,117                  | \$ 258,334 | \$ 266,214 |
| Landfill / disposal facilities | 97,801                      | 106,465    | 106,234    |
| Transfer                       | 25,055                      | 23,559     | 26,556     |
| Recycling                      | 125,464                     | 142,967    | 180,513    |
| Total                          | \$ 501,437                  | \$ 531,325 | \$ 579,517 |





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The following is a summary of certain items in the Consolidated Statements of Operations by quarter for fiscal years ended April 30, 2007 and 2008.

| <b>Fiscal Year 2007</b>   | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
| Revenues  | \$ 136,948               | \$ 140,695                | \$ 126,967               | \$ 126,715                |
| Operating (loss) income   | 8,670                    | 14,351                    | 8,844                    | (19,684)                  |
| (Loss) income from continuing operations before discontinued operations | 324                      | 2,629                     | (423)                    | (18,005)                  |
| Net (loss) income available to common stockholders                      | (934)                    | 1,498                     | (1,747)                  | (20,288)                  |
| (Loss) income per common share:   |                          |                           |                          |                           |
| Basic:  |                          |                           |                          |                           |
| (Loss) income from continuing operations before discontinued operations | (0.02)                   | 0.07                      | (0.05)                   | (0.75)                    |
| Net (loss) income available to common stockholders                      | (0.04)                   | 0.06                      | (0.07)                   | (0.80)                    |
| Diluted:  |                          |                           |                          |                           |
| (Loss) income from continuing operations before discontinued operations | (0.02)                   | 0.07                      | (0.05)                   | (0.75)                    |
| Net (loss) income available to common stockholders                      | (0.04)                   | 0.06                      | (0.07)                   | (0.80)                    |

| <b>Fiscal Year 2008</b>   | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
| Revenues  | \$ 148,526               | \$ 150,483                | \$ 140,879               | \$ 139,628                |
| Operating income  | 13,846                   | 15,828                    | 7,412                    | 5,534                     |
| (Loss) income from continuing operations before discontinued operations | 2,347                    | 3,937                     | (4,463)                  | (5,839)                   |
| Net (loss) income available to common stockholders                      | 1,742                    | 2,830                     | (4,604)                  | (7,803)                   |
| (Loss) income per common share:   |                          |                           |                          |                           |
| Basic:  |                          |                           |                          |                           |
| (Loss) income from continuing operations before discontinued operations | 0.09                     | 0.16                      | (0.18)                   | (0.23)                    |
| Net (loss) income available to common stockholders                      | 0.07                     | 0.11                      | (0.19)                   | (0.30)                    |
| Diluted:  |                          |                           |                          |                           |
| (Loss) income from continuing operations before discontinued operations | 0.09                     | 0.15                      | (0.18)                   | (0.23)                    |
| Net (loss) income available to common stockholders                      | 0.07                     | 0.11                      | (0.19)                   | (0.30)                    |

**22. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

The senior subordinated notes are guaranteed jointly and severally, fully and unconditionally by the Company's significant wholly-owned subsidiaries. The Parent is the issuer and non-guarantor of the senior subordinated notes. The information which follows presents the condensed consolidating financial position as of April 30, 2007 and 2008; the condensed consolidating results of operations for the fiscal years ended April 30, 2006, 2007 and 2008; and the condensed consolidating statements of cash flows for the fiscal years ended April 30, 2006, 2007 and 2008 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.

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AS OF APRIL 30, 2007

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

|   | Parent     | Guarantors | Non-Guarantors | Elimination | Consolidated |
|---|------------|------------|----------------|-------------|--------------|
| <b>ASSETS</b>   |            |            |                |             |              |
| <b>CURRENT ASSETS:</b>  |            |            |                |             |              |
| Cash and cash equivalents   | \$ (1,967) | \$ 13,015  | \$ 1,318       | \$          | \$ 12,366    |
| Accounts receivable trade, net of allowance for doubtful accounts               | 31         | 60,193     | 166            | (27)        | 60,363       |
| Refundable income taxes   | 1,340      |            |                |             | 1,340        |
| Deferred taxes  | 7,306      |            | 909            |             | 8,215        |
| Other current assets  | 1,679      | 8,983      |                |             | 10,662       |
| Current assets of discontinued operations                                       |            | 1,854      |                |             | 1,854        |
| Total current assets  | 8,389      | 84,045     | 2,393          | (27)        | 94,800       |
| Property, plant and equipment, net of accumulated depreciation and amortization | 2,587      | 480,707    | (475)          |             | 482,819      |
| Goodwill  |            | 168,998    |                |             | 168,998      |
| Restricted cash   |            | 4          | 12,730         |             | 12,734       |
| Deferred income taxes   | 1,546      |            |                |             | 1,546        |
| Investment in subsidiaries  | (12,170)   |            |                | 12,170      |              |
| Assets under contractual obligation   |            | 55         |                |             | 55           |
| Other non-current assets  | 29,589     | 38,657     | 120            | (4,379)     | 63,987       |
| Non-current assets of discontinued operations                                   |            | 9,154      |                |             | 9,154        |
|   | 21,552     | 697,575    | 12,375         | 7,791       | 739,293      |
| Intercompany receivable   | 670,919    | (669,191)  | (6,107)        | 4,379       |              |
|   | \$ 700,860 | \$ 112,429 | \$ 8,661       | \$ 12,143   | \$ 834,093   |

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**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET (Continued)**

AS OF APRIL 30, 2007

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

|  | Parent         | Guarantors     | Non-Guarantors | Elimination   | Consolidated   |
|--|----------------|----------------|----------------|---------------|----------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                |                |                |               |                |
| <b>CURRENT LIABILITIES:</b>  |                |                |                |               |                |
| Current maturities of long term debt   | \$ 900         | \$ 315         | \$             | \$            | \$ 1,215       |
| Series Aredeemable, convertible preferred stock  | 74,018         |                |                |               | 74,018         |
| Accounts payable   | 1,580          | 49,473         | 96             | (27)          | 51,122         |
| Accrued payroll and related expenses   | 1,795          | 6,649          |                |               | 8,444          |
| Accrued interest   | 9,268          | 7              |                |               | 9,275          |
| Accrued closure and post-closure costs, current portion  |                | 8,386          | 535            |               | 8,921          |
| Other current liabilities  | 6,811          | 17,880         | 8,414          |               | 33,105         |
| Current liabilities of discontinued operations   |                | 2,052          |                |               | 2,052          |
| <b>Total current liabilities</b>   | <b>94,372</b>  | <b>84,762</b>  | <b>9,045</b>   | <b>(27)</b>   | <b>188,152</b> |
| Long-term debt, less current maturities  | 475,445        | 780            |                |               | 476,225        |
| Capital lease obligations, less current maturities   |                | 650            |                |               | 650            |
| Accrued closure and post closure costs, less current portion   |                | 29,408         | 43             |               | 29,451         |
| Other long-term liabilities  | 1,547          | 6,469          | 2,046          |               | 10,062         |
| Non-current liabilities of discontinued operations   |                | 57             |                |               | 57             |
| <b>STOCKHOLDERS' EQUITY:</b>   |                |                |                |               |                |
| Class A common stock   |                |                |                |               |                |
| Authorized 100,000,000 shares, \$0.01 par value; issued and outstanding 24,332,000 shares                | 243            | 101            | 100            | (201)         | 243            |
| 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 (loss) income  | (1,001)        | 120            | (4)            | (116)         | (1,001)        |
| Additional paid-in capital   | 273,345        | 46,704         | 3,813          | (50,517)      | 273,345        |
| Accumulated deficit  | (143,101)      | (56,622)       | (6,382)        | 63,004        | (143,101)      |
| <b>Total stockholders' equity</b>  | <b>129,496</b> | <b>(9,697)</b> | <b>(2,473)</b> | <b>12,170</b> | <b>129,496</b> |
|  | \$ 700,860     | \$ 112,429     | \$ 8,661       | \$ 12,143     | \$ 834,093     |

Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF APRIL 30, 2008****(in thousands, except for share and per share data)**

|   | Parent        | Guarantors    | Non-Guarantors | Elimination | Consolidated  |
|---|---------------|---------------|----------------|-------------|---------------|
| <b>ASSETS</b>   |               |               |                |             |               |
| <b>CURRENT ASSETS:</b>  |               |               |                |             |               |
| Cash and cash equivalents   | \$ 1,260      | \$ 1,306      | \$ 248         | \$          | \$ 2,814      |
| Restricted cash   |               | 95            |                |             | 95            |
| Accounts receivable trade, net of allowance for doubtful accounts               | 80            | 61,969        | 184            |             | 62,233        |
| Notes receivable officers/employees   | 132           |               |                |             | 132           |
| Refundable income taxes   | 2,020         |               |                |             | 2,020         |
| Prepaid expenses  | 2,541         | 4,389         |                |             | 6,930         |
| Deferred taxes  | 14,639        |               | 794            |             | 15,433        |
| Other current assets  | 501           | 5,327         |                |             | 5,828         |
| <b>Total current assets</b>   | <b>21,173</b> | <b>73,086</b> | <b>1,226</b>   |             | <b>95,485</b> |
| Property, plant and equipment, net of accumulated depreciation and amortization | 2,557         | 485,471       |                |             | 488,028       |
| Goodwill  |               | 179,716       |                |             | 179,716       |
| Investment in subsidiaries  | 2,898         |               |                | (2,898)     |               |
| Other non-current assets  | 26,370        | 37,254        | 13,613         | (4,379)     | 72,858        |
|   | 31,825        | 702,441       | 13,613         | (7,277)     | 740,602       |
| Intercompany receivable   | 652,849       | (649,823)     | (7,405)        | 4,379       |               |
|   | \$ 705,847    | \$ 125,704    | \$ 7,434       | \$ (2,898)  | \$ 836,087    |

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**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET (Continued)**

**AS OF APRIL 30, 2008**

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

|  | Parent            | Guarantors        | Non-Guarantors  | Elimination       | Consolidated      |
|--|-------------------|-------------------|-----------------|-------------------|-------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                   |                 |                   |                   |
| <b>CURRENT LIABILITIES:</b>  |                   |                   |                 |                   |                   |
| Current maturities of long term debt   | \$ 1,750          | \$ 362            | \$              | \$                | \$ 2,112          |
| Current maturities of capital lease obligations  | 108               | 538               |                 |                   | 646               |
| Accounts payable   | 4,084             | 47,503            | 144             |                   | 51,731            |
| Accrued payroll and related expenses   | 2,834             | 8,417             |                 |                   | 11,251            |
| Other current liabilities  | 20,754            | 20,079            | 6,251           |                   | 47,084            |
| <b>Total current liabilities</b>   | <b>29,530</b>     | <b>76,899</b>     | <b>6,395</b>    |                   | <b>112,824</b>    |
| Long-term debt, less current maturities  | 549,570           | 846               |                 |                   | 550,416           |
| Capital lease obligations, less current maturities   | 508               | 8,303             |                 |                   | 8,811             |
| Other long-term liabilities  | 1,557             | 35,881            | 1,916           |                   | 39,354            |
| <b>STOCKHOLDERS' EQUITY:</b>   |                   |                   |                 |                   |                   |
| Class A common stock   |                   |                   |                 |                   |                   |
| Authorized 100,000,000 shares, \$0.01 par value; issued and outstanding 24,448,000 shares                | 245               | 100               | 100             | (200)             | 245               |
| 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 (loss) income  | (2,568)           | 502               | 143             | (645)             | (2,568)           |
| Additional paid-in capital   | 276,189           | 46,430            | 3,988           | (50,418)          | 276,189           |
| Accumulated deficit  | (149,194)         | (43,257)          | (5,108)         | 48,365            | (149,194)         |
| <b>Total stockholders' equity</b>  | <b>124,682</b>    | <b>3,775</b>      | <b>(877)</b>    | <b>(2,898)</b>    | <b>124,682</b>    |
|  | <b>\$ 705,847</b> | <b>\$ 125,704</b> | <b>\$ 7,434</b> | <b>\$ (2,898)</b> | <b>\$ 836,087</b> |

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**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

**FISCAL YEAR ENDED APRIL 30, 2006**

(In thousands)

|  | Parent   | Guarantors | Non-Guarantors | Elimination | Consolidated |
|--|----------|------------|----------------|-------------|--------------|
| Revenues   | \$       | \$ 499,453 | \$ 10,012      | \$ (8,028)  | \$ 501,437   |
| Operating expenses:  |          |            |                |             |              |
| Cost of operations   | 12       | 327,269    | 9,897          | (8,028)     | 329,150      |
| General and administration   | (429)    | 65,348     | 698            |             | 65,617       |
| Depreciation and amortization  | 1,660    | 61,551     | 270            |             | 63,481       |
| Development project costs  |          | 1,329      |                |             | 1,329        |
|  | 1,243    | 455,497    | 10,865         | (8,028)     | 459,577      |
| Operating income (loss)  | (1,243)  | 43,956     | (853)          |             | 41,860       |
| Other expense/(income), net:   |          |            |                |             |              |
| Interest income  | (32,500) | (370)      | (453)          | 32,395      | (928)        |
| Interest expense   | 35,451   | 27,525     | 55             | (32,395)    | 30,636       |
| (Income) loss from equity method investments   | (21,254) | (5,857)    |                | 21,369      | (5,742)      |
| Other (income)/expense, net:   | (1,703)  | (177)      |                |             | (1,880)      |
| Other expense/(income), net  | (20,006) | 21,121     | (398)          | 21,369      | 22,086       |
| Income (loss) from continuing operations before income taxes and discontinued operations | 18,763   | 22,835     | (455)          | (21,369)    | 19,774       |
| Provision (benefit) for income taxes   | 7,659    |            | (50)           |             | 7,609        |
| Income (loss) from continuing operations before discontinued operations                  | 11,104   | 22,835     | (405)          | (21,369)    | 12,165       |
| Discontinued operations:   |          |            |                |             |              |
| Loss from discontinued operations, net   |          | (1,061)    |                |             | (1,061)      |
| Net income (loss)  | 11,104   | 21,774     | (405)          | (21,369)    | 11,104       |
| Preferred stock dividend   | 3,432    |            |                |             | 3,432        |
| Net income (loss) available to common stockholders                                       | \$ 7,672 | \$ 21,774  | \$ (405)       | \$ (21,369) | \$ 7,672     |

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**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

**FISCAL YEAR ENDED APRIL 30, 2007**

(in thousands)

|  | Parent      | Guarantors  | Non-Guarantors | Elimination | Consolidated |
|--|-------------|-------------|----------------|-------------|--------------|
| Revenues   | \$          | \$ 529,246  | \$ 11,975      | \$ (9,896)  | \$ 531,325   |
| Operating expenses:  |             |             |                |             |              |
| Cost of operations   | 2,775       | 346,934     | 7,737          | (9,896)     | 347,550      |
| General and administration   | 400         | 72,343      | 459            |             | 73,202       |
| Depreciation and amortization  | 1,774       | 68,053      | 921            |             | 70,748       |
| Hardwick impairment and closing charge   |             | 26,892      |                |             | 26,892       |
| Development project costs  |             | 752         |                |             | 752          |
|  | 4,949       | 514,974     | 9,117          | (9,896)     | 519,144      |
| Operating income (loss)  | (4,949)     | 14,272      | 2,858          |             | 12,181       |
| Other expense/(income), net:   |             |             |                |             |              |
| Interest income  | (37,237)    | (537)       | (581)          | 37,090      | (1,265)      |
| Interest expense   | 43,280      | 31,989      | 213            | (37,090)    | 38,392       |
| (Income) loss from equity method investments   | 16,117      | (2,105)     |                | (15,063)    | (1,051)      |
| Other income   | (254)       | (317)       |                |             | (571)        |
| Other expense/(income), net  | 21,906      | 29,030      | (368)          | (15,063)    | 35,505       |
| (Loss) income from continuing operations before income taxes and discontinued operations | (26,855)    | (14,758)    | 3,226          | 15,063      | (23,324)     |
| (Benefit) provision for income taxes   | (8,972)     |             | 1,123          |             | (7,849)      |
| (Loss) income from continuing operations before discontinued operations                  | (17,883)    | (14,758)    | 2,103          | 15,063      | (15,475)     |
| Discontinued operations:   |             |             |                |             |              |
| Loss from discontinued operations, net   |             | (1,691)     |                |             | (1,691)      |
| Loss on disposal of discontinued operations, net   |             | (717)       |                |             | (717)        |
| Net (loss) income  | (17,883)    | (17,166)    | 2,103          | 15,063      | (17,883)     |
| Preferred stock dividend   | 3,588       |             |                |             | 3,588        |
| Net (loss) income available to common stockholders                                       | \$ (21,471) | \$ (17,166) | \$ 2,103       | \$ 15,063   | \$ (21,471)  |

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**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**  
**FISCAL YEAR ENDED APRIL 30, 2008**

(in thousands)

|  | Parent     | Guarantors | Non-Guarantors | Elimination | Consolidated |
|--|------------|------------|----------------|-------------|--------------|
| Revenues   | \$         | \$ 579,517 | \$ 9,030       | \$ (9,030)  | \$ 579,517   |
| Operating expenses:  |            |            |                |             |              |
| Cost of operations   | 2,415      | 382,441    | 7,183          | (9,030)     | 383,009      |
| General and administration   | 785        | 73,176     | 223            |             | 74,184       |
| Depreciation and amortization  | 1,628      | 76,171     | (30)           |             | 77,769       |
| Hardwick impairment and closing charge   |            | 1,400      |                |             | 1,400        |
| Development project costs  | 234        | 300        |                |             | 534          |
|  | 5,062      | 533,488    | 7,376          | (9,030)     | 536,896      |
| Operating income (loss)  | (5,062)    | 46,029     | 1,654          |             | 42,621       |
| Other expense/(income), net:   |            |            |                |             |              |
| Interest income  | (33,123)   | (243)      | (576)          | 32,588      | (1,354)      |
| Interest expense   | 45,176     | 30,271     |                | (32,588)    | 42,859       |
| (Income) loss from equity method investments   | (9,710)    | 4,051      |                | 11,736      | 6,077        |
| Other income   | (354)      | (2,336)    |                |             | (2,690)      |
| Other expense/(income), net  | 1,989      | 31,743     | (576)          | 11,736      | 44,892       |
| Income (loss) from continuing operations before income taxes and discontinued operations | (7,051)    | 14,286     | 2,230          | (11,736)    | (2,271)      |
| Provision for income taxes   | 784        |            | 962            |             | 1,746        |
| Income (loss) from continuing operations before discontinued operations                  | (7,835)    | 14,286     | 1,268          | (11,736)    | (4,017)      |
| Discontinued operations:   |            |            |                |             |              |
| Loss from discontinued operations, net   |            | (1,705)    |                |             | (1,705)      |
| Loss on disposal of discontinued operations, net   |            | (2,113)    |                |             | (2,113)      |
| Net (loss) income applicable to common stockholders                                      | \$ (7,835) | \$ 10,468  | \$ 1,268       | \$ (11,736) | \$ (7,835)   |



Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS****FISCAL YEAR ENDED APRIL 30, 2006****(in thousands)**

|  | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net Cash Provided by (Used in)                       |               |                   |                       |                    |                     |
| Operating Activities                                 | \$ (4,113)    | \$ 78,376         | \$ 861                | \$                 | \$ 75,124           |
| Cash Flows from Investing Activities:                |               |                   |                       |                    |                     |
| Acquisitions, net of cash acquired                   |               | (19,691)          |                       |                    | (19,691)            |
| Additions to property, plant and equipment growth    |               | (47,474)          |                       |                    | (47,474)            |
| maintenance  | (1,981)       | (62,312)          | (705)                 |                    | (64,998)            |
| Payments on landfill operating lease contracts       |               | (10,539)          |                       |                    | (10,539)            |
| Restricted cash from revenue bond issuance           | (5,469)       |                   |                       |                    | (5,469)             |
| Other  | (3,047)       | 2,539             |                       |                    | (508)               |
| Net Cash Used In Investing Activities                | (10,497)      | (137,477)         | (705)                 |                    | (148,679)           |
| Cash Flows from Financing Activities:                |               |                   |                       |                    |                     |
| Proceeds from long-term borrowings                   | 208,197       | 800               |                       |                    | 208,997             |
| Principal payments on long-term debt                 | (135,366)     | (1,045)           |                       |                    | (136,411)           |
| Other  | 1,432         |                   |                       |                    | 1,432               |
| Intercompany borrowings                              | (61,110)      | 61,559            | (449)                 |                    |                     |
| Net Cash Provided by (Used in) Financing Activities  | 13,153        | 61,314            | (449)                 |                    | 74,018              |
| Discontinued Operations:                             |               |                   |                       |                    |                     |
| Used in Operating Activities                         |               | (64)              |                       |                    | (64)                |
| Used in Investing Activities                         |               | (1,539)           |                       |                    | (1,539)             |
| Used in financing Activities                         |               | (13)              |                       |                    | (13)                |
| Cash Used in Discontinued Operations                 |               | (1,616)           |                       |                    | (1,616)             |
| Net (decrease) increase in cash and cash equivalents | (1,457)       | 597               | (293)                 |                    | (1,153)             |
| Cash and cash equivalents, beginning of period       | (2,383)       | 10,146            | 815                   |                    | 8,578               |
| Cash and cash equivalents, end of period             | \$ (3,840)    | \$ 10,743         | \$ 522                | \$                 | \$ 7,425            |

Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS****FISCAL YEAR ENDED APRIL 30, 2007****(in thousands)**

|  | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|---------------|-------------------|-----------------------|--------------------|---------------------|
| <b>Net Cash Provided by (Used in)</b>                      |               |                   |                       |                    |                     |
| Operating Activities                                       | \$ (1,906)    | \$ 84,265         | \$ (1,303)            | \$                 | \$ 81,056           |
| Cash Flows from Investing Activities:                      |               |                   |                       |                    |                     |
| Acquisitions, net of cash acquired                         |               | (2,750)           |                       |                    | (2,750)             |
| Additions to property, plant and equipment growth          |               | (36,738)          |                       |                    | (36,738)            |
| maintenance  | (1,106)       | (61,864)          | (1,137)               |                    | (64,107)            |
| Payments on landfill operating lease contracts             |               | (4,995)           |                       |                    | (4,995)             |
| Proceeds from divestitures                                 |               | 7,383             |                       |                    | 7,383               |
| Restricted cash from revenue bond issuance                 | 5,535         |                   |                       |                    | 5,535               |
| Investment in unconsolidated entities                      | (4,378)       |                   |                       |                    | (4,378)             |
| Other  |               | 2,780             |                       |                    | 2,780               |
| <b>Net Cash (Used In) Provided by Investing Activities</b> | <b>51</b>     | <b>(96,184)</b>   | <b>(1,137)</b>        |                    | <b>(97,270)</b>     |
| Cash Flows from Financing Activities:                      |               |                   |                       |                    |                     |
| Proceeds from long-term borrowings                         | 267,137       | 388               |                       |                    | 267,525             |
| Principal payments on long-term debt                       | (243,150)     | (1,600)           |                       |                    | (244,750)           |
| Other  | 1,026         |                   |                       |                    | 1,026               |
| Intercompany borrowings                                    | (21,285)      | 18,049            | 3,236                 |                    |                     |
| <b>Net Cash Provided by (Used in) Financing Activities</b> | <b>3,728</b>  | <b>16,837</b>     | <b>3,236</b>          |                    | <b>23,801</b>       |
| Discontinued Operations:                                   |               |                   |                       |                    |                     |
| Used in Operating Activities                               |               | (667)             |                       |                    | (667)               |
| Used in Investing Activities                               |               | (1,979)           |                       |                    | (1,979)             |
| <b>Cash Used in Discontinued Operations</b>                |               | <b>(2,646)</b>    |                       |                    | <b>(2,646)</b>      |
| Net increase in cash and cash equivalents                  | 1,873         | 2,272             | 796                   |                    | 4,941               |
| Cash and cash equivalents, beginning of period             | (3,840)       | 10,743            | 522                   |                    | 7,425               |
| Cash and cash equivalents, end of period                   | \$ (1,967)    | \$ 13,015         | \$ 1,318              | \$                 | \$ 12,366           |



Table of Contents**CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS****FISCAL YEAR ENDED APRIL 30, 2008****(in thousands)**

|  | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|---------------|-------------------|-----------------------|--------------------|---------------------|
| Net Cash Provided by (Used in)                                 |               |                   |                       |                    |                     |
| Operating Activities   | \$ (10,260)   | \$ 84,149         | \$ (2,074)            | \$                 | \$ 71,815           |
| Cash Flows from Investing                                      |               |                   |                       |                    |                     |
| Activities:  |               |                   |                       |                    |                     |
| Acquisitions, net of cash acquired                             |               | (11,881)          |                       |                    | (11,881)            |
| Additions to property, plant and equipment growth              |               | (18,950)          |                       |                    | (18,950)            |
| maintenance  | (409)         | (53,815)          |                       |                    | (54,224)            |
| Payments on landfill operating lease contracts                 |               | (7,143)           |                       |                    | (7,143)             |
| Proceeds from divestitures                                     |               | 2,373             |                       |                    | 2,373               |
| Investment in unconsolidated entities                          | (156)         |                   |                       |                    | (156)               |
| Other  |               | 4,294             |                       |                    | 4,294               |
| Net Cash Used In by Investing                                  |               |                   |                       |                    |                     |
| Activities   | (565)         | (85,122)          |                       |                    | (85,687)            |
| Cash Flows from Financing                                      |               |                   |                       |                    |                     |
| Activities:  |               |                   |                       |                    |                     |
| Proceeds from long-term borrowings                             | 297,205       | 3,995             |                       |                    | 301,200             |
| Principal payments on long-term debt                           | (222,404)     | (1,288)           |                       |                    | (223,692)           |
| Deferred financing costs                                       | (554)         |                   |                       |                    | (554)               |
| Redemption of Series A redeemable, convertible preferred stock | (75,056)      |                   |                       |                    | (75,056)            |
| Other  | 1,470         |                   |                       |                    | 1,470               |
| Intercompany borrowings  | 13,391        | (14,395)          | 1,004                 |                    |                     |
| Net Cash (Used in) Provided by Financing Activities            | 14,052        | (11,688)          | 1,004                 |                    | 3,368               |
| Cash Provided by Discontinued Operations                       |               | 952               |                       |                    | 952                 |
| Net (decrease) increase in cash and cash equivalents           | 3,227         | (11,709)          | (1,070)               |                    | (9,552)             |
| Cash and cash equivalents, beginning of period                 | (1,967)       | 13,015            | 1,318                 |                    | 12,366              |
| Cash and cash equivalents, end of period                       | \$ 1,260      | \$ 1,306          | \$ 248                | \$                 | \$ 2,814            |

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a)(1) Consolidated Financial Statements included under Item 8.  
Report of Independent Registered Public Accounting Firm.  
Consolidated Balance Sheets as of April 30, 2007 and 2008.  
Consolidated Statements of Operations for the fiscal years ended April 30, 2006, 2007,  
and 2008.  
Consolidated Statements of Stockholders' Equity for the fiscal years ended April 30,  
2006, 2007, and 2008.  
Consolidated Statements of Cash Flows for the fiscal years ended April 30, 2006, 2007,  
and 2008.  
Notes to Consolidated Financial Statements.
- (a)(2) Financial Statement Schedules:  
Schedule II Valuation and Qualifying Accounts.
- (a)(3) Exhibits:  
The Exhibits that are filed as part of this Annual Report on Form 10-K or that are  
incorporated by reference herein are set forth in the Exhibit Index hereto.

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**SIGNATURES**

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

CASELLA WASTE SYSTEMS, INC.

Dated: February 12, 2009

By: */s/ JOHN S. QUINN*

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John S. Quinn  
*Senior Vice President & Chief Financial  
Officer, Treasurer*

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**REPORT OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM ON FINANCIAL STATEMENTS**

**FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and Stockholders of Casella Waste Systems, Inc.:

Our audits of the consolidated financial statements referred to in our report dated June 11, 2008 appearing in this Amendment No. 1 to the Annual Report on Form 10-K/A also included an audit of the financial statement schedule for the years ended April 30, 2008 and 2007 listed in Item 15(a)(2) of this Form 10-K/A. In our opinion, this financial statement schedule for the years ended April 30, 2008 and 2007 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Vitale, Caturano & Co. Ltd.

Boston, Massachusetts  
June 11, 2008

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**FINANCIAL STATEMENT SCHEDULES**

Schedule II  
Valuation Accounts

*Allowance for Doubtful Accounts*  
(in thousands)

|   | <b>Fiscal Year Ended April 30,</b> |             |             |
|---|------------------------------------|-------------|-------------|
|   | <b>2006</b>                        | <b>2007</b> | <b>2008</b> |
| Balance at beginning of period                      | \$ 641                             | \$ 607      | \$ 1,586    |
| Additions Charged to expense                        | 513                                | 2,075       | 812         |
| Deductions Bad debts written off, net of recoveries | (547)                              | (1,096)     | (646)       |
| Balance at end of period                            | \$ 607                             | \$ 1,586    | \$ 1,752    |



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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 23.1 +             | Consent of Vitale Caturano & Company, Ltd.   |
| 23.2 +             | Consent of PricewaterhouseCoopers LLP.   |
| 23.3 +             | Consent of PricewaterhouseCoopers LLP on financial statements of US GreenFiber, LLC.   |
| 31.1 +             | Certification of Principal Executive Officer required by Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 +             | Certification of Principal Financial Officer required by Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 ++            | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                          |
| 99.1 +             | Financial Statements of US GreenFiber, LLC December 31, 2007, 2006 and 2005.   |

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+  
Filed herewith

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Furnished herewith

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