CASELLA WASTE SYSTEMS INC
Form 10-Q
December 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2006

OR

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

For the transition period from to

Commission file number 000-23211

CASELLA WASTE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of November 30, 2006:

Class A Common Stock	24,273,330
Class B Common Stock	988,200

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands)

	April 30, 2006	October 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,429	$ 8,744
Restricted cash	72	73
Accounts receivable - trade, net of allowance for doubtful accounts of $661 and $1,529	56,269	62,227
Notes receivable - officers/employees	87	87
Refundable income taxes		380
Prepaid expenses	5,126	6,396
Inventory	2,975	3,048
Deferred income taxes	5,034	10,580
Other current assets	1,982	2,089
Total current assets	78,974	93,624
Property, plant and equipment, net of accumulated depreciation and amortization of $388,808 and $408,373	481,284	503,452
Goodwill	171,258	171,841
Intangible assets, net	2,762	2,343
Restricted cash	17,887	12,405
Notes receivable - officers/employees	916	916
Investments in unconsolidated entities	44,491	46,110
Net assets under contractual obligation	937	161
Other non-current assets	12,602	12,366
	732,137	749,594
	$ 811,111	$ 843,218

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

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CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

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

	April 30, 2006	October 31, 2006
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 527	$ 1,130
Current maturities of capital lease obligations	1,061	1,085
Accounts payable	46,364	50,653
Accrued payroll and related expenses	6,818	6,640
Accrued interest	6,650	9,146
Accrued income taxes	200	
Current accrued capping, closure and post-closure costs	4,771	3,968
Other accrued liabilities	28,374	25,905
Total current liabilities	94,765	98,527
Long-term debt, less current maturities	452,720	470,418
Capital lease obligations, less current maturities	1,747	1,202
Accrued capping, closure and post-closure costs, less current portion	23,245	23,422
Deferred income taxes	6,957	14,048
Other long-term liabilities	11,757	11,445
COMMITMENTS AND CONTINGENCIES		
Series A redeemable, convertible preferred stock - Authorized - 55,750 shares, issued and outstanding - 53,000 as of April 30, 2006 and October 31, 2006, liquidation preference of $1,000 per share plus accrued but unpaid dividends	70,430	72,202
STOCKHOLDERS EQUITY:		
Class A common stock - Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 24,185,000 and 24,273,000 shares as of April 30, 2006 and October 31, 2006, respectively	242	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 income	159	361
Additional paid-in capital	274,297	274,222
Accumulated deficit	(125,218)	(122,882)
Total stockholders equity	149,490	151,954
	$ 811,111	$ 843,218

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

(Unaudited)

(in thousands)

	Three Months Ended October 31, 2005	2006	Six Months Ended October 31, 2005	2006
Revenues	$ 136,795	$ 147,817	$ 268,795	$ 291,336
Operating expenses:				
Cost of operations	87,985	94,182	173,670	189,917
General and administration	18,132	19,746	35,350	40,924
Depreciation and amortization	16,914	19,292	33,047	37,235
	123,031	133,220	242,067	268,076
Operating income	13,764	14,597	26,728	23,260
Other expense/(income), net:				
Interest income	(184)	(267)	(350)	(597)
Interest expense	8,005	10,079	15,522	19,912
Income from equity method investments	(1,513)	(867)	(1,443)	(990)
Other income	(75)	(248)	(123)	(302)
Other expense, net	6,233	8,697	13,606	18,023
Income before income taxes	7,531	5,900	13,122	5,237
Provision for income taxes	3,374	3,510	5,857	2,901
Net income	4,157	2,390	7,265	2,336
Preferred stock dividend	854	892	1,704	1,772
Net income available to common stockholders	$ 3,303	$ 1,498	$ 5,561	$ 564

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)

(Unaudited)

(in thousands, except for per share data)

	Three Months Ended October 31,		**Six Months Ended October 31,**	
	2005	**2006**	**2005**	**2006**
Earnings Per Share:				
Basic:				
Net income per common share available to common stockholders	$ 0.13	$ 0.06	$ 0.22	$ 0.02
Basic weighted average common shares outstanding	24,925	25,261	24,889	25,249
Diluted:				
Net income per common share available to common stockholders	$ 0.13	$ 0.06	$ 0.22	$ 0.02
Diluted weighted average common shares outstanding	25,358	25,510	25,277	25,667

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended October 31, 2005	**2006**
Cash Flows from Operating Activities:		
Net income	$ 7,265	$ 2,336
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	33,047	37,235
Depletion of landfill operating lease obligations	2,974	3,861
Income from equity method investments	(1,443)	(990)
(Gain) loss on sale of equipment	41	(439)
Stock-based compensation		321
Excess tax benefit on the exercise of stock options		(141)
Deferred income taxes	3,993	1,077
Changes in assets and liabilities, net of effects of acquisitions and divestitures -		
Accounts receivable	(5,735)	(5,781)
Accounts payable	(2,820)	4,289
Other assets and liabilities	(718)	(2,368)
	29,339	37,064
Net Cash Provided by Operating Activities	36,604	39,400
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(15,507)	(1,034)
Additions to property, plant and equipment - growth	(25,878)	(18,220)
- maintenance	(39,021)	(42,035)
Payments on landfill operating lease contracts	(5,869)	(2,033)
Proceeds from sale of equipment	762	752
Restricted cash from revenue bond issuance		5,535
Investment in unconsolidated entities		(670)
Proceeds from assets under contractual obligation	429	776
Net Cash Used In Investing Activities	(85,084)	(56,929)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	111,672	188,900
Principal payments on long-term debt	(64,807)	(171,097)
Proceeds from exercise of stock options	616	900
Excess tax benefit on the exercise of stock options		141
Net Cash Provided by Financing Activities	47,481	18,844
Net increase (decrease) in cash and cash equivalents	(999)	1,315
Cash and cash equivalents, beginning of period	8,578	7,429
Cash and cash equivalents, end of period	$ 7,579	$ 8,744

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 CASH FLOWS (Continued)

(Unaudited)

(In thousands)

	Six Months Ended October 31, 2005	2006
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for -		
Interest	$ 12,823	$ 16,627
Income taxes, net of refunds	$ 1,059	$ 1,592
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Summary of entities acquired in purchase business combinations -		
Fair value of assets acquired	$ 17,482	$ 1,134
Cash paid, net	(15,507)	(1,034)
Liabilities assumed and holdbacks to sellers	$ 1,975	$ 100

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

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CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except for per share data)

1. ORGANIZATION

The consolidated balance sheets of Casella Waste Systems, Inc. (the Parent) and Subsidiaries (collectively, the Company) as of April 30, 2006 and October 31, 2006, the consolidated statements of operations for the three and six months ended October 31, 2005 and 2006 and the consolidated statements of cash flows for the six months ended October 31, 2005 and 2006 are unaudited. In the opinion of management, such financial statements include all adjustments (which include normal recurring and nonrecurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The consolidated financial statements presented herein should be read in conjunction with the Company s audited consolidated financial statements as of and for the twelve months ended April 30, 2006 included as part of the Company s Annual Report on Form 10-K for the year ended April 30, 2006 (the Annual Report). The results for the three and six month periods ended October 31, 2006 may not be indicative of the results that may be expected for the fiscal year ending April 30, 2007.

2. BUSINESS COMBINATIONS

During the six months ended October 31, 2006, the Company acquired eight solid waste hauling operations. These transactions were in exchange for total consideration of $1,134, including $1,034 in cash and $100 in liabilities assumed. During the six months ended October 31, 2005, the Company acquired one recycling operation, seven solid waste hauling operations and recorded additional expenditures for a landfill closure project acquired in the fourth quarter of fiscal year 2005. These transactions were in exchange for total consideration of $17,482 including $15,507 in cash and $1,975 in capital leases, debt and other liabilities assumed. The operating results of these businesses are included in the consolidated statements of operations from the dates of acquisition. The purchase prices have been allocated to the net assets acquired based on their fair values at the dates of acquisition, including the value of non-compete agreements, with the residual amounts allocated to goodwill.

The following unaudited pro forma combined information shows the results of the Company s operations as though each of the acquisitions made in the six months ended October 31, 2005 and 2006 had been completed as of May 1, 2005.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2005	**2006**	**2005**	**2006**
Revenue	$ 138,543	$ 147,911	$ 273,826	$ 291,637
Net income	4,234	2,398	7,482	2,364
Diluted net income per common share	$ 0.17	$ 0.09	$ 0.30	$ 0.09

The foregoing 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 as of May 1, 2005 or the results of future operations of the Company. Furthermore, such 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.

In late September 2005 the Company commenced operations at the Chemung County Landfill, after executing a twenty-five year operation, management and lease agreement with Chemung County, New York.

The Company made initial payments of $4,931 related to this transaction.

3. GOODWILL AND INTANGIBLE ASSETS

The following table shows the activity and balances related to goodwill from April 30, 2006 through October 31, 2006:

	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling	Total
Balance, April 30, 2006	$ 25,327	$ 31,645	$ 31,106	$ 55,696	$ 27,484	$ 171,258
Acquisitions	139		281	159	4	583
Balance, October 31, 2006	$ 25,466	$ 31,645	$ 31,387	$ 55,855	$ 27,488	$ 171,841

Intangible assets at April 30, 2006 and October 31, 2006 consist of the following:

	Covenants not to compete	Licensing Agreements	Total
Balance, April 30, 2006			
Intangible assets	$ 16,654	$ 920	$ 17,574
Less accumulated amortization	(14,771)	(41)	(14,812)
	$ 1,883	$ 879	$ 2,762
Balance, October 31, 2006			
Intangible assets	$ 16,765	$ 920	$ 17,685
Less accumulated amortization	(15,275)	(67)	(15,342)
	$ 1,490	$ 853	$ 2,343

Intangible amortization expense for the three months ended October 31, 2005 and 2006 was $326 and $260, respectively. Intangible amortization expense for the six months ended October 31, 2005 and 2006 was $649 and $538, respectively. The intangible amortization expense estimated as of October 31, 2006, for the five years following fiscal year 2006 is as follows:

2007	2008	2009	2010	2011
$800	$ 563	$ 382	$ 270	$ 179

4. NEW ACCOUNTING STANDARDS

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154) which replaces APB Opinion No. 20, *Accounting Changes* (APB No. 20), and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28*. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. Specifically, this statement requires retrospective application of the direct effect for a voluntary change in accounting principle to prior periods financial statements, if it is practicable to do so. SFAS No. 154 also strictly redefines the term restatement to mean the correction of an error by revising previously issued financial statements. SFAS No. 154 replaces APB No. 20, which required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. The adoption of SFAS No. 154 effective May 1, 2006 had no impact on the Company s financial position or results of operations.

On July 13, 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48.) FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 requires a company to evaluate whether the tax positions taken by a company will more likely than not be sustained upon examination by the appropriate taxing authority. FIN No. 48 also provides guidance on how a company should measure the amount of benefit that the company is to recognize in its financial statements. Under FIN No. 48, a company should also classify a liability for unrecognized tax benefits as current to the extent the company anticipates making a payment within one year. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact this statement will have on its financial position and results of operations.

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. The Company is currently evaluating the impact this statement will have on its financial position and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company is currently evaluating the impact this bulletin will have on its financial position and results of operations.

5. LEGAL PROCEEDINGS

The New Hampshire Superior Court in Grafton County, NH (the Superior Court) ruled on February 1, 1999 that the Town of Bethlehem, NH (the Town) could not enforce an ordinance purportedly prohibiting expansion of the Company s landfill owned by its subsidiary North Country Environmental Services, Inc. (NCES), at least with respect to 51 acres of NCES s 105 acre parcel, based upon certain existing land-use approvals. As a result, NCES was able to construct and operate Stage II, Phase II of the landfill. In May 2001, the New Hampshire Supreme Court (the Supreme Court) denied the Town s appeal. Notwithstanding the Supreme Court s 2001 ruling, the Town continued to assert jurisdiction to conduct unqualified site plan review with respect to Stage III (which is within the 51 acres) and further stated that the Town s height ordinance and building permit process may apply to Stage III. On September 12, 2001, the Company filed a petition for, among other things, declaratory relief. On December 4, 2001, the Town filed an answer to the Company s petition asserting counterclaims seeking, among other things, authorization to assert site plan review over Stage III, which commenced operation in December 2000, as well as the methane gas utilization/leachate handling facility operating in connection with Stage III, and also an order declaring that an ordinance prohibiting landfills applies to Stage IV expansion. The trial on these claims was held in December 2002 and on April 24, 2003, the Grafton Superior Court upheld the Town s 1992 ordinance preventing the location or expansion of any landfill, ruling that the ordinance may be applied to any part of Stage IV that goes beyond the 51 acres; ruling that the Town s height ordinance is valid within the 51 acres;

upholding the Town s right to require Site Plan Review, except that there are certain areas within the Town s Site Plan Review regulation that are preempted; and ruling that the methane gas utilization/leachate handling facility is not subject to the Town s ordinance forbidding incinerators. On May 27, 2003, NCES appealed the Superior Court s ruling to the Supreme Court. On March 1, 2004, the Supreme Court issued an opinion affirming that NCES has all of the local approvals that it needs to operate within the 51 acres and that the Town cannot therefore require site plan review for landfill development within the 51 acres. The Supreme Court s opinion left open for further review the question of whether the Town s 1992 ordinance can prevent expansion of the facility outside the 51 acres, remanding to the Superior Court four issues, including two defenses raised by NCES as grounds for invalidating the 1992 ordinance. On April 19, 2005, the Superior Court judge granted NCES motion for partial summary judgment, ruling that the 1992 ordinance is invalid because it distinguishes between users of land rather than uses of land, and that a state statute preempts the Town s ability to issue a building permit for the methane gas utilization/leachate handling facility to the extent the Town s regulations relate to design, installation, construction, modification or operation. After this ruling, the Town amended its counterclaim to request a declaration that another zoning ordinance it enacted in March of 2005 is lawful and prevents the expansion of the landfill outside of the 51 acres. In the fall of 2005 NCES and the Town engaged in private mediation in an effort to resolve the disputes between them, but the mediation was unsuccessful. NCES filed a motion with the court on December 15, 2005 for partial summary judgment asserting six different arguments challenging the lawfulness of the March 2005 amendment to the zoning ordinance, and the town filed a cross-motion on January 13, 2006 for partial summary judgment on the same issue. On February 13, 2006, NCES filed its objection with the Grafton Superior Court to the Town s cross-motion for summary judgment. In April 2006, the court ruled against NCES on the applicability of all six arguments challenging the lawfulness of the March 2005 ordinance and NCES filed a motion for reconsideration. On May 30, 2006, the judge issued a ruling on the motion for reconsideration, reversing her prior ruling with respect to two of the six arguments she ruled earlier to be invalid, thereby preserving such arguments for trial. Additionally, several issues related to the March 2005 amendment that were not the subject of such motions remain to be decided by a trial, in addition to the issues remanded by the Supreme Court, which include whether the Town can impose site plan review requirements outside the 51 acres, and whether the 1992 ordinance contravenes the general welfare of the community. On June 6, 2006, the Town rejected a settlement proposal from NCES at a special town meeting. A conference was held on June 30, 2006 with the judge to establish a discovery schedule and a trial date has been set for the second quarter of calendar year 2007.

The Company offers no prediction of the outcome of these proceedings. However, there can be no guarantee that the Company will prevail or that any judgments against the Company, if sustained on appeal, will not have a material adverse effect on its business, financial condition or results of operations.

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, it believes are material to its business, financial condition, results of operations or cash flows.

6. ENVIRONMENTAL LIABILITIES

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

7. EARNINGS PER SHARE

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2005	2006	2005	2006
Numerator:				
Net income	$ 4,157	$ 2,390	$ 7,265	$ 2,336
Less: preferred stock dividends	(854)	(892)	(1,704)	(1,772)
Net income available to common stockholders	$ 3,303	$ 1,498	$ 5,561	$ 564
Denominator:				
Number of shares outstanding, end of period:				
Class A common stock	24,014	24,273	24,014	24,273
Class B common stock	988	988	988	988
Effect of weighted average shares outstanding during period	(77)		(113)	(12)
Weighted average number of common shares used in basic EPS	24,925	25,261	24,889	25,249
Impact of potentially dilutive securities:				
Dilutive effect of options and contingent stock	433	249	388	418
Weighted average number of common shares used in diluted EPS	25,358	25,510	25,277	25,667

For the three and six months ended October 31, 2005, 6,438 and 6,814 common stock equivalents related to options and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

For the three and six months ended October 31, 2006, 8,012 and 7,055 common stock equivalents related to options and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

8. LONG TERM DEBT

On July 25, 2006, the Company amended its existing senior credit facility utilizing the accordion feature and borrowed an additional $100,000 in the form of an increase of $10,000 in the revolving facility, under terms consistent with the existing credit facility, and a senior secured term B loan in the principal amount of $90,000. The proceeds from the issuance of the term B loan were utilized to repay outstanding revolver borrowings under the credit facility. The term B loan matures on April 28, 2010 and bears interest at LIBOR plus 2.00%, with annual principal payments of $900 for three years, beginning July 31, 2007, with the remaining principal balance due at maturity. The interest rate drops to LIBOR plus 1.75% after the first six months, as long as the consolidated total funded debt to consolidated EBITDA ratio is below 4.75 times.

9. COMPREHENSIVE INCOME

Comprehensive income is defined as the change in net assets of a business enterprise during a period from transactions generated from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive income included in the accompanying balance sheets consists of changes in the fair value of the Company s interest rate swap and commodity hedge agreements. Also included in accumulated other comprehensive income is the change in fair value of certain securities classified as available for sale as well as the Company s portion of the change in the fair value of commodity hedge agreements of the Company s equity method investment, US GreenFiber, LLC (GreenFiber).

Comprehensive income for the three and six months ended October 31, 2005 and 2006 is as follows:

	Three Months Ended October 31,		**Six Months Ended October 31,**	
	2005	**2006**	**2005**	**2006**
Net income	$ 4,157	$ 2,390	$ 7,265	$ 2,336
Other comprehensive income	34	265	7	202
Comprehensive income	$ 4,191	$ 2,655	$ 7,272	$ 2,538

The components of other comprehensive income for the three and six months ended October 31, 2005 and 2006 are shown as follows:

	Three Months Ended October 31,					
	2005			**2006**		
	Gross	**Tax effect**	**Net of Tax**	**Gross**	**Tax effect**	**Net of Tax**
Changes in fair value of marketable securities during the period	$ (37)	$ (13)	$ (24)	$ 120	$ 42	$ 78
Change in fair value of interest rate swaps and commodity hedges during period	403	164	239	608	246	362
Reclassification to earnings for interest rate swaps and commodity hedge contracts	(213)	(32)	(181)	(295)	(120)	(175)
	$ 153	$ 119	$ 34	$ 433	$ 168	$ 265

	Six Months Ended October 31,					
	2005			**2006**		
	Gross	**Tax effect**	**Net of Tax**	**Gross**	**Tax effect**	**Net of Tax**
Changes in fair value of marketable securities during the period	$ (86)	$ (30)	$ (56)	$ 137	$ 48	$ 89
Change in fair value of interest rate swaps and commodity hedges during period	609	240	369	850	345	505
Reclassification to earnings for interest rate swaps and commodity hedge contracts	(329)	(23)	(306)	(659)	(267)	(392)
	$ 194	$ 187	$ 7	$ 328	$ 126	$ 202

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 was party to twenty-four commodity hedge contracts as of October 31, 2006. These contracts expire between November 2006 and November 2008. The Company has evaluated these hedges and believes that these instruments qualify for hedge accounting pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. As of October 31, 2006 the fair value of these hedges was $112, with the net amount (net of taxes of $45) recorded as an unrealized gain in accumulated other comprehensive income.

The Company is party to three separate interest rate swap agreements with three banks for a notional amount of $75,000, which effectively fix the interest index rate on the entire notional amount at 4.4% from May 4, 2006 through May 5, 2008. 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. As of October 31, 2006, the fair value of these swaps was $678, with the net amount (net of taxes of $274) recorded as an unrealized gain in accumulated other comprehensive income.

On August 1, 2006, the Company entered into three separate interest rate zero-cost collars for a notional amount of $80,000. The collars have an interest index rate cap of 6.00% and an interest index rate floor of approximately 4.48% and will be effective from November 6, 2006 through May 5, 2009. These agreements will be specifically designated to interest payments under the revolving credit facility and will be accounted for as effective cash flow hedges pursuant to SFAS No. 133. As of October 31, 2006, the fair value of these collars was an obligation $240, with the net amount (net of taxes of $97) recorded as an unrealized loss in accumulated other comprehensive income.

11. STOCK-BASED COMPENSATION

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*.

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 options and the Company s employee stock purchase plan were instead disclosed in a footnote to the financial statements.

The Company adopted SFAS No. 123(R) 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 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).

	Three Months Ended October 31, 2005		Six Months Ended October 31, 2005	
Net income available to common stockholders, as reported	$	3,303	$	5,561
Deduct: Total stock-based compensation expense determined under fair value based method, net	465		833	
Net income available to common stockholders, pro forma	$	2,838	$	4,728
Basic income per common share:				
As reported	$	0.13	$	0.22
Pro forma	$	0.11	$	0.19
Diluted income per common share:				
As reported	$	0.13	$	0.22
Pro forma	$	0.11	$	0.19

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 fiscal year 2006.

Stock-based compensation expense recognized during the three and six months ended October 31, 2006 totaled approximately $187 and $321, respectively, or approximately a $0.01 per share decrease to basic and diluted net income per common share for both periods. Of these amounts, expense recorded with respect to stock options was $160 and $270 for the three and six months ended October 31, 2006, respectively, and expense recorded with respect to the Company s employee stock purchase plan was $27 and $51 for the three and six months ended October 31, 2006, respectively. This expense is included in General and Administration expenses in the Consolidated Statements of Operations. The total compensation cost at October 31, 2006 related to unvested stock options was $2,250 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 3.5 years.

The total tax benefit related to the exercise of stock options was approximately $0 and $141 during the three and six months ended October 31, 2006, 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 reflected in its financial statements as a financing cash flow.

The Company s calculations of stock-based compensation expense for the three and six months ended October 31, 2005 and 2006 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 three and six months ended October 31, 2005 and 2006, as follows:

	Three Months Ended October 31,		**Six Months Ended October 31,**	
	2005	**2006**	**2005**	**2006**
Stock Options:				
Expected life	5 years	5 years	5 years	6 years
Risk-free interest rate	4.20%	4.71%	3.81%	5.10%
Expected volatility	40.35%	31.02%	40.35%	31.02%
Stock Purchase Plan:				
Expected life	0.5 years	0.5 years	0.5 years	0.5 years
Risk-free interest rate	3.84%	5.31%	3.81%	5.03%
Expected volatility	40.35%	33.50%	40.35%	32.57%

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. Expected volatility is calculated using the average of weekly historical volatility over the last one, three and six years. One and three year historical volatility is based on the weekly price changes of the Company s Class A Common Stock. The six year historical volatility is based on peer group volatility and the weekly price changes of the common stock of various other publicly traded solid waste companies.

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.

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. As of October 31, 2006, 397 shares of Class A Common Stock were available for distribution under this plan.

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, 2006, a total of 167 options to purchase Class A Common Stock were outstanding at a weighted average exercise price of $14.30. As of October 31, 2006, a total of 166 options to purchase Class A common Stock were outstanding at an average exercise price of $14.32. No further options may be granted under this plan.

On July 31, 1997, the Company adopted a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. The Board of Directors has the authority to select the optionees and determine the terms of the options granted. The 1997 Stock Option Plan (the 1997 Plan) provides for the issuance of up to 5,328 shares of Class A Common Stock pursuant to the grant of either incentive stock options or non-statutory options, which includes all authorized, but unissued options under previous plans. As of April 30, 2006, options to purchase 3,056 shares of Class A Common Stock at an average exercise price of $13.12 were outstanding under the 1997 Plan. As of October 31, 2006, options to purchase 3,417 shares of Class A Common Stock at a weighted average exercise price of $13.18 were outstanding under the 1997 Plan. As of October 31, 2006, 438 options were available for future grant under the 1997 Plan.

Additionally, options outstanding under the assumed KTI Stock Option Plan totaled 20 and 12 at April 30, 2006 and October 31, 2006, respectively, at weighted average exercise prices of $18.62 and $22.54, respectively. 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 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) provides 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, 2006 and October 31, 2006, 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, 2006 and October 31, 2006, 9 options were available for future grant under the Non-Employee Director Plan.

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.

The 2006 Plan is intended to replace the 1997 Plan, which expires by its terms on July 31, 2007 and the Non-Employee Director Plan. Upon the expiration of the 1997 Plan on July 31, 2007, all then outstanding options will remain in effect, but no additional option grants may be made under the 1997 Plan. As of October 31, 2006, 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 and 1,230 options 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.

A summary of options outstanding as of April 30, 2006, and changes during the six months ended October 31, 2006, is presented below:

	Unvested Shares	**Vested Shares**	**Total Shares**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value of Vested Options**	**Weighted Average Remaining Term (Years)**
Outstanding, April 30, 2006		3,431	3,431	$ 13.14	$ 11,206	5.2
Granted	488	10	498	12.91		
Forfeited	(3)	(25)	(28)	13.99		
Exercised		(72)	(72)	10.18		
Outstanding, October 31, 2006	485	3,344	3,829	13.16	2,435	5.4
Exercisable, October 31, 2006		3,344	3,344	$ 13.21	$ 2,384	4.7

The weighted average grant date fair value per share for the stock options granted during the three and six months ended October 31, 2005 and 2006 was $5.24, $3.82, $4.96 and $5.23, respectively. The total intrinsic value of stock options exercised during the three and six month periods ended October 31, 2006 was $0 and $371, respectively. The total fair value of the 0 and 10 stock options vested during the three and six month period ended October 31, 2006 was $0 and $64, respectively.

12. 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, South Eastern, Central, Western and FCR Recycling. The Company s revenues in the North Eastern, South Eastern, Central and Western 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, metals, aluminum, plastics and glass. Included in Other are ancillary operations, mainly major customer accounts as well as Parent assets.

Three Months Ended October 31, 2005	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 28,065	$ 23,925	$ 31,239	$ 26,817	$ 22,138
Depreciation and amortization	4,687	3,206	4,068	3,369	1,126
Operating income	2,700	466	5,201	3,126	2,835
Total assets	$ 180,783	$ 142,616	$ 134,196	$ 161,060	$ 86,501

Three Months Ended October 31, 2005	Other	Total
Outside revenues	$ 4,611	$ 136,795
Depreciation and amortization	458	16,914
Operating income	(564)	13,764
Total assets	$ 64,650	$ 769,806

Three Months Ended October 31, 2006	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 31,534	$ 23,415	$ 33,613	$ 28,323	$ 24,869
Depreciation and amortization	4,647	3,663	5,025	4,032	1,389
Operating income	3,640	69	4,695	3,089	3,721
Total assets	$ 189,272	$ 154,818	$ 152,102	$ 168,746	$ 91,916

Three Months Ended October 31, 2006	Other	Total
Outside revenues	$ 6,063	$ 147,817
Depreciation and amortization	536	19,292
Operating income	(617)	14,597
Total assets	$ 86,364	$ 843,218

	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Six Months Ended October 31, 2005					
Outside revenues	$ 55,661	$ 48,322	$ 60,750	$ 52,339	$ 42,637
Depreciation and amortization	9,427	6,116	7,813	6,586	2,215
Operating income	4,443	988	9,884	6,513	5,858
Total assets	$ 180,783	$ 142,616	$ 134,196	$ 161,060	$ 86,501

	Other	Total
Six Months Ended October 31, 2005		
Outside revenues	$ 9,086	$ 268,795
Depreciation and amortization	890	33,047
Operating income	(958)	26,728
Total assets	$ 64,650	$ 769,806

	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Six Months Ended October 31, 2006					
Outside revenues	$ 61,043	$ 44,469	$ 68,256	$ 57,426	$ 48,185
Depreciation and amortization	9,443	5,592	10,345	8,028	2,801
Operating income	4,807	(1,065)	8,570	5,978	6,294
Total assets	$ 189,272	$ 154,818	$ 152,102	$ 168,746	$ 91,916

	Other	Total
Six Months Ended October 31, 2006		
Outside revenues	$ 11,957	$ 291,336
Depreciation and amortization	1,026	37,235
Operating income	(1,324)	23,260
Total assets	$ 86,364	$ 843,218

Amounts of the Company s total revenue attributable to services provided are as follows:

	Three Months Ended October 31, 2005	2006	Six Months Ended October 31, 2005	2006
Collection	$ 66,152	$ 68,774	$ 131,419	$ 137,270
Landfill/disposal facilities	26,498	30,031	49,761	58,407
Transfer	11,913	11,636	23,562	23,946
Recycling	32,232	37,376	64,053	71,713
Total revenues	$ 136,795	$ 147,817	$ 268,795	$ 291,336

13. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The Company entered into an agreement in July 2000 with Louisiana-Pacific Corporation to combine their respective cellulose insulation businesses into a single operating entity, GreenFiber, under a joint venture agreement effective August 1, 2000. The Company s investment in GreenFiber amounted to $30,899 and $32,249 at April 30, 2006 and October 31, 2006, respectively. The Company accounts for its 50% ownership in GreenFiber under the equity method of accounting.

Summarized financial information for GreenFiber is as follows:

	April 30, 2006	October 31, 2006
Current assets	$ 29,975	$ 27,644
Noncurrent assets	68,669	74,377
Current liabilities	23,551	22,324
Noncurrent liabilities	$ 13,295	$ 15,197

	Three Months Ended October 31,		Six Months Ended October 31,	
	2005	2006	2005	2006
Revenue	$ 42,934	$ 52,094	$ 74,538	$ 96,490
Gross profit	9,919	12,594	16,159	23,590
Net income	$ 3,026	$ 2,370	$ 2,886	$ 2,784

The Company purchased membership interests, representing a 24.1% interest, in RecycleBank LLC (RecycleBank), a company which markets an incentive-based recycling service that gives homeowners credits for recycling which can be used with participating merchants. This investment is accounted for as an equity method investment.

14. NET ASSETS UNDER CONTRACTUAL OBLIGATION

Effective June 30, 2003, the Company transferred its domestic brokerage operations, as well as a commercial recycling business to former employees who had been responsible for managing those businesses.

Consideration for the transaction was in the form of two notes receivable amounting up to $6,925. These notes are payable within twelve years of the anniversary date of the transaction, to the extent of free cash flow generated from the operations.

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

The Company has not accounted for these transactions as sales based on an assessment that the risks and other incidents of ownership have not sufficiently transferred to the buyers. The net assets of the operations are disclosed in the balance sheet as net assets under contractual obligation , and are being reduced as payments are made.

Net assets under contractual obligation amounted to $937 and $161 at April 30, 2006 and October 31, 2006, respectively.

15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company s senior subordinated notes due 2013 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, 2006 and October 31, 2006, and the condensed consolidating results of operations for the three and six months ended October 31, 2005 and 2006 and the condensed consolidating statements of cash flows for the six months ended October 31, 2005 and 2006 of (a) the Parent company only, (b) the combined guarantors (the Guarantors), each of which is 100% wholly-owned by the Parent, (c) the combined non-guarantors (the Non-Guarantors), (d) eliminating entries and (e) the Company on a consolidated basis.

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF APRIL 30, 2006

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (3,840)	$ 10,747	$ 522	$	$ 7,429
Accounts receivable - trade, net of allowance for doubtful accounts	35	55,641	620	(27)	56,269
Deferred taxes	4,029		1,005		5,034
Other current assets	2,456	7,863		(77)	10,242
Total current assets	2,680	74,251	2,147	(104)	78,974
Property, plant and equipment, net of accumulated depreciation and amortization	3,252	478,725	(693)		481,284
Goodwill		171,258			171,258
Restricted cash	5,469	3	12,415		17,887
Investment in subsidiaries	1,189			(1,189)	
Assets under contractual obligation		937			937
Other non-current assets	27,467	37,563	120	(4,379)	60,771
	37,377	688,486	11,842	(5,568)	732,137
Intercompany receivable	656,623	(657,153)	(3,849)	4,379	
	$ 696,680	$ 105,584	$ 10,140	$ (1,293)	$ 811,111

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Current maturities of long term debt	$	$ 527	$	$	$ 527
Current maturities of capital lease obligations	121	940			1,061
Accounts payable	2,227	43,996	245	(104)	46,364
Accrued payroll and related expenses	1,413	5,376	29		6,818
Accrued interest	6,648	2			6,650
Accrued income taxes	200				200
Other current liabilities	5,688	13,612	13,845		33,145
Total current liabilities	16,297	64,453	14,119	(104)	94,765
Long-term debt, less current maturities	451,824	896			452,720
Deferred income taxes	6,957				6,957
Other long-term liabilities	1,682	33,372	1,695		36,749
COMMITMENTS AND CONTINGENCIES					
Series A redeemable, convertible preferred stock, authorized - 55,750, issued and outstanding - 53,000, liquidation preference of $1,000 per share plus accrued but unpaid dividends	70,430				70,430
STOCKHOLDERS EQUITY:					
Class A common stock -					
	242	101	100	(201)	242

Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 24,185,000 shares					
Class B common stock					
Authorized - 1,000,000 shares, $0.01 par value, 10 votes per share, issued and outstanding - 988,000 shares	10				10
Accumulated other comprehensive income	159	91	(122)	31	159
Additional paid-in capital	274,297	48,360	2,743	(51,103)	274,297
Accumulated deficit	(125,218)	(41,689)	(8,395)	50,084	(125,218)
Total stockholders equity	149,490	6,863	(5,674)	(1,189)	149,490
	$ 696,680	$ 105,584	$ 10,140	$ (1,293)	$ 811,111

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CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF OCTOBER 31, 2006

(Unaudited)

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (2,280)	$ 10,413	$ 611	$	$ 8,744
Accounts receivable - trade, net of allowance for doubtful accounts	37	62,058	159	(27)	62,227
Refundable income taxes	380				380
Prepaid expenses	977	5,419			6,396
Deferred taxes	9,623		957		10,580
Other current assets	1,264	4,033			5,297
Total current assets	10,001	81,923	1,727	(27)	93,624
Property, plant and equipment, net of accumulated depreciation and amortization	3,222	500,968	(738)		503,452
Goodwill		171,841			171,841
Restricted cash	(4)	3	12,406		12,405
Investment in subsidiaries	12,401			(12,401)	
Assets under contractual obligation		161			161
Other non-current assets	27,229	38,765	120	(4,379)	61,735
	42,848	711,738	11,788	(16,780)	749,594
Intercompany receivable	674,744	(673,737)	(5,386)	4,379	
	$ 727,593	$ 119,924	$ 8,129	$ (12,428)	$ 843,218

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Current maturities of long term debt	$ 900	$ 230	$	$	$ 1,130
Accounts payable	1,661	48,680	339	(27)	50,653
Accrued interest	9,144	2			9,146
Accrued closure and post-closure costs, current portion		3,419	549		3,968
Other current liabilities	6,238	17,761	9,631		33,630
Total current liabilities	17,943	70,092	10,519	(27)	98,527
Long-term debt, less current maturities	469,826	592			470,418
Capital lease obligations, less current maturities	64	1,138			1,202
Deferred income taxes	14,048				14,048
Other long-term liabilities	1,556	31,158	2,153		34,867
COMMITMENTS AND CONTINGENCIES					
Series A redeemable, convertible preferred stock, authorized - 55,750, issued and outstanding - 53,000, liquidation preference of $1,000 per share plus accrued but unpaid dividends	72,202				72,202

STOCKHOLDERS EQUITY:					
Class A common stock -					
Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 24,273,000 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 income	361	67	(33)	(34)	361
Additional paid-in capital	274,222	47,001	3,516	(50,517)	274,222
Accumulated deficit	(122,882)	(30,225)	(8,126)	38,351	(122,882)
Total stockholders equity	151,954	16,944	(4,543)	(12,401)	151,954
	$ 727,593	$ 119,924	$ 8,129	$ (12,428)	$ 843,218

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

THREE MONTHS ENDED OCTOBER 31, 2005

(Unaudited)

(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Revenues	$	$ 135,971	$ 3,093	$ (2,269)	$ 136,795
Operating expenses:					
Cost of operations	3	87,718	2,533	(2,269)	87,985
General and administration	(18)	17,988	162		18,132
Depreciation and amortization	396	16,416	102		16,914
	381	122,122	2,797	(2,269)	123,031
Operating income (loss)	(381)	13,849	296		13,764
Other expense/(income), net:					
Interest income	(7,392)	(63)	(114)	7,385	(184)
Interest expense	8,665	6,714	11	(7,385)	8,005
(Income) loss from equity method investments	(9,146)	(1,513)		9,146	(1,513)
Other income	(28)	(47)			(75)
Other expense/(income), net	(7,901)	5,091	(103)	9,146	6,233
Income (loss) before income taxes	7,520	8,758	399	(9,146)	7,531
Provision for income taxes	3,363		11		3,374
Net income (loss)	4,157	8,758	388	(9,146)	4,157
Preferred stock dividend	854				854
Net income (loss) available to common stockholders	$ 3,303	$ 8,758	$ 388	$ (9,146)	$ 3,303

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED OCTOBER 31, 2006

(Unaudited)

(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Revenues	$	$ 145,747	$ 3,997	$ (1,927)	$ 147,817
Operating expenses:					
Cost of operations	7	93,872	2,230	(1,927)	94,182
General and administration	(29)	19,524	251		19,746

Depreciation and amortization	471	17,898	923		19,292
	449	131,294	3,404	(1,927)	133,220
Operating income (loss)	(449)	14,453	593		14,597
Other expense/(income), net:					
Interest income	(9,239)	(107)	(136)	9,215	(267)
Interest expense	10,766	8,484	44	(9,215)	10,079
(Income) loss from equity method investments	(7,658)	(1,132)		7,923	(867)
Other income	(215)	(33)			(248)
Other expense/(income), net	(6,346)	7,212	(92)	7,923	8,697
Income (loss) before income taxes	5,897	7,241	685	(7,923)	5,900
Provision for income taxes	3,507		3		3,510
Net income (loss)	2,390	7,241	682	(7,923)	2,390
Preferred stock dividend	892				892
Net income (loss) available to common stockholders	$ 1,498	$ 7,241	$ 682	$ (7,923)	$ 1,498

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

SIX MONTHS ENDED OCTOBER 31, 2005

(Unaudited)

(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Revenues	$	$ 267,083	$ 6,166	$ (4,454)	$ 268,795
Operating expenses:					
Cost of operations	6	173,013	5,105	(4,454)	173,670
General and administration	(102)	35,039	413		35,350
Depreciation and amortization	766	32,059	222		33,047
	670	240,111	5,740	(4,454)	242,067
Operating income (loss)	(670)	26,972	426		26,728
Other expense/(income), net:					
Interest income	(15,003)	(123)	(219)	14,995	(350)
Interest expense	16,595	13,887	35	(14,995)	15,522
(Income) loss from equity method investments	(15,323)	(1,443)		15,323	(1,443)
Other income	(43)	(80)			(123)
Other expense/(income), net	(13,774)	12,241	(184)	15,323	13,606
Income (loss) before income taxes	13,104	14,731	610	(15,323)	13,122
Provision for income taxes	5,839		18		5,857
Net income (loss)	7,265	14,731	592	(15,323)	7,265
Preferred stock dividend	1,704				1,704
Net income (loss) available to common stockholders	$ 5,561	$ 14,731	$ 592	$ (15,323)	$ 5,561

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

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SIX MONTHS ENDED OCTOBER 31, 2006

(Unaudited)

(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Revenues	$	$ 289,257	$ 5,933	$ (3,854)	$ 291,336
Operating expenses:					
Cost of operations	13	189,302	4,456	(3,854)	189,917
General and administration	141	40,390	393		40,924
Depreciation and amortization	896	35,415	924		37,235
	1,050	265,107	5,773	(3,854)	268,076
Operating income (loss)	(1,050)	24,150	160		23,260

Other expense/(income), net:					
Interest income	(18,222)	(230)	(276)	18,131	(597)
Interest expense	21,158	16,821	64	(18,131)	19,912
(Income) loss from equity method investments	(8,975)	(1,390)		9,375	(990)
Other income	(235)	(67)			(302)
Other expense/(income), net	(6,274)	15,134	(212)	9,375	18,023
Income (loss) before income taxes	5,224	9,016	372	(9,375)	5,237
Provision for income taxes	2,888		13		2,901
Net income (loss)	2,336	9,016	359	(9,375)	2,336
Preferred stock dividend	1,772				1,772
Net income (loss) available to common stockholders	$ 564	$ 9,016	$ 359	$ (9,375)	$ 564

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED OCTOBER 31, 2005

(Unaudited)

(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	$ (208)	$ 35,362	$ 1,450	$	$ 36,604
Cash Flows from Investing Activities:					
Acquisitions, net of cash acquired		(15,507)			(15,507)
Additions to property, plant and equipment growth		(25,878)			(25,878)
maintenance	(528)	(38,097)	(396)		(39,021)
Payments on landfill operating lease contracts		(5,869)			(5,869)
Other		1,191			1,191
Net Cash Used In Investing Activities	(528)	(84,160)	(396)		(85,084)
Cash Flows from Financing Activities:					
Proceeds from long-term borrowings	111,672				111,672
Principal payments on long-term debt	(64,258)	(549)			(64,807)
Proceeds from exercise of stock options	616				616
Intercompany borrowings	(48,263)	49,331	(1,068)		
Net Cash Provided by (Used in) Financing Activities	(233)	48,782	(1,068)		47,481
Net decrease in cash and cash equivalents	(969)	(16)	(14)		(999)
Cash and cash equivalents, beginning of period	(2,383)	10,146	815		8,578
Cash and cash equivalents, end of period	$ (3,352)	$ 10,130	$ 801	$	$ 7,579

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED OCTOBER 31, 2006
(Unaudited)
(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	$ 2,224	$ 38,428	$ (1,252)	$	$ 39,400
Cash Flows from Investing Activities:					
Acquisitions, net of cash acquired		(1,034)			(1,034)
Additions to property, plant and equipment growth		(18,220)			(18,220)
maintenance	(864)	(40,296)	(875)		(42,035)
Payments on landfill operating lease contracts		(2,033)			(2,033)
Restricted cash from revenue bond issuance	5,535				5,535
Other	(670)	1,528			858
Net Cash (Used In) Provided by Investing Activities	4,001	(60,055)	(875)		(56,929)
Cash Flows from Financing Activities:					
Proceeds from long-term borrowings	188,900				188,900
Principal payments on long-term debt	(170,059)	(1,038)			(171,097)
Other	1,041				1,041
Intercompany borrowings	(24,547)	22,331	2,216		
Net Cash Provided by (Used in) Financing Activities	(4,665)	21,293	2,216		18,844
Net increase (decrease) in cash and cash equivalents	1,560	(334)	89		1,315
Cash and cash equivalents, beginning of period	(3,840)	10,747	522		7,429
Cash and cash equivalents, end of period	$ (2,280)	$ 10,413	$ 611	$	$ 8,744

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

The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto included under Item 1. In addition, reference should be made to the Company s audited Consolidated Financial Statements and Notes thereto and related Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in the Company s Form 10-K for the year ended April 30, 2006.

Company Overview

Casella Waste Systems, Inc., together with its subsidiaries, is a vertically integrated regional solid waste services company that provides collection, transfer, disposal and recycling services to residential, industrial and commercial customers, primarily throughout the eastern region of the United States. As of November 30, 2006, the Company owned and/or operated nine Subtitle D landfills, two landfills permitted to accept construction and demolition materials, 39 solid waste collection operations, 33 transfer stations, 39 recycling facilities and one waste-to-energy facility, as well as a 50% interest in a joint venture that manufactures, markets and sells cellulose insulation made from recycled fiber and a 24.1% interest in a company that markets an incentive based recycling service.

The Company s revenues increased from $136.8 million for the quarter ended October 31, 2005 to $147.8 million for the quarter ended October 31, 2006. From May 1, 2002 through April 30, 2006, the Company acquired 29 solid waste collection, transfer, disposal and recycling operations. Between May 1, 2006 and October 31, 2006 the Company acquired eight solid waste hauling operations. Under the rules of purchase accounting, the acquired companies revenues and results of operations have been included from the date of acquisition and affect the period-to-period comparisons of the Company s historical results of operations.

Forward Looking Statements

This Quarterly Report on Form 10-Q and, in particular, this management discussion and analysis contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Exchange Act of 1934, as amended (the Exchange Act), including statements regarding:

- expected future revenues, operations, expenditures and cash needs;
- fluctuations in the commodity pricing of the Company s recyclables, increases in landfill tipping fees and fuel costs, and general economic and weather conditions;
- projected future obligations related to capping, closure and post-closure costs of the Company s existing landfills and any disposal facilities which the Company may own or operate in the future;
- the projected development of additional disposal capacity;
- estimates of the potential markets for the Company s products and services, including the anticipated drivers for future growth;
- sales and marketing plans;
- potential business combinations; and

- projected improvements to the Company s infrastructure and impact of such improvements on the Company s business and operations.

In addition, any statements contained in or incorporated by reference into this report that are not statements of historical fact should be considered forward-looking statements. You can identify these forward-looking statements by the use of the words believes , expects , anticipates , plans , may , will , would , intends , estimates and other similar expressions, whether in the negative or affirmative. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which the Company operates as well as management s beliefs and assumptions, and should be read in conjunction with the Company s consolidated financial statements and notes to consolidated financial statements included in this report. The Company cannot guarantee that the Company actually will achieve the plans, intentions or expectations disclosed in the forward-looking statements made. There are a number of important risks and uncertainties that could cause the Company s actual results to differ materially from those indicated by such forward-looking statements. These risks and uncertainties include, without limitation, those detailed in Item 1A, Risk Factors in the Company s Form 10-K for the year ended April 30, 2006. The Company does not intend to update publicly any forward-looking statements whether as a result of new information, future events or otherwise, except as otherwise required by law.

General

Revenues

The Company s revenues in the North Eastern, South Eastern, Central and Western regions are attributable primarily to fees charged to customers for solid waste disposal and collection, landfill, waste-to-energy, transfer and recycling services. The Company derives a substantial portion of its collection revenues from commercial, industrial and municipal services that are generally performed under service agreements or pursuant to contracts with municipalities. The majority of the Company s residential collection services are performed on a subscription basis with individual households. Landfill, waste-to-energy facility and transfer customers are charged a tipping fee on a per ton basis for disposing of their solid waste at the Company s disposal facilities and transfer stations. The majority of the Company s disposal and transfer customers are under one to ten year disposal contracts, with most having clauses for annual cost of living increases. Recycling revenues, which are included in FCR and the Central and Western regions, consist of revenues from the sale of recyclable commodities and operations and maintenance contracts of recycling facilities for municipal customers.

In the Other segment, the Company has ancillary revenues comprising major customer accounts and earnings from equity method investees. The Company s cellulose insulation business is conducted through a 50/50 joint venture with Louisiana-Pacific, US GreenFiber LLC (GreenFiber). The Company purchased membership interests, representing a 24.1% interest, in RecycleBank LLC (RecycleBank), a company which markets an incentive-based recycling service that gives homeowners credits for recycling which can be used with participating merchants.

The Company s revenues are shown net of inter-company eliminations. The Company typically establishes its inter-company transfer pricing based upon prevailing market rates. The table below shows, for the periods indicated, the percentages and dollars of revenue attributable to services provided. Despite an increase in the absolute dollar amounts, collection revenues as a percentage of total revenues in the quarter and six months ended October 31, 2006 were lower compared to the prior year, mainly because of the increase in landfill and recycling revenue. Overall, collection revenue was higher in the three and six months ended October 31, 2006 compared to the prior year due to the positive impact of acquisitions in the North Eastern, Central and Western regions and price increases throughout the solid waste segment. These increases were partially offset by lower collection volumes with the most significant impact coming from the South Eastern region, which declined primarily due to slower construction activity. Landfill/disposal revenues as a percentage of total revenues increased year over year primarily due to the addition of the Chemung landfill in the Western region and the Colebrook closure project in the Central region. Landfill prices increased in the quarter; however, they were largely offset by lower volumes. The increase in recycling revenue dollars in the quarter and for the six months ended October 31, 2006 is primarily attributable to higher volumes and commodity prices from the Company s existing facilities, as well as the acquisition of Blue Mountain Recycling in the FCR region.

	Three Months Ended October 31,				**Six Months Ended October 31,**			
	2005		**2006**		**2005**		**2006**	
Collection	$ 66,152	48.4%	$ 68,774	46.5%	$ 131,419	48.9%	$ 137,270	47.1%
Landfill/disposal facilities	26,498	19.4%	30,031	20.3%	49,761	18.5%	58,407	20.0%
Transfer	11,913	8.7%	11,636	7.9%	23,562	8.8%	23,946	8.3%
Recycling	32,232	23.5%	37,376	25.3%	64,053	23.8%	71,713	24.6%
Total revenues	$ 136,795	100.0%	$ 147,817	100.0%	$ 268,795	100.0%	$ 291,336	100.0%

Operating Expenses

Cost of operations includes labor, tipping fees paid to third-party disposal facilities, fuel, maintenance and repair of vehicles and equipment, worker s compensation and vehicle insurance, the cost of purchasing materials to be recycled, third party transportation expense, district and state taxes, host community fees and royalties. Cost of operations also includes accretion expense related to landfill capping, closure and post closure, leachate treatment and disposal costs and depletion of landfill operating lease obligations.

General and administration expenses include management, clerical and administrative compensation and overhead, professional services and costs associated with marketing, sales force and community relations efforts.

Depreciation and amortization expense includes depreciation of fixed assets over the estimated useful life of the assets using the straight-line method, amortization of landfill airspace assets under the units-of-consumption method, and the amortization of intangible assets (other than goodwill) using the straight-line method. In accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations,* except for accretion expense, the Company amortizes landfill retirement assets through a charge to cost of operations using a straight-line rate per ton as landfill airspace is utilized. The amount of landfill amortization expense related to airspace consumption can vary materially from landfill to landfill depending upon the purchase price and landfill site and cell development costs. The Company depreciates all fixed and intangible assets, other than goodwill, to a zero net book value, and does not apply a salvage value to any fixed assets.

The Company capitalizes certain direct landfill development costs, such as engineering, permitting, legal, construction and other costs associated directly with the expansion of existing landfills. Additionally, the Company also capitalizes certain third party expenditures related to pending acquisitions, such as legal and engineering costs. The Company routinely evaluates all such capitalized costs, and expenses those costs related to projects not likely to be successful. Internal and indirect landfill development and acquisition costs, such as executive and corporate overhead, public relations and other corporate services, are expensed as incurred.

The Company will have material financial obligations relating to capping, closure and post-closure costs of its existing landfills and any disposal facilities which it may own or operate in the future. The Company has provided, and will in the future provide, accruals for these future financial obligations based on engineering estimates of consumption of permitted landfill airspace over the useful life of any such landfill. There can be no assurance that the Company s financial obligations for capping, closure or post-closure costs will not exceed the amount accrued and reserved or amounts otherwise receivable pursuant to trust funds.

Results of Operations

The following table sets forth for the periods indicated the percentage relationship that certain items from the Company s consolidated financial statements bear in relation to revenues.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2005	2006	2005	2006
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of operations	64.3	63.7	64.6	65.2
General and administration	13.2	13.4	13.2	14.0
Depreciation and amortization	12.4			