CASELLA WASTE SYSTEMS INC
Form 10-Q
November 04, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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	03-0338873
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
25 Greens Hill Lane, Rutland, Vermont	05701
(Address of principal executive offices)	(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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ¨	Accelerated filer ý		
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 ý
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of October 31, 2016:
Class A common stock, $0.01 par value per share: 40,500,202
Class B common stock, $0.01 par value per share: 988,200

PART I.
ITEM 1. FINANCIAL STATEMENTS
CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,561	$ 2,312
Accounts receivable - trade, net of allowance for doubtful accounts of $1,081 and $988, respectively	63,355	60,167
Refundable income taxes	716	651
Prepaid expenses	9,186	7,670
Inventory	4,894	4,282
Other current assets	1,372	1,586
Total current assets	83,084	76,668
Property, plant and equipment, net of accumulated depreciation and amortization of $823,284 and $789,766, respectively	397,491	402,252
Goodwill	119,899	118,976
Intangible assets, net	8,232	9,252
Restricted assets	931	2,251
Cost method investments	12,333	12,333
Other non-current assets	13,285	11,937
Total assets	$ 635,255	$ 633,669

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
(in thousands, except for share and per share data)

	September 30, 2016 (Unaudited)	December 31, 2015
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital leases	$ 1,562	$ 1,448
Accounts payable	47,297	44,921
Accrued payroll and related expenses	9,399	8,175
Accrued interest	5,153	12,305
Current accrued capping, closure and post-closure costs	612	732
Other accrued liabilities	16,830	17,765
Total current liabilities	80,853	85,346
Long-term debt and capital leases, less current portion	499,039	505,985
Accrued capping, closure and post-closure costs, less current portion	44,288	40,309
Deferred income taxes	6,123	5,595
Other long-term liabilities	18,859	18,031
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Casella Waste Systems, Inc. stockholders' deficit		
Class A common stock, $0.01 par value per share; 100,000,000 shares authorized; 40,500,000 and 40,064,000 shares issued and outstanding, respectively	405	401
Class B common stock, $0.01 par value per share; 1,000,000 shares authorized; 988,000 shares issued and outstanding; 10 votes per share, respectively	10	10
Additional paid-in capital	347,079	344,518
Accumulated deficit	(361,334)	(366,459)
Accumulated other comprehensive (loss) income	(43)	7
Total Casella Waste Systems, Inc. stockholders' deficit	(13,883)	(21,523)
Noncontrolling interests	(24)	(74)
Total stockholders' deficit	(13,907)	(21,597)
Total liabilities and stockholders' deficit	$ 635,255	$ 633,669

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, except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	$151,133	$146,185	$421,236	$406,476
Operating expenses:				
Cost of operations	98,803	99,656	284,409	286,225
General and administration	18,777	17,448	55,450	52,324
Depreciation and amortization	16,175	16,385	46,430	46,374
Divestiture transactions	—	—	—	(5,611)
	133,755	133,489	386,289	379,312
Operating income	17,378	12,696	34,947	27,164
Other expense (income):				
Interest income	(64)	(56)	(229)	(267)
Interest expense	9,643	10,087	29,677	30,363
Loss on debt extinguishment	191	345	736	866
Loss on derivative instruments	—	41	—	239
Other income	(192)	(178)	(697)	(387)
Other expense, net	9,578	10,239	29,487	30,814
Income (loss) before income taxes	7,800	2,457	5,460	(3,650)
Provision for income taxes	263	198	344	1,112
Net income (loss)	7,537	2,259	5,116	(4,762)
Less: Net income (loss) attributable to noncontrolling interests	—	(37)	(9)	1,189
Net income (loss) attributable to common stockholders	$7,537	$2,296	$5,125	$(5,951)
Basic earnings per share attributable to common stockholders:				
Weighted average common shares outstanding	41,377	40,810	41,169	40,560
Basic earnings per share	$0.18	$0.06	$0.12	$(0.15)
Diluted earnings per share attributable to common stockholders:				
Weighted average common shares outstanding	42,287	41,283	41,896	40,560
Diluted earnings per share	$0.18	$0.06	$0.12	$(0.15)

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$7,537	$2,259	$5,116	$(4,762)
Other comprehensive income (loss), net of tax:				
Unrealized loss resulting from changes in fair value of marketable securities	(10)	(44)	(50)	(75)
Other comprehensive loss, net of tax	(10)	(44)	(50)	(75)
Comprehensive income (loss)	7,527	2,215	5,066	(4,837)
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	(37)	(9)	1,189
Comprehensive income (loss) attributable to common stockholders	$7,527	$2,252	$5,075	$(6,026)

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF
STOCKHOLDERS' DEFICIT
(Unaudited)
(in thousands)

		Casella Waste Systems, Inc. Stockholders' Deficit							
		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests
	Total	Shares	Amount	Shares	Amount				
Balance, December 31, 2015	$(21,597)	40,064	$ 401	988	$ 10	$ 344,518	$ (366,459)	$ 7	$ (74)
Net income (loss)	5,116	—	—	—	—	—	5,125	—	(9)
Other comprehensive loss	(50)	—	—	—	—	—	—	(50)	—
Issuances of Class A common stock	188	436	4	—	—	184	—	—	—
Stock-based compensation	2,377	—	—	—	—	2,377	—	—	—
Contribution from noncontrolling interest holder	59	—	—	—	—	—	—	—	59
Balance, September 30, 2016	$(13,907)	40,500	$ 405	988	$ 10	$ 347,079	$ (361,334)	$ (43)	$ (24)

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)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income (loss)	$5,116	$(4,762)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	46,430	46,374
Depletion of landfill operating lease obligations	7,130	7,019
Interest accretion on landfill and environmental remediation liabilities	2,688	2,572
Amortization of debt issuance costs and discount on long-term debt	3,106	2,941
Stock-based compensation	2,377	2,325
Gain on sale of property and equipment	(541)	(137)
Divestiture transactions	—	(5,611)
Loss on debt extinguishment	736	866
Loss on derivative instruments	—	239
Excess tax benefit on the vesting of share based awards	—	(179)
Deferred income taxes	528	627
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	(3,188)	(8,000)
Accounts payable	2,376	1,588
Prepaid expenses, inventories and other assets	(3,262)	1,743
Accrued expenses and other liabilities	(7,425)	(7,075)
Net cash provided by operating activities	56,071	40,530
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(2,439)	—
Acquisition related additions to property, plant and equipment	(38)	—
Additions to property, plant and equipment	(37,435)	(31,038)
Payments on landfill operating lease contracts	(4,811)	(2,956)
Proceeds from divestiture transactions	—	5,335
Proceeds from sale of property and equipment	1,069	636
Proceeds from property insurance settlement	—	546
Net cash used in investing activities	(43,654)	(27,477)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	140,700	296,929
Principal payments on long-term debt	(152,123)	(301,220)
Payments of debt issuance costs	(682)	(8,991)
Payments of debt extinguishment costs	(410)	(121)
Proceeds from the exercise of share based awards	—	161
Excess tax benefit on the vesting of share based awards	—	179
Change in restricted cash	1,347	1,319
Distributions to noncontrolling interest holder	—	(1,495)
Net cash used in financing activities	(11,168)	(13,239)
Net increase (decrease) in cash and cash equivalents	1,249	(186)
Cash and cash equivalents, beginning of period	2,312	2,205

Cash and cash equivalents, end of period	$3,561	$2,019
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$33,723	$33,364
Income taxes, net of refunds	$242	$31
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Non-current assets obtained through long-term obligations	$1,841	$—

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

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

1. BASIS OF PRESENTATION

Casella Waste Systems, Inc. ("Parent"), and its consolidated subsidiaries (collectively, "we", "us" or "our"), is a regional, vertically integrated solid waste services company that provides collection, transfer, disposal, landfill, landfill gas-to-energy, recycling and organics services in the northeastern United States. We market recyclable metals, aluminum, plastics, paper and corrugated cardboard, which have been processed at our recycling facilities, as well as recyclables purchased from third-parties. We manage our solid waste operations on a geographic basis through two regional operating segments, the Eastern and Western regions, each of which provides a full range of solid waste services, and our larger-scale recycling and commodity brokerage operations through our Recycling segment. Organics services, ancillary operations, major account and industrial services, discontinued operations and earnings from equity method investees, as applicable, are included in our Other segment.

The accompanying unaudited consolidated financial statements, which include the accounts of the Parent, our wholly-owned subsidiaries and any partially owned entities over which we have a controlling financial interest, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). All significant intercompany accounts and transactions are eliminated in consolidation. Investments in entities in which we do not have a controlling financial interest are accounted for under either the equity method or the cost method of accounting, as appropriate. Our significant accounting policies are more fully discussed in Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which was filed with the SEC on March 2, 2016.

Preparation of our consolidated financial statements in accordance with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision given the available data, or simply cannot be readily calculated. In the opinion of management, these consolidated 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 results for the three and nine months ended September 30, 2016 may not be indicative of the results for any other interim period or the entire fiscal year. The consolidated financial statements presented herein should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

For comparative purposes, certain prior period amounts in the consolidated financial statements, including the presentation of debt issuance costs, have been reclassified to conform to the current period presentation. See Note 2, Accounting Changes for discussion regarding changes to the presentation of debt issuance costs and Note 6, Long-Term Debt for the updated disclosure.

Subsequent Events

We have evaluated subsequent events or transactions that have occurred after the consolidated balance sheet date of September 30, 2016, but prior to the filing of the consolidated financial statements with the SEC on this Quarterly Report on Form 10-Q. We have determined that, except as disclosed, there are no subsequent events that require disclosure in this Quarterly Report on Form 10-Q. See Note 6, Long-Term Debt for further disclosure.

2. ACCOUNTING CHANGES

A table providing a brief description of recent Accounting Standards Updates (“ASU”) to the Accounting Standards Codification (“ASC”) issued by the Financial Accounting Standards Board (“FASB”) deemed to have a potentially material effect on our consolidated financial statements upon adoption follows:

Standard	Description	Effect on the Financial Statements or Other Significant Matters
Accounting standards that were adopted effective January 1, 2016		
ASU 2016-09: Compensation - Stock Compensation (Topic 718)	Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows.	The adoption of this ASU resulted in the following: (1) our stock-based compensation accounting policy was updated to record stock-based compensation expense for all equity-based awards by accounting for forfeitures as they occur; (2) our accounting for excess tax benefits and tax deficiencies in the calculation of income tax expense was updated; and (3) excess tax benefits are classified as a cash flow from operating activities and are no longer separated from income tax cash flows and classified as a cash flow from financing activities.
ASU 2015-03 and 15: Imputation of Interest (Topic 835-30)	These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.	The adoption of this ASU resulted in the presentation of debt issuance costs on our balance sheet being treated as a direct reduction of the carrying amount of the debt liability rather than a capitalized other non-current asset. See Note 6, Long-Term Debt for the updated disclosure.

A table providing a brief description of recent accounting pronouncements that may have a material effect on our consolidated financial statements upon adoption follows:

Standard	Description	Effect on the Financial Statements or Other Significant Matters
Accounting standards that are not yet adopted		
ASU 2016-02: Leases (Topic 842)	Requires that a lessee recognize at the commencement date: a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.	The adoption of this ASU primarily impacts the balance sheet through the recognition of a right-of-use asset and a lease liability for all leases. This guidance is effective January 1, 2019 using a modified retrospective transition approach with early adoption permitted.
ASU 2016-01: Financial Instruments - Overall (Topic 825-10)	Requires the following: (1) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (2) entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (3) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and (4) the elimination of the disclosure requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.	The adoption of this ASU results in a cumulative-effect adjustment to the balance sheet, the recognition of changes in fair value of certain equity investments in net income, and enhanced disclosure. This guidance is effective January 1, 2018 with a cumulative-effect adjustment.
ASU 2014-09, ASU 2015-14, ASU 2016-10 and ASU 2016-12: Revenue from Contracts with Customers (Topic 606)	The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	We are currently evaluating the alternative methods of adoption and the effect on our consolidated financial statements and related disclosures. This guidance is effective January 1, 2018 using a full or modified retrospective approach with early adoption permitted January 1, 2017.

3. BUSINESS COMBINATIONS

We acquired three transfer stations in our Western region during the nine months ended September 30, 2016. The operating results of the acquired businesses are included in the accompanying unaudited consolidated statements of operations from the date of acquisition, and the purchase price has been allocated to the net assets acquired based on fair values at the date of each acquisition, with the residual amounts recorded as goodwill.

A summary of the purchase price for these acquisitions and the allocation of the purchase price for these acquisitions follows:

	Nine Months Ended September 30,	
	2016	2015
Purchase Price:		
Cash used in acquisitions	$2,439	$ —
Holdbacks	400	—
Total	2,839	—
Allocated as follows:		
Current assets	40	—
Land	353	—
Buildings	1,360	—
Equipment	269	—
Other liabilities, net	(106)	—
Fair value of assets acquired and liabilities assumed	1,916	—
Excess purchase price allocated to goodwill	$923	$ —

Unaudited pro forma combined information that shows our operational results as though each of the acquisitions completed in the nine months ended September 30, 2016 had occurred as of January 1, 2015 follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$151,133	$147,008	$422,059	$408,946
Operating income	$17,378	$12,617	$34,868	$26,926
Net income (loss) attributable to common stockholders	$7,537	$2,249	$5,078	$(6,093)
Basic earnings per share attributable to common stockholders	$0.18	$0.06	$0.12	$(0.15)
Basic weighted average shares outstanding	41,377	40,810	41,169	40,560
Diluted earnings per share attributable to common stockholders	$0.18	$0.05	$0.12	$(0.15)
Diluted weighted average shares outstanding	42,287	41,283	41,896	40,560

The pro forma results set forth in the table above have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisitions occurred as of January 1, 2015 or of the results of our future operations. 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. GOODWILL AND INTANGIBLE ASSETS

A summary of the activity and balances related to goodwill by operating segment follows:

	December 31, 2015	Acquisitions	September 30, 2016
Eastern region	$ 17,429	$ —	$ 17,429
Western region	87,503	923	88,426