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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2004

OR

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

For the transition period from to

Commission file number 000-23211

CASELLA WASTE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

25 Greens Hill Lane, Rutland, 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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act) Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 4, 2004:

Class A Common Stock	23,226,946
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, 2003	January 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 15,652	\$ 9,295
Restricted cash	10,839	12,436
Accounts receivable - trade, net of allowance for doubtful accounts of \$895 and \$1,465	45,649	44,790
Notes receivable - officers/employees	1,105	1,105
Prepaid expenses	5,906	6,408
Inventory	1,740	1,732
Deferred income taxes	4,275	6,435
Other current assets	1,111	1,128
Total current assets	<u>86,277</u>	<u>83,329</u>
Property, plant and equipment, net of accumulated depreciation and amortization of \$201,681 and \$254,256	302,328	336,856
Goodwill, net	159,682	164,328
Other intangible assets, net	3,014	3,960
Investments in unconsolidated entities	34,740	43,687
Net assets under contractual obligation	3,844	5,737
Other non-current assets	12,756	13,273
	<u>516,364</u>	<u>567,841</u>
	<u>\$ 602,641</u>	<u>\$ 651,170</u>

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

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

	<u>April 30,</u> <u>2003</u>	<u>January 31,</u> <u>2004</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 4,534	\$ 5,425
Current maturities of capital lease obligations	1,287	781
Accounts payable	33,743	31,354
Accrued payroll and related expenses	7,383	6,328
Accrued interest	5,375	8,897
Accrued income taxes	4,526	3,556
Accrued closure and post-closure costs, current portion	2,962	465
Other accrued liabilities	<u>15,662</u>	<u>21,215</u>
Total current liabilities	<u>75,472</u>	<u>78,021</u>
Long-term debt, less current maturities	302,389	328,378
Capital lease obligations, less current maturities	1,969	1,487
Accrued closure and post-closure costs, less current maturities	22,987	22,242
Deferred income taxes	5,473	10,326
Other long-term liabilities	11,375	10,743
Commitments and contingencies		
Series A redeemable, convertible preferred stock, 55,750 shares authorized, issued and outstanding as of April 30, 2003 and January 31, 2004, liquidation preference of \$1,000 per share plus accrued but unpaid dividends	63,824	66,248
STOCKHOLDERS' EQUITY:		
Class A common stock -		
Authorized - 100,000,000 shares, \$0.01 par value issued and outstanding - 22,769,000 and 23,189,000 shares as of April 30, 2003 and January 31, 2004, respectively	228	232
Class B Common Stock -		
Authorized - 1,000,000 shares, \$0.01 par value 10 votes per share, issued and outstanding - 988,000 shares	10	10
Accumulated other comprehensive (loss) income	542	(27)
Additional paid-in capital	270,068	271,829
Accumulated deficit	<u>(151,696)</u>	<u>(138,319)</u>
Total stockholders' equity	<u>119,152</u>	<u>133,725</u>
	<u>\$ 602,641</u>	<u>\$ 651,170</u>

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(in thousands)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Revenues	\$ 95,801	\$ 104,558	\$ 326,402	\$ 330,420
Operating expenses:				
Cost of operations	61,853	67,804	213,816	214,014
General and administration	13,797	14,733	42,972	44,087
Depreciation and amortization	11,627	14,614	35,915	44,356
	<u>87,277</u>	<u>97,151</u>	<u>292,703</u>	<u>302,457</u>
Operating income	<u>8,524</u>	<u>7,407</u>	<u>33,699</u>	<u>27,963</u>
Other expense/(income), net:				
Interest income	(73)	(53)	(234)	(192)
Interest expense	6,578	6,331	20,665	18,662
Income from equity method investments	(607)	(1,171)	(2,357)	(2,069)
Loss on debt extinguishment	3,649	—	3,649	—
Minority interest	—	—	(152)	—
Other (income)/expense	655	(343)	907	(723)
Other expense, net	<u>10,202</u>	<u>4,764</u>	<u>22,478</u>	<u>15,678</u>
Income (loss) from continuing operations before income taxes, discontinued operations and cumulative effect of change in accounting principle	(1,678)	2,643	11,221	12,285
Provision (benefit) for income taxes	<u>(856)</u>	<u>1,153</u>	<u>4,772</u>	<u>1,631</u>
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	(822)	1,490	6,449	10,654
Reclassification adjustment from discontinued operations (net of income taxes of \$27)	39	—	—	—
Cumulative effect of change in accounting principle (net of income tax (provision) benefit of \$189 and (\$1,856))	—	—	(63,916)	2,723
Net income (loss)	<u>(783)</u>	<u>1,490</u>	<u>(57,467)</u>	<u>13,377</u>
Preferred stock dividend	778	818	2,306	2,423
Net income (loss) available to common stockholders	<u>\$ (1,561)</u>	<u>\$ 672</u>	<u>\$ (59,773)</u>	<u>\$ 10,954</u>

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands except per share data)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Earnings Per Share:				
Basic:				
Income (loss) from continuing operations before discontinued operations and cumulative effect of change in accounting principle	\$ (0.07)	\$ 0.03	\$ 0.17	\$ 0.34
Cumulative effect of change in accounting principle, net	—	—	(2.70)	0.11
Net income (loss) per common share	\$ (0.07)	\$ 0.03	\$ (2.53)	\$ 0.45
Basic weighted average common shares outstanding	23,717	24,062	23,704	23,919
Diluted:				
Income (loss) from continuing operations before discontinued operations and cumulative effect of change in accounting principle	\$ (0.07)	\$ 0.03	\$ 0.17	\$ 0.34
Cumulative effect of change in accounting principle, net	—	—	(2.67)	0.11
Net income (loss) per common share	\$ (0.07)	\$ 0.03	\$ (2.50)	\$ 0.45
Diluted weighted average common shares outstanding	23,717	24,795	23,920	24,427

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 January 31,	
	2003	2004
Cash Flows from Operating Activities:		
Net income (loss)	\$ (57,467)	\$ 13,377
Adjustments to reconcile net income (loss) to net cash provided by operating activities -		
Depreciation and amortization	35,915	44,356
Depletion of landfill operating lease obligations	—	395
Cumulative effect of change in accounting principle, net	63,916	(2,723)
Income from equity method investments	(2,357)	(2,069)
Loss on debt extinguishment	3,649	—
Gain on sale of assets	(57)	(274)
Minority interest	(152)	—
Deferred income taxes	7,336	838
Changes in assets and liabilities, net of effects of acquisitions and divestitures -		
Accounts receivable	(8,404)	(2,069)
Accounts payable	5,774	(1,068)
Other assets and liabilities	(11,376)	(4,325)
	<u>94,244</u>	<u>33,061</u>
Net Cash Provided by Operating Activities	<u>36,777</u>	<u>46,438</u>
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(2,489)	(31,889)
Payments under landfill operating lease contracts	—	(4,305)
Additions to property, plant and equipment	(32,161)	(37,442)
Proceeds from sale of equipment	1,194	451
(Advances to) distributions from unconsolidated entities	500	(7,074)
Proceeds from assets under contractual obligation	101	515
	<u>(32,855)</u>	<u>(79,744)</u>
Net Cash Used In Investing Activities	<u>(32,855)</u>	<u>(79,744)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	375,471	124,828
Principal payments on long-term debt	(354,077)	(100,933)
Deferred financing costs	(11,119)	(655)
Proceeds from exercise of stock options	427	3,709
	<u>10,702</u>	<u>26,949</u>
Net Cash Provided by Financing Activities	<u>10,702</u>	<u>26,949</u>
Net (decrease) increase in cash and cash equivalents	14,624	(6,357)
Cash and cash equivalents, beginning of period	4,298	15,652
	<u>\$ 18,922</u>	<u>\$ 9,295</u>
Cash and cash equivalents, end of period	<u>\$ 18,922</u>	<u>\$ 9,295</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for -		
Interest	\$ 20,140	\$ 13,827
Income taxes, net of refunds	\$ 414	\$ 764
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Summary of entities acquired in purchase business combinations		
Fair market value of assets acquired	\$ 2,705	\$ 43,862
Cash paid, net	(2,489)	(31,889)
Liabilities assumed and notes payable to seller	<u>\$ 216</u>	<u>\$ 11,973</u>

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. ORGANIZATION

The consolidated balance sheets of Casella Waste Systems, Inc. and Subsidiaries (the "Company" or the "Parent") as of April 30, 2003 and January 31, 2004, the consolidated statements of operations for the three and nine months ended January 31, 2003 and 2004 and the consolidated statements of cash flows for the nine months ended January 31, 2003 and 2004 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 connection with the Company's audited consolidated financial statements as of and for the twelve months ended April 30, 2003. These were included as part of the Company's Annual Report on Form 10-K for the year ended April 30, 2003 (the "Annual Report"). The results of the three and nine months ended January 31, 2004 may not be indicative of the results that may be expected for the fiscal year ending April 30, 2004.

2. RECLASSIFICATIONS

In the fourth quarter of fiscal 2003, the Company entered into negotiations with former employees for the transfer of our domestic brokerage operation and a commercial recycling business. The commercial recycling business had been accounted for as a discontinued operation since fiscal 2001. Due to the nature of the transaction, the Company could not retain historical discontinued accounting treatment for this operation. Therefore the commercial recycling business' operating results have been reclassified from discontinued to continuing operations for the three and nine months ended January 31, 2003. Also in connection with the discontinued accounting treatment recorded in fiscal 2001, estimated future losses from this operation had been recorded and classified as losses from discontinued operations. This amount has been reclassified and offset against actual losses from operations for the three and nine months ended January 31, 2003.

In the fourth quarter of fiscal 2003, the Company revised results for the first quarter of fiscal 2003 to include additional goodwill impairment in the amount of \$1,091, net of taxes, relating to the Company's waste-to-energy operations, Maine Energy. The Company previously reported goodwill impairment upon adoption of SFAS No. 142 in the amount of \$62,825, net of taxes.

3. BUSINESS COMBINATIONS

During the nine months ended January 31, 2004, the Company acquired seven solid waste hauling operations and one construction and demolition processing facility, which also operates a landfill facility under an operations and management contract, in transactions accounted for as purchases. These transactions were in exchange for consideration of \$31,889 in cash to the sellers. The Company completed five such acquisitions during the nine months ended January 31, 2003. 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 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 had been completed as of May 1, 2002.

	Nine Months Ended January 31, 2003		Nine Months Ended January 31, 2004	
Revenues	\$	341,202	\$	334,830
Operating income	\$	36,314	\$	25,470
Net income (loss) available to common stockholders	\$	(58,905)	\$	8,981
Diluted net income (loss) per common share	\$	(2.46)	\$	0.37
Diluted weighted average common shares outstanding		23,920		24,427

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, 2002 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 December 2003 the Company commenced operations at Ontario County Landfill, after executing a twenty-five year operation, management and lease agreement with Ontario County, New York. The Landfill is permitted to accept 2,000 tons per day of municipal solid waste. The Company made initial payments of \$4,266 related to this transaction. This transaction is accounted for as an operating lease.

4. ADOPTION OF NEW ACCOUNTING STANDARDS

(a) SFAS No. 143, *Accounting for Asset Retirement Obligations*.

Effective May 1, 2003, the Company adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 does not change the basic accounting principles that the Company and the waste industry have historically followed for accounting for these types of obligations. In general, the Company has followed and will continue the practice of life cycle accounting which recognizes a liability on the balance sheet and related expense as airspace is consumed at the landfill to match operating costs with revenues.

The primary modification to the Company's methodology required by SFAS No. 143 is to require that capping, closure and post-closure costs be discounted to present value. The Company's estimates of future capping, closure and post-closure costs historically have not taken into account discounts for the present value of costs to be paid in the future. Under SFAS No. 143, the Company's estimates of costs to discharge asset retirement obligations for landfills are developed in today's dollars. These costs are then inflated by 2.6% to reflect a normal escalation of prices up to the year they are expected to be paid. These estimated costs are then discounted to their present value using a credit adjusted risk-free rate of 9.5%.

Under SFAS No. 143, the Company no longer accrues landfill retirement obligations through a charge to cost of operations, but rather by an increase to landfill assets. Under SFAS No. 143, the amortizable landfill assets include not only the landfill development costs incurred but also the recorded capping, closure and post-closure liabilities as well as the cost estimates for future capping, closure and post-closure costs. The landfill asset is amortized over the total capacity of the landfill, as airspace is consumed during the life of the landfill with one exception. The exception is for capping for which both the recognition of the liability and the amortization of these costs are based instead on the airspace consumed for the specific capping event.

Upon adoption, SFAS No. 143 required a cumulative change in accounting for landfill obligations retroactive to the date of the inception of the landfill. Inception of the asset retirement obligation is the date operations commenced or the date the asset was acquired. To do this, SFAS No. 143 required the creation of the related landfill asset, net of accumulated amortization and an adjustment to the capping, closure and post-closure liability for cumulative accretion.

At May 1, 2003, the Company recorded a cumulative effect of change in accounting principle of \$2,723 (net of taxes of \$1,856). In addition we recorded a decrease in our capping, closure and post-closure obligations of \$7,855, and a decrease in our net landfill assets of \$3,228. The following is a summary of the balance sheet changes for landfill assets and capping, closure and post-closure liabilities at May 1, 2003 (in thousands):

	Balance at April 30, 2003	Change	Balance at May 1, 2003
Landfill assets	\$ 148,029	\$ 6,166	\$ 154,195
Accumulated amortization	(63,207)	(9,394)	(72,601)
Net landfill assets	<u>\$ 84,822</u>	<u>\$ (3,228)</u>	<u>\$ 81,594</u>
Capping, closure, and post-closure liability	<u>\$ 25,949</u>	<u>\$ (7,855)</u>	<u>\$ 18,094</u>

The following table shows the activity and total balances related to accruals for capping, closure and post-closure from April 30, 2003 to January 31, 2004 (in thousands):

Balance at April 30, 2003	\$ 25,949
Obligations incurred	3,432
Accretion expense	1,477
Payments	(3,099)
Acquisitions and other adjustments	2,803
Cumulative effect of change in accounting principle	(7,855)
Balance at January 31, 2004	<u>\$ 22,707</u>

(b) SFAS No. 145, *Rescission of FASB No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections*

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145, among other things, restricts the classification of gains and losses from extinguishment of debt as extraordinary such that most debt extinguishment gains and losses will no longer be classified as extraordinary. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. Upon adoption, gains and losses on future debt extinguishment, if any, will be recorded in pre-tax income. Prior to the adoption of SFAS No. 145, in the third quarter of fiscal year 2003, the Company recorded an extraordinary loss of \$2,170 (net of income tax benefit of \$1,479) in connection with the write-off of deferred financing costs related to the old term loan and the old revolver. This item was reclassified to continuing operations in the financial statements as loss on debt extinguishment in the amount of \$3,649.

(c) SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses costs such as restructuring, involuntary termination of employees and

consolidating facilities but excludes from its scope exit and disposal activities that are in connection with a business combination and those activities to which SFAS No. 143 and No. 144 are applicable. SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. The Company has not engaged in or initiated any exit or disposal activities since December 31, 2002.

(d) FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 clarifies the requirement of FASB No. 5, *Accounting for Contingencies*, relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. It requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are effective on a prospective basis to guarantees issued or modified after December 31, 2002. The Company has no guarantees as of January 31, 2004, but will record the fair value of future material guarantees, if any.

(e) SFAS No. 148, *Accounting for Stock-Based Compensation— Transition and Disclosure—an amendment of FAS 123*

In December, 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FAS 123*. This statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used in reporting results. SFAS No. 148 is effective for fiscal years ending after December 15, 2002. The Company has included the required disclosures in these financial statements (Note 10).

(f) FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of APB No. 51*

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of APB No. 51* ("FIN 46"). FIN 46 requires that unconsolidated variable interest entities be consolidated by their primary beneficiary who absorbs a majority of the entities' expected losses or residual benefits. FIN 46 consolidation requirements apply immediately to all variable interest entities created after January 31, 2003 and on June 15, 2003 for those entities already established. In October 2003, the FASB issued FASB Staff Position (FSP) 46-6, *Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities (VIE)* which delayed the effective date of FIN 46 to December 15, 2003 for certain VIEs. The adoption of FIN 46 had no impact on the Company's consolidated financial statements.

(g) SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liability and Equity*.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liability and Equity*. The statement changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial position. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150 effective August 1, 2003. In November 2003, the FASB issued an FSP delaying the effective date for certain instruments and entities. SFAS No. 150 had no impact on the Company's consolidated financial statements.

5. LEGAL PROCEEDINGS

In the normal course of its business and as a result of the extensive governmental regulation of the waste industry, the Company may periodically become subject to various judicial and administrative proceedings involving Federal, state or local agencies. In these proceedings, an agency may seek to impose fines on the Company or to revoke, or to deny renewal of, an operating permit held by the Company. In addition, the Company may become party to various claims and suits for alleged damages to persons and property, alleged violation of certain laws and for alleged liabilities arising out of matters occurring during the normal operation of the waste management business.

In July 1996, Clinton County, New York entered into a privatization agreement with the Company for the Company to run the County's solid waste management system (the "System") as a private enterprise, including operations at both the existing unlined landfill, as well as newly constructed lined landfill areas. During the period of November 21, 1996 to October 9, 1997, the Company performed certain closure activities and installed a cut-off wall at the unlined portion of the landfill. On or about April 1999, the New York State Department of Labor (the "DOL") alleged that the Company should have paid prevailing wages in connection with the labor associated with such activities related to the unlined landfill. The DOL is attempting to apply the prevailing wage provisions of Labor Law § 220 to the Company's construction activities at the unlined portion of the Clinton County landfill, to include (1) cap construction at the unlined landfill; (2) construction of the "Casella Barrier Wall," which the New York State Department of Environment Conservation (the "DEC") required as a precondition to permitting the Phase III expansion of the Lined Landfill; and (3) construction of the "County Barrier Wall," which the DEC required as a corrective measure to control the historical contamination. The Company has disputed the allegations and a hearing on only the liability issue was held on September 16, 2002. Since the hearing did not address damages, relevant payroll documents have not been fully reviewed by either party. Accordingly, neither side is in a position to estimate wage amounts that might be payable in the event the hearing officer finds that the Company is liable for the payment of such prevailing wages. In addition, any such estimate will differ depending on whether any liability ruling applies to some or all of the activities described above; and whether it would apply only to activities of the Company or to all subcontractors as well. In November 2002, both sides submitted proposed findings of fact and conclusions of law. The hearing officer is expected to make a recommendation to the Department of Labor commissioner during the first quarter of calendar 2004 on the liability issue. The Company continues to explore settlement possibilities with the State. Although a loss as a result of these claims is reasonably possible, the Company cannot estimate a range of reasonably possible losses at this time.

The Company is a defendant in certain other lawsuits alleging various claims, none of which, either individually or in the aggregate, the Company believes are material to its 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 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.

7. EARNINGS PER SHARE

The following table sets forth the numerator and denominator used in the computation of earnings per share from continuing operations before discontinued operations and cumulative effect of change in accounting principle on a basic and diluted basis for the three and nine months ended January 31, 2003 and 2004.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Numerator:				
Income (loss) from continuing operations before discontinued operations and cumulative effect of change in accounting principle	\$ (822)	\$ 1,490	\$ 6,449	\$ 10,654
Less: Preferred stock dividend	(778)	(818)	(2,306)	(2,423)
Income (loss) from continuing operations before discontinued operations and cumulative effect of change in accounting principle available to common stockholders	<u>\$ (1,600)</u>	<u>\$ 672</u>	<u>\$ 4,143</u>	<u>\$ 8,231</u>
Denominator:				
Number of shares outstanding, end of period:				
Class A common stock	22,739	23,189	22,739	23,189
Class B common stock	988	988	988	988
Effect of weighted average shares outstanding during period	(10)	(115)	(23)	(258)
Weighted average number of common shares used in basic EPS	<u>23,717</u>	<u>24,062</u>	<u>23,704</u>	<u>23,919</u>
Impact of potentially dilutive securities:				
Dilutive effect of options, warrants, and contingent stock	—	733	216	508
Weighted average number of common shares used in diluted EPS	<u>23,717</u>	<u>24,795</u>	<u>23,920</u>	<u>24,427</u>

For the three and nine months ended January 31, 2003, 9,224 and 8,454 common stock equivalents related to options, warrants, and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

For the three and nine months ended January 31, 2004, 6,195 and 6,703 common stock equivalents related to options, warrants, and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

8. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represents the change in the Company's equity from transactions and other events and circumstances from non-owner sources and includes all changes in equity except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) for the three and nine months ended January 31, 2003 and 2004 is as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Net income (loss)	\$ (783)	\$ 1,490	\$ (57,467)	\$ 13,377
Other comprehensive (loss) income	2,673	(1,034)	4,396	(569)
Comprehensive income (loss)	<u>\$ 1,890</u>	<u>\$ 456</u>	<u>\$ (53,071)</u>	<u>\$ 12,808</u>

The components of other comprehensive income (loss) for the three and nine months ended January 31, 2003 and 2004 are shown as follows:

	Three Months Ended					
	January 31, 2003			January 31, 2004		
	Gross	Tax effect	Net of Tax	Gross	Tax effect	Net of Tax
Change in fair value of interest rate swaps and commodity hedges during period	\$ 4,494	\$ 1,821	\$ 2,673	\$ (1,738)	\$ (704)	\$ (1,034)
	<u>\$ 4,494</u>	<u>\$ 1,821</u>	<u>\$ 2,673</u>	<u>\$ (1,738)</u>	<u>\$ (704)</u>	<u>\$ (1,034)</u>
	Nine Months Ended					
	January 31, 2003			January 31, 2004		
	Gross	Tax effect	Net of Tax	Gross	Tax effect	Net of Tax
Changes in fair value of marketable securities during the period	\$ (40)	\$ —	\$ (40)	\$ —	\$ —	\$ —
Change in fair value of interest rate swaps and commodity hedges during period	7,459	3,023	4,436	(956)	(387)	(569)
	<u>\$ 7,419</u>	<u>\$ 3,023</u>	<u>\$ 4,396</u>	<u>\$ (956)</u>	<u>\$ (387)</u>	<u>\$ (569)</u>

9. 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 is party to twenty one commodity hedge contracts as of January 31, 2004. These contracts expire between August 2004 and August 2006. 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 January 31, 2004 the fair value of these hedges was an obligation of \$1,560, with the net amount (net of taxes of \$632) recorded as an unrealized loss in accumulated other comprehensive (loss) income.

The Company is party to two interest swap agreements as of January 31, 2004 for an aggregate notional amount of \$53,000 expiring in February, 2006. The Company has evaluated these swaps and believes these instruments qualify for hedge accounting pursuant to SFAS No. 133. As of January 31, 2004, the fair value of these swaps was an obligation of \$266, with the net amount (net of taxes of \$108) recorded as an unrealized loss in other comprehensive (loss) income. The estimated net amount of the existing losses as of January 31, 2004 included in accumulated other comprehensive (loss) income expected to be reclassified into earnings as payments are either made or received under the terms of the interest rate swaps within the next 12 months is approximately \$129. The actual amounts reclassified into earnings are dependent on future movements in interest rates.

10. STOCK BASED COMPENSATION PLANS

The Company has elected to account for its stock-based compensation plans under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, for which no compensation expense is recorded in the statements of operations for the estimated fair value of stock options issued with an exercise price equal to the fair value of the underlying common stock on the grant date.

SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FAS 123*, requires that entities

electing to remain with the accounting in APB Opinion No. 25 disclose pro forma net income and earnings per share as if the fair value based method of accounting defined in SFAS No. 123 had been applied.

If the Company applied the recognition provisions of SFAS 123 using the Black-Scholes option pricing model, the resulting pro forma net income (loss) available to common stockholders, and pro forma net income (loss) available to common stockholders per share would be as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Net income (loss) available to common stockholders, as reported	\$ (1,561)	\$ 672	\$ (59,773)	\$ 10,954
Deduct: Total stock-based compensation expense determined under fair value based method, net	298	287	853	861
Net income (loss) available to common stockholders, pro forma	\$ (1,859)	\$ 385	\$ (60,626)	\$ 10,093
Basic income (loss) per common share:				
As reported	\$ (0.07)	\$ 0.03	\$ (2.53)	\$ 0.45
Pro forma	\$ (0.08)	\$ 0.02	\$ (2.56)	\$ 0.42
Diluted income (loss) per common share:				
As reported	\$ (0.07)	\$ 0.03	\$ (2.50)	\$ 0.45
Pro forma	\$ (0.08)	\$ 0.02	\$ (2.53)	\$ 0.41

In accordance with SFAS 123, the fair value of each option grant has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine Months Ended January 31, 2003	Nine Months Ended January 31, 2004
Risk free interest rate	3.00% - 4.50%	2.34% - 3.39%
Expected dividend yield	N/A	N/A
Expected life	5 Years	5 Years
Expected volatility	65.00%	65.00%

The Company has recorded no compensation expense for stock options granted to employees during the three and nine months ended January 31, 2003 or 2004.

11. 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 Eastern, Central, Western and FCR Recycling. The Company's revenues in the 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 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 wood, paper, metals, aluminum, plastics and glass and brokerage of recycled

materials. In September 2002, the Company transferred the export brokerage operation and in June 2003 the Company transferred its domestic brokerage operation and a commercial recycling business to two groups of employees who had managed those businesses. Included in Other are ancillary operations, mainly major customer accounts, earnings from equity method investees and in the nine months ended January 31, 2003, residue recycling operations.

	Eastern Region	Central Region	Western Region	Recycling	Other
Three Months Ended January 31, 2003 (1)					
Outside Revenues	\$ 36,509	\$ 21,015	\$ 15,931	\$ 18,909	\$ 3,437
Inter-segment Revenues	8,997	10,179	2,782	4,806	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	(1,836)	3,961	182	(56)	(3,073)
Total Assets	\$ 219,535	\$ 107,763	\$ 108,747	\$ 69,630	\$ 80,838

	Eliminations	Total
Three Months Ended January 31, 2003 (1)		
Outside Revenues	\$ —	\$ 95,801
Inter-segment Revenues	(26,764)	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	—	(822)
Total Assets	\$ —	\$ 586,513

	Eastern Region	Central Region	Western Region	Recycling	Other
Three Months Ended January 31, 2004					
Outside Revenues	\$ 39,990	\$ 23,524	\$ 17,947	\$ 18,949	\$ 4,148
Inter-segment Revenues	11,437	11,164	3,980	176	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	(2,560)	3,567	(148)	1,525	(894)
Total Assets	\$ 270,527	\$ 114,938	\$ 118,214	\$ 67,920	\$ 79,571

	Eliminations	Total
Three Months Ended January 31, 2004		
Outside Revenues	\$ —	\$ 104,558
Inter-segment Revenues	(26,757)	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	—	1,490
Total Assets	\$ —	\$ 651,170

	Eastern Region	Central Region	Western Region	Recycling	Other
Nine Months Ended January 31, 2003 (1)					
Outside Revenues	\$ 118,321	\$ 69,992	\$ 51,465	\$ 75,933	\$ 10,691
Inter-segment Revenues	30,253	33,754	10,506	7,301	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	(2,377)	15,516	2,714	(336)	(9,068)
Total Assets	\$ 219,535	\$ 107,763	\$ 108,747	\$ 69,630	\$ 80,838

	Eliminations	Total
Nine Months Ended January 31, 2003 (1)		
Outside Revenues	\$ —	\$ 326,402
Inter-segment Revenues	(81,814)	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	—	6,449
Total Assets	\$ —	\$ 586,513

	Eastern Region	Central Region	Western Region	Recycling	Other
Nine Months Ended January 31, 2004					
Outside Revenues	\$ 127,502	\$ 76,372	\$ 57,374	\$ 56,420	\$ 12,752
Inter-segment Revenues	38,002	36,864	11,583	3,489	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	(5,082)	14,512	1,284	2,573	(2,633)
Total Assets	\$ 270,527	\$ 114,938	\$ 118,214	\$ 67,920	\$ 79,571

	Eliminations	Total
Nine Months Ended January 31, 2004		
Outside Revenues	\$ —	\$ 330,420
Inter-segment Revenues	(89,938)	—
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	—	10,654
Total Assets	\$ —	\$ 651,170

(1) Segment data for the three and nine months ended January 31, 2003 have been restated to conform to the classification of data for the current fiscal year.

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Collection	\$ 46,945	\$ 51,158	\$ 149,255	\$ 161,997
Landfill/disposal facilities	13,993	17,071	46,978	52,447
Transfer	10,369	11,088	36,835	39,748
Recycling	21,001	25,241	61,180	72,934
Brokerage	3,493	—	32,154	3,294
Total revenues	\$ 95,801	\$ 104,558	\$ 326,402	\$ 330,420

12. NET ASSETS UNDER CONTRACTUAL OBLIGATION

Effective September 30, 2002, the Company transferred its export brokerage operations to former employees, who had been responsible for managing that business. Consideration for the transaction was in the form of two notes receivable amounting up to \$5,460. These notes are payable within five years of the anniversary date of the transaction to the extent of free cash flow generated from the operations.

Effective June 30, 2003, the Company entered into a similar transaction transferring 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.

The Company has not accounted for either of these transactions as a sale based on an assessment that the risks and other incidents of ownership have not sufficiently transferred to the buyer. 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.

13. 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, 2003 and January 31, 2004; the condensed consolidating results of operations for the three and nine months ended January 31, 2003 and 2004; and the condensed consolidating statements of cash flows for the nine months ended January 31, 2003 and 2004 of (a) the parent company only ("the Parent"), (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, 2003
(Unaudited)
(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 12,188	\$ 2,686	\$ 778	\$ —	\$ 15,652
Accounts receivable – trade, net of allowance for doubtful accounts	485	44,155	1,009	—	45,649
Prepaid expenses	613	5,138	155	—	5,906
Inventory	—	1,740	—	—	1,740
Deferred taxes	3,504	—	771	—	4,275
Other current assets	1,237	1,103	10,715	—	13,055
Total current assets	18,027	54,822	13,428	—	86,277
Property, plant and equipment, net of accumulated depreciation and amortization	2,996	294,109	5,223	—	302,328
Intangible assets, net	—	162,696	—	—	162,696
Investment in subsidiaries	(43,783)	—	—	43,783	—
Investments in unconsolidated entities	7,778	31,341	—	(4,379)	34,740
Assets under contractual obligation	—	3,844	—	—	3,844
Other non-current assets	11,046	1,238	472	—	12,756
	(21,963)	493,228	5,695	39,404	516,364
Intercompany receivable	507,820	(509,887)	(2,312)	4,379	—
	<u>\$ 503,884</u>	<u>\$ 38,163</u>	<u>\$ 16,811</u>	<u>\$ 43,783</u>	<u>\$ 602,641</u>
	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Current maturities of long term debt	1,500	1,777	1,257	—	4,534
Accounts payable	1,350	32,285	108	—	33,743
Accrued payroll and related expenses	1,368	6,015	—	—	7,383
Accrued interest	5,373	2	—	—	5,375
Accrued closure and post-closure costs, current portion	—	2,286	676	—	2,962
Other current liabilities	7,203	5,617	8,655	—	21,475
Total current liabilities	16,794	47,982	10,696	—	75,472
Long-term debt, less current maturities	298,500	2,318	1,571	—	302,389
Capital lease obligations, less current maturities	141	1,828	—	—	1,969
Accrued closure and post closure costs, less current portion	—	21,977	1,010	—	22,987
Deferred income taxes	5,473	—	—	—	5,473
Other long-term liabilities	—	10,047	1,328	—	11,375
COMMITMENTS AND CONTINGENCIES					
Series A redeemable, convertible preferred stock, 55,750 shares authorized, issued and outstanding, liquidation preference of \$1,000 per share plus accrued but unpaid dividends	63,824	—	—	—	63,824
STOCKHOLDERS' EQUITY:					
Class A common stock - Authorized - 100,000,000 shares, \$0.01 par value issued and outstanding - 22,769,000 shares	228	101	100	(201)	228
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	542	1,190	—	(1,190)	542
Additional paid-in capital	270,068	47,885	2,825	(50,710)	270,068
Accumulated deficit	(151,696)	(95,165)	(719)	95,884	(151,696)
Total stockholders' equity	119,152	(45,989)	2,206	43,783	119,152
	<u>\$ 503,884</u>	<u>\$ 38,163</u>	<u>\$ 16,811</u>	<u>\$ 43,783</u>	<u>\$ 602,641</u>

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JANUARY 31, 2004
(Unaudited)
(In thousands)

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 2,089	\$ 6,414	\$ 792	\$ —	\$ 9,295
Deferred income taxes	5,461	—	974	—	6,435
Other current assets	4,556	51,068	13,038	(1,063)	67,599
Total current assets	12,106	57,482	14,804	(1,063)	83,329
Property, plant and equipment, net of accumulated depreciation and amortization	2,601	332,499	1,756	—	336,856
Goodwill	—	164,328	—	—	164,328
Investment in unconsolidated entities	13,105	34,712	249	(4,379)	43,687
Investment in subsidiaries	(26,059)	—	—	26,059	—
Assets under contractual obligation	—	5,737	—	—	5,737
Other non-current assets	10,562	6,352	319	—	17,233
	209	543,628	2,324	21,680	567,841
Intercompany receivable	542,837	(546,361)	(855)	4,379	—
	<u>\$ 555,152</u>	<u>\$ 54,749</u>	<u>\$ 16,273</u>	<u>\$ 24,996</u>	<u>\$ 651,170</u>
	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Current maturities of capital lease obligations	\$ 299	\$ 476	\$ 6	\$ —	\$ 781
Accrued interest	8,895	2	—	—	8,897
Accrued closure and post-closure costs, current portion	—	448	17	—	465
Other current liabilities	10,392	45,230	13,319	(1,063)	67,878
Total current liabilities	19,586	46,156	13,342	(1,063)	78,021
Long-term debt, less current maturities	325,250	2,493	635	—	328,378
Deferred income taxes	10,326	—	—	—	10,326
Other long-term liabilities	17	32,988	1,467	—	34,472
COMMITMENTS AND CONTINGENCIES					
Series A redeemable, convertible preferred stock, 55,750 shares authorized, issued and outstanding, liquidation preference of \$1,000 per share plus accrued but unpaid dividends	66,248	—	—	—	66,248
STOCKHOLDERS' EQUITY:					
Class A common stock - Authorized - 100,000,000 shares, \$0.01 par value issued and outstanding - 23,189,000 shares	232	100	100	(200)	232
Class B common stock - Authorized - 1,000,000 shares, \$0.01 par value 10 votes per share, issued and outstanding - 988,000 shares	10	—	—	—	10
Accumulated other comprehensive loss	(27)	1,073	—	(1,073)	(27)
Additional paid-in capital	271,829	47,589	3,073	(50,662)	271,829
Accumulated deficit	(138,319)	(75,650)	(2,344)	77,994	(138,319)
Total stockholders' equity	133,725	(26,888)	829	26,059	133,725
	<u>\$ 555,152</u>	<u>\$ 54,749</u>	<u>\$ 16,273</u>	<u>\$ 24,996</u>	<u>\$ 651,170</u>

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JANUARY 31, 2003
(Unaudited)
(In thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non - Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenues	\$ —	\$ 94,600	\$ 4,436	\$ (3,235)	\$ 95,801
Operating expenses:					
Cost of operations	(650)	62,092	3,646	(3,235)	61,853
General and administration	(56)	13,751	102	—	13,797
Depreciation and amortization	462	10,630	535	—	11,627
	(244)	86,473	4,283	(3,235)	87,277
Operating income	244	8,127	153	—	8,524
Other expense/(income), net:					
Interest income	(6,793)	(350)	(38)	7,108	(73)
Interest expense	6,659	6,944	83	(7,108)	6,578
Income from equity method investments	(2,941)	(607)	—	2,941	(607)
Loss on debt extinguishment	3,649	—	—	—	3,649
Other expense	1,293	(372)	(266)	—	655
Other expense, net	1,867	5,615	(221)	2,941	10,202
Loss from continuing operations before income taxes and discontinued operations	(1,623)	2,512	374	(2,941)	(1,678)
Benefit for income taxes	(840)	—	(16)	—	(856)
Loss from continuing operations before discontinued operations	(783)	2,512	390	(2,941)	(822)
Reclassification adjustment from discontinued operations, net	—	39	—	—	39
Net loss	(783)	2,551	390	(2,941)	(783)
Preferred stock dividend	778	—	—	—	778
Net loss available to common stockholders	\$ (1,561)	\$ 2,551	\$ 390	\$ (2,941)	\$ (1,561)

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JANUARY 31, 2004
(Unaudited)
(In thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non - Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenues	\$ —	\$ 102,853	\$ 3,937	\$ (2,232)	\$ 104,558
Operating expenses:					
Cost of operations	364	67,013	2,659	(2,232)	67,804
General and administration	770	13,748	215	—	14,733
Depreciation and amortization	454	12,744	1,416	—	14,614
	1,588	93,505	4,290	(2,232)	97,151
Operating income	(1,588)	9,348	(353)	—	7,407
Other expense/(income), net:					
Interest income	(6,024)	(345)	(24)	6,340	(53)
Interest expense	6,315	6,313	43	(6,340)	6,331
Income from equity method investments	(4,346)	(1,171)	—	4,346	(1,171)
Other income	(165)	(154)	(24)	—	(343)
Other expense, net	(4,220)	4,643	(5)	4,346	4,764
Income from continuing operations before income taxes	2,632	4,705	(348)	(4,346)	2,643
Provision for income taxes	1,142	—	11	—	1,153
Net income	1,490	4,705	(359)	(4,346)	1,490
Preferred stock dividend	818	—	—	—	818
Net income available to common stockholders	\$ 672	\$ 4,705	\$ (359)	\$ (4,346)	\$ 672

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED JANUARY 31, 2003
(Unaudited)
(In thousands)

	<u>Parent</u>	<u>Guarantors</u>	<u>Non - Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenues	\$ —	\$ 323,633	\$ 9,842	\$ (7,073)	\$ 326,402
Operating expenses:					
Cost of operations	481	211,714	8,694	(7,073)	213,816
General and administration	236	42,304	432	—	42,972
Depreciation and amortization	1,360	33,076	1,479	—	35,915
	<u>2,077</u>	<u>287,094</u>	<u>10,605</u>	<u>(7,073)</u>	<u>292,703</u>
Operating income	(2,077)	36,539	(763)	—	33,699
Other expense/(income), net:					
Interest income	(20,955)	(1,061)	(130)	21,912	(234)
Interest expense	20,769	21,510	298	(21,912)	20,665
Income from equity method investments	45,844	(2,357)	—	(45,844)	(2,357)
Loss on debt extinguishment	3,649	—	—	—	3,649
Minority interest	—	—	(152)	—	(152)
Other expense	1,382	(295)	(180)	—	907
Other expense, net	<u>50,689</u>	<u>17,797</u>	<u>(164)</u>	<u>(45,844)</u>	<u>22,478</u>
Income from continuing operations before income taxes, discontinued operations and cumulative effect of change in accounting principle	(52,766)	18,742	(599)	45,844	11,221
Provision for income taxes	4,701	1	70	—	4,772
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle	(57,467)	18,741	(669)	45,844	6,449
Cumulative effect of change in accounting principle, net	—	(63,916)	—	—	(63,916)
Net loss	(57,467)	(45,175)	(669)	45,844	(57,467)
Preferred stock dividend	2,306	—	—	—	2,306
Net loss available to common stockholders	<u>\$ (59,773)</u>	<u>\$ (45,175)</u>	<u>\$ (669)</u>	<u>\$ 45,844</u>	<u>\$ (59,773)</u>

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
NINE MONTHS ENDED JANUARY 31, 2004
(Unaudited)
(In thousands)

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
Revenues	\$ —	\$ 324,763	\$ 12,637	\$ (6,980)	\$ 330,420
Operating expenses:					
Cost of operations	573	211,364	9,057	(6,980)	214,014
General and administration	977	42,327	783	—	44,087
Depreciation and amortization	1,381	38,382	4,593	—	44,356
	2,931	292,073	14,433	(6,980)	302,457
Operating income	(2,931)	32,690	(1,796)	—	27,963
Other expense/(income), net:					
Interest income	(17,908)	(1,023)	(73)	18,812	(192)
Interest expense	18,783	18,536	155	(18,812)	18,662
Income from equity method investments	(18,609)	(2,069)	—	18,609	(2,069)
Other income	(177)	(468)	(78)	—	(723)
Other expense, net	(17,911)	14,976	4	18,609	15,678
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	14,980	17,714	(1,800)	(18,609)	12,285
Provision for income taxes	1,603	(1)	29	—	1,631
Income from continuing operations before cumulative effect of change in accounting principle	13,377	17,715	(1,829)	(18,609)	10,654
Cumulative effect of change in accounting principle, net	—	2,518	205	—	2,723
Net income	13,377	20,233	(1,624)	(18,609)	13,377
Preferred stock dividend	2,423	—	—	—	2,423
Net income available to common stockholders	\$ 10,954	\$ 20,233	\$ (1,624)	\$ (18,609)	\$ 10,954

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CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JANUARY 31, 2003
(Unaudited)
(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	\$ (697)	34,557	\$ 2,917	\$ —	\$ 36,777
Cash Flows from Investing Activities:					
Additions to property, plant and equipment	(6)	(30,637)	(1,518)	—	(32,161)
Other	—	(694)	—	—	(694)
Net Cash Used In Investing Activities	(6)	(31,331)	(1,518)	—	(32,855)
Cash Flows from Financing Activities:					
Proceeds from long-term borrowings	373,155	1,073	1,243	—	375,471
Principal payments on long-term debt	(350,683)	(2,832)	(562)	—	(354,077)
Deferred financing costs	(11,119)	—	—	—	(11,119)
Proceeds from exercise of stock options	427	—	—	—	427
Intercompany borrowings	(70)	1,451	(1,381)	—	—
Net Cash Provided by Financing Activities	11,710	(308)	(700)	—	10,702
Net increase in cash and cash equivalents	11,007	2,918	699	—	14,624
Cash and cash equivalents, beginning of period	4,362	(2,377)	2,313	—	4,298
Cash and cash equivalents, end of period	\$ 15,369	\$ 541	\$ 3,012	\$ —	\$ 18,922

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JANUARY 31, 2004
(Unaudited)
(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
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Net Cash Provided by Operating Activities	\$ 42	43,625	\$ 2,771	\$ —	\$ 46,438
Cash Flows from Investing Activities:					
Acquisitions, net of cash acquired	—	(31,889)	—	—	(31,889)
Payments under landfill operating lease contracts	—	(4,305)	—	—	(4,305)
Additions to property, plant and equipment	(4,198)	(32,118)	(1,126)	—	(37,442)
Advances to unconsolidated entities	(7,074)	—	—	—	(7,074)
Other	—	966	—	—	966
Net Cash Used In Investing Activities	(11,272)	(67,346)	(1,126)	—	(79,744)
Cash Flows from Financing Activities:					
Proceeds from long-term borrowings	124,828	—	—	—	124,828
Principal payments on long-term debt	(98,740)	(1,248)	(945)	—	(100,933)
Intercompany borrowings	(28,011)	28,697	(686)	—	—
Other	3,054	—	—	—	3,054
Net Cash Provided by Financing Activities	1,131	27,449	(1,631)	—	26,949
Net decrease in cash and cash equivalents	(10,099)	3,728	14	—	(6,357)
Cash and cash equivalents, beginning of period	12,188	2,686	778	—	15,652
Cash and cash equivalents, end of period	\$ 2,089	\$ 6,414	\$ 792	\$ —	\$ 9,295

14. SUBSEQUENT EVENTS

On February 2, 2004, the Company issued \$45,000 of 9.75% senior subordinated notes due 2013. Proceeds from the issuance were used to repay outstanding indebtedness under the Company's revolving credit facility and to pay transaction costs related to the offering and will be used for general corporate purposes, including acquisitions. On February 20, 2004, the Company filed a registration statement on Form S-4 with the Securities and Exchange Commission relating to an exchange offer pursuant to which senior subordinated notes (the "exchange notes") identical in terms and in principal amount to the notes issued on February 2, 2004 (the "old notes") would be issued in exchange for the old notes. The exchange notes, when issued, will be freely transferable under the Securities Act of 1933, as amended. The Securities and Exchange Commission declared the registration statement on Form S-4 effective on March 2, 2004, and on that date the Company commenced an exchange offer whereby each holder of the old notes is being given an opportunity to exchange the old notes for exchange notes which are equal in principal amount to the old notes surrendered.

On February 5, 2004, the Company completed transactions with the State of Maine and Georgia-Pacific,

pursuant to which the State of Maine took ownership of the landfill located in West Old Town, Maine formerly owned by Georgia-Pacific and the Company became the operator of that facility under a 30-year operating and service agreement between the Company and the State of Maine. Under the terms of the agreement, the Company provided to the State of Maine, and the State of Maine will in turn provide to Georgia-Pacific, a cash payment of \$12,500 and letters of credit totaling \$13,500, which become payable upon the issuance of an expansion permit for an additional 7 million cubic yards of commercial capacity at the landfill.

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

Casella Waste Systems, Inc. and Subsidiaries (the "Company") 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 March 4, 2004, the Company owned and/or operated seven Subtitle D landfills, three landfills permitted to accept construction and demolition materials, 37 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.

On June 5, 2003, we entered into a construction, operation and management agreement with the Town of Templeton, Massachusetts for the operation of the Templeton sanitary landfill. On February 19, 2004, a special town meeting approved a petitioned article banning out-of-town waste at the landfill. As a result, we will seek to work with officials from the town regarding our agreement with the town. We expect our landfill permitting and construction process to be delayed as a result of this vote.

In December 2003 the Company commenced operations at Ontario County Landfill, after executing a twenty-five year operation, management and lease agreement with Ontario County, New York. The Landfill is permitted to accept 2,000 tons per day of municipal solid waste. On February 5, 2004, the Company completed transactions with the State of Maine and Georgia-Pacific, pursuant to which the State of Maine took ownership of the landfill located in West Old Town, Maine formerly owned by Georgia-Pacific and the Company became the operator of that facility under a 30-year operating and services agreement between us and the State of Maine. On August 28, 2003, the Company announced that it was selected by the McKean County, Pennsylvania Solid Waste Authority as the successful bidder to negotiate a service agreement to operate and develop the county's landfill. The Company cannot assure that any or all of these landfill management contracts will result in successful operations at the respective sites.

The Company's revenues increased from \$95.8 million for the three months ended January 31, 2003 to \$104.6 million for the three months ended January 31, 2004. From May 1, 2002 through April 30, 2003, the Company acquired eight solid waste collection, transfer, disposal and recycling operations. Between May 1, 2003 and January 31, 2004 the Company acquired eight solid waste collection, transfer, disposal and recycling operations. Under the rules of purchase accounting, the acquired companies' revenues and results of operations have been included together with those of the Company from the actual dates of the acquisitions and affect the period-to-period comparisons of the Company's historical results of operations. Effective September 30, 2002, the Company transferred its export brokerage operations to former employees, who had been responsible for managing that business. The domestic brokerage operations, and a recycling business, constituting the remainder of the Company's brokerage revenues, were transferred effective June 30, 2003 to the employees of that unit. For the nine months ended January 31, 2004 and 2003, the transferred brokerage and recycling businesses accounted for \$3.3 million and \$32.1 million, respectively, of the Company's revenues.

Forward Looking Statements

This Form 10-Q and other reports, proxy statements, and other communications to stockholders, as well as oral statements by the Company's officers or its agents, may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, with respect to, among other things, the Company's future revenues, operating income, or earnings per share. Without limiting the foregoing, any statements contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements, and the words "believes", "anticipates", "plans", "expects", and similar expressions are intended to identify forward-looking statements. There are a number

of important factors of which the Company is aware that may cause the Company's actual results to vary materially from those forecasted or projected in any such forward-looking statement, certain of which are beyond the Company's control. These factors include, without limitation, those outlined below in the section entitled "Certain Factors That May Affect Future Results". The Company's failure to successfully address any of these factors could have a material adverse effect on the Company's results of operations.

General

Revenues

The Company's revenues in the Eastern, Central and Western regions are primarily attributable 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 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 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 Recycling and in the Eastern, Central and Western regions, consist of revenues from the sale of recyclable commodities and operations and maintenance contracts of recycling facilities for municipal customers. FCR Recycling revenues included revenues from commercial brokerage and recycling operations through June 30, 2003, when those operations were sold.

Effective August 1, 2000, the Company contributed its cellulose insulation assets to a joint venture with Louisiana-Pacific, and accordingly, since that date has recognized half of the joint venture's net income/(loss) on the equity method in its results of operations. In addition, included in "Other" segment, the Company has ancillary revenues including major customer accounts and in the nine months ended January 31, 2003, residue recycling operations.

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 percentage of the Company's revenues attributable to services provided. For the nine months ended January 31, 2004 the percentages of revenues shown below reflect revenues from the commercial brokerage and recycling operations through June 30, 2003 and no revenues from the export brokerage business, sold in September 2002. The reduction in these revenues caused the percentages of the remaining operations to increase in the quarter ended January 31, 2003. Excluding the effect of brokerage revenues, revenues as a percentage of total revenue for collection and transfer were down slightly in the three and nine month periods ended January 31, 2004 compared to the prior year, despite an increase in the absolute dollar amounts, mainly because of the large increase in recycling revenue dollars. The increase in landfill/disposal revenues as a percentage of total revenues is due to increased volumes and landfill acquisition and operating contract arrangements. The increase in recycling revenues as a percentage of total revenues in the three and nine months ended January 31, 2004 is mainly due to increased volumes and prices.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Collection	49.0%	48.9%	45.7%	49.0%
Landfill/disposal facilities	14.6	16.3	14.4	15.9
Transfer	10.8	10.6	11.3	12.0
Recycling	21.9	24.2	18.8	22.1
Brokerage	3.7	0.0	9.8	1.0
Total revenues	100.0%	100.0%	100.0%	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.

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-production method, and the amortization of intangible assets (other than goodwill) using the straight-line method. Effective May 1, 2003, the Company adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*. Under SFAS No. 143, except for accretion expense, the Company no longer accrues landfill retirement obligations through a charge to cost of operations, but rather as an increase to landfill assets which are amortized 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 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 (generally for a term of 30 years after final closure) 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 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 January 31,		Nine Months Ended January 31,	
	2003	2004	2003	2004
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of operations	64.6	64.9	65.5	64.8
General and administration	14.4	14.1	13.2	13.3
Depreciation and amortization	12.1	13.9	11.0	13.4
Operating income	8.9	7.1	10.3	8.5
Interest expense, net	6.8	6.0	6.3	5.6
Income from equity method investments	(0.6)	(1.1)	(0.7)	(0.6)
Loss on debt extinguishment	3.8	—	1.1	—
Other (income)/expense, net	0.7	(0.3)	0.2	(0.2)
Provision (benefit) for income taxes	(0.9)	1.1	1.4	0.5
Income (loss) before discontinued operations and cumulative effect of change in accounting principle	(0.9%)	1.4%	2.0%	3.2%

Three Months Ended January 31, 2004

Revenues. Revenues increased \$8.8 million, or 9.2% to \$104.6 million in the quarter ended January 31, 2004 from \$95.8 million in the quarter ended January 31, 2003. The revenue increase in the quarter is attributable to an increase in core solid waste revenues of \$2.3 million, primarily due to volume and price increases, and higher recycling volumes and prices which resulted in a net increase in recycling revenues of \$3.3 million. Revenues from the rollover effect of acquired businesses accounted for \$7.3 million in the quarter, partially offset by loss of revenues from businesses divested amounting to \$4.1 million.

Cost of operations. Cost of operations increased \$5.9 million or 9.5% to \$67.8 million in the quarter ended January 31, 2004 from \$61.9 million in the quarter ended January 31, 2003. As a percentage of revenues, cost of operations remained relatively constant at 64.9% in the quarter ended January 31, 2004 compared to 64.6% in the prior year. The increase in cost of operations expenses in the quarter is primarily due to the effect of acquired businesses and a net increase in material purchases resulting from higher recycling volumes, which were partially offset by lower commodity purchases resulting from the divestiture of the export and domestic brokerage business.

General and administration. General and administration expenses increased \$0.9 million, or 6.5% to \$14.7 million in the quarter ended January 31, 2004 from \$13.8 million in the quarter ended January 31, 2003, and decreased as a percentage of revenues to 14.1% in the quarter ended January 31, 2004 from 14.4% in the prior year comparable period. The increase in general and administration expenses was due to higher legal, travel and bad debt costs.

Depreciation and amortization. Depreciation and amortization expense increased \$3.0 million, or 25.9%, to \$14.6 million in the quarter ended January 31, 2004 from \$11.6 million in the quarter ended January 31, 2003. While depreciation expense was up \$0.5 million between periods, the increase was primarily attributable to higher landfill amortization due to increased landfill volumes and as a result of adopting SFAS No. 143. Depreciation and amortization expense as a percentage of revenue increased to 13.9% in the quarter ended January 31, 2004 from 12.1% in the quarter ended January 31, 2003 which resulted mainly from the increase in landfill amortization expense.

Interest expense, net. Net interest expense decreased \$0.2 million, or (3.1)% to \$6.3 million in the quarter ended January 31, 2004 from \$6.5 million in the quarter ended January 31, 2003. This decrease is primarily attributable to lower average debt balances and lower interest rates on variable debt in the current fiscal quarter, versus last year. Net interest expense, as a percentage of revenues decreased to 6.0% in the quarter ended January 31, 2004 from 6.8% in the quarter ended January 31, 2003.

Loss on debt extinguishment. In quarter ended January 31, 2003, the Company entered into a new senior secured credit facility resulting in the write off of \$3.7 million in debt financing costs associated with the old senior secured credit facility.

Income from equity method investments. Income for the quarter ended January 31, 2004 and 2003 was from U.S. GreenFiber LLC ("GreenFiber"), the Company's 50% owned joint venture. Income from this equity method investment increased \$0.6 million to \$1.2 million in the quarter ended January 31, 2004 mainly due to higher contractor sales.

Other (income)/expense, net. Other income in the quarter ended January 31, 2004 was \$0.3 million compared to other expense of \$0.7 million in the quarter ended January 31, 2003. Other income in the quarter ended January 31, 2004 consisted primarily of gains on sales of fixed assets. Other expense in the quarter ended January 31, 2003 included a charge of \$1.3 million to unwind certain interest rate swap arrangements associated with the old senior secured credit facility. Offsetting this charge was a gain on the sale of other assets of \$0.3 million and a gain on the conclusion of the American Ash Recovery Technologies ("AART") contract of \$0.3 million.

Provision (benefit) for income taxes. Provision for income taxes increased \$2.0 million to \$1.2 million for the quarter ended January 31, 2004 from an income tax benefit of \$0.8 million for the quarter ended January 31, 2003. The effective tax rate decreased to 43.6% in the quarter ended January 31, 2004 from 51.0% in the quarter ended January 31, 2003 primarily due to an increase in pre-tax income from continuing operations for the quarter.

Reclassification adjustment from discontinued operations, net. In the fourth quarter of fiscal 2003, the Company entered into negotiations with former employees for the transfer of our domestic brokerage operation and a commercial recycling business. The commercial recycling business had been accounted for as a discontinued operation since fiscal 2001. Due to the nature of the transaction, the Company could not retain historical discontinued accounting treatment for this operation. Therefore the commercial recycling business' operating results have been reclassified from discontinued to continuing operations for the quarter ended January 31, 2003. Also in connection with the discontinued accounting treatment recorded in fiscal 2001, estimated future losses from this operation had been recorded and classified as losses from discontinued operations. This amount has been reclassified and offset against actual losses from operations for the quarter ended January 31, 2003.

Nine months ended January 31, 2004

Revenues. Revenues increased \$4.0 million, or 1.2% to \$330.4 million in the nine months ended January 31, 2004 from \$326.4 million in the nine months ended January 31, 2003. The revenue increase is attributable to an increase in core solid waste revenues of \$11.0 million due to volume and price increases, and higher recycling volumes and prices which resulted in a net increase in recycling revenues of \$6.7 million. Loss of revenues from businesses divested amounted to \$28.7 million, partially offset by the roll-over effect of businesses acquired of \$15.0 million.

Cost of operations. Cost of operations increased \$0.2 million or .09% to \$214.0 million in the nine months ended January 31, 2004 from \$213.8 million in the nine months ended January 31, 2003. Cost of operations as a percentage of revenues decreased to 64.8% in the nine months ended January 31, 2004 from 65.5% in the prior year. The decrease mainly arose from lower commodity purchases resulting from the divestiture of

the export and domestic brokerage businesses.

General and administration. General and administration expenses increased \$1.1 million, or 2.6% to \$44.1 million in the nine months ended January 31, 2004 from \$43.0 million in the nine months ended January 31, 2003, and increased as a percentage of revenues to 13.3% in the nine months ended January 31, 2004 from 13.2% in the nine months ended January 31, 2003. The increase in general and administrative costs was due to higher bad debt and travel costs.

Depreciation and amortization. Depreciation and amortization expense increased \$8.4 million, or 23.4%, to \$44.3 million in the nine months ended January 31, 2004 from \$35.9 million in the nine months ended January 31, 2003. While depreciation expense was up \$1.4 million between periods, the increase was primarily attributable to higher landfill amortization due to increased landfill volumes and as a result of adopting SFAS No. 143. Depreciation and amortization expense as a percentage of revenue rose to 13.4% in the quarter ended January 31, 2004 from 11.0% in the quarter ended January 31, 2003 which resulted from the higher landfill amortization expense.

Interest expense, net. Net interest expense decreased \$1.9 million, or (9.3)% to \$18.5 million in the nine months ended January 31, 2004 from \$20.4 million in the nine months ended January 31, 2003. This decrease is primarily attributable to lower average debt balances and lower interest rates on variable rate debt in the current period, versus last year. Interest expense, as a percentage of revenues decreased to 5.6% in the nine months ended January 31, 2004 from 6.3% in the nine months ended January 31, 2003.

Income from equity method investments. Income for the nine months ended January 31, 2004 was solely from GreenFiber. Equity income from GreenFiber decreased \$0.3 million to \$2.1 million in the nine months ended January 31, 2004 compared to \$2.4 million in the nine months ended January 31, 2003. Equity income from GreenFiber in the nine months ended January 31, 2003 included a \$1.0 million gain associated with an eminent domain settlement received from a state department of transportation on the involuntary conversion of a portion of a GreenFiber leased manufacturing facility.

Loss on debt extinguishment. For the nine months ended January 31, 2003, we entered into a new senior secured credit facility resulting in the write off of \$3.7 million in debt financing costs associated with the old senior secured credit facility.

Minority interest. Minority interest in the nine months ended January 31, 2003 reflects a minority owner's interest in the Company's majority owned subsidiary, AART. AART completed its ash operation contract and closed its operations in the nine months ended January 31, 2003.

Other (income)/expense, net. Other income in the nine months ended January 31, 2004 was \$0.7 million compared to other expense of \$0.9 million in the nine months ended January 31, 2003. Other income in the nine months ended January 31, 2004 consisted primarily of gains on sales of fixed assets. Other expense in the quarter ended January 31, 2003 included a charge of \$1.3 million to unwind certain interest rate swap arrangements associated with the old senior secured credit facility. Offsetting this charge was a gain on the sale of other assets of \$0.1 million and a gain on the conclusion of the AART contract of \$0.3 million.

Provision (benefit) for income taxes. Provision for income taxes decreased \$3.1 million in the nine months ended January 31, 2004 to \$1.6 million from \$4.8 million in the nine months ended January 31, 2003. The effective tax rate decreased to 13.3% in the nine months ended January 31, 2004 from 42.5% in the nine months ended January 31, 2003 primarily due to a decrease in the valuation for loss carryforwards of \$3.9 million as utilization of the Company's tax losses is more certain, which impacted the Company's effective tax rate for the first two quarters of fiscal 2004.

Cumulative effect of change in accounting principle, net. Effective May 1, 2003, the Company adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*. The primary modification to the Company's

methodology required by SFAS No. 143 is to require that capping, closure and post-closure costs be discounted to present value. Upon adoption of SFAS No. 143 the Company recorded a cumulative effect of change in accounting principle of \$2.7 million (net of taxes of \$1.9 million) in order to reflect the cumulative change in accounting for landfill obligations retroactive to the date of the inception of the landfill.

Effective May 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, which, among other things, eliminates the amortization of goodwill and requires an annual assessment of goodwill impairment by applying a fair value based test. Goodwill was determined to be impaired and the amount of \$63.9 million (net of tax benefit of \$0.2 million) was charged to earnings in the period ended January 31, 2003 as a cumulative effect of change in accounting principle. The goodwill impairment charge was related to our waste-to-energy operation, Maine Energy, and the brokerage business of the FCR Recycling segment, both of which were acquired as part of our acquisition of KTI. At the time of acquisition, we recorded the fair value of these businesses using an independent third party valuation. The underlying assumptions used to establish the value of these businesses, including earnings projections, commodity pricing assumptions and industry valuation multiples for recycling products, were not realized. Accordingly, goodwill impairment charges were recorded as the net book value of these businesses exceeded their fair value.

Liquidity and Capital Resources

The Company's business is capital intensive. The Company's capital requirements include acquisitions, fixed asset purchases and capital expenditures for landfill development and cell construction, as well as site and cell closure. The Company had a net working capital deficit of \$4.0 million at January 31, 2004 compared to a net working capital deficit of \$4.8 million at April 30, 2003. Net working capital comprises current assets, excluding cash and cash equivalents, minus current liabilities. The main factors accounting for the increase were higher levels of restricted cash and an increase in the current portion of deferred income taxes along with lower trade payables and current closure/post-closure cost accruals. This was partially offset by higher interest and other accruals.

The Company has a \$325.0 million credit facility with a group of banks for which Fleet Bank, N.A. is acting as agent. This credit facility consists of a \$175.0 million Senior Secured Revolving Credit Facility ("Revolver") and a Senior Secured Term "B" Loan, which had an outstanding balance of \$148.5 million at January 31, 2004 ("Term Loan"). The Company has the right to increase the amount of the revolver and/or the term loan by an aggregate amount of up to \$50.0 million at the Company's discretion, provided that the Company is not in default at the time of the increase, subject to the receipt of commitments from lenders for such additional amount. On August 26, 2003, the Company amended the terms of the Term Loan, lowering the borrowing rate and modifying the prepayment provisions to include a prepayment premium for the first two years following the date of the amendment.

The term loan and revolving credit facility agreement contains covenants that may limit the Company's activities, including covenants that restrict dividends and stock repurchases, limit capital expenditures, and set minimum net worth and profitability requirements and interest coverage and leverage ratios. As of January 31, 2004, the Company considered the profitability covenant, which requires the Company's cumulative adjusted net income for any two consecutive quarters to be positive, to be the most restrictive. As of January 31, 2004, the Company was in compliance with this covenant as the Company reported consolidated adjusted net income of \$5.5 million for the six months ended January 31, 2004. Consolidated adjusted net income is defined by the credit facility agreement. In accordance with such definition, consolidated net income, determined in accordance with generally accepted accounting principles, is adjusted for elimination of certain nonrecurring charges, extraordinary gains, income from discontinued operations and non-cash income attributable to equity investments.

As of January 31, 2004, the Company had available borrowing capacity under its revolving credit facility of up to \$116.7 million, subject to the Company's ability to meet certain borrowing conditions. The available

amount is net of outstanding irrevocable letters of credit amounting to \$30.0 million. This credit facility is secured by all of the Company's assets, including its interest in the equity securities of its subsidiaries. The Revolver matures in January 2008 and the Term Loan matures in January 2010.

As of January 31, 2004, the Company had outstanding \$150.0 million of 9.75% senior subordinated notes (the "notes") which mature in January 2013. The senior subordinated note agreement contains covenants that restrict dividends, stock repurchases and other payments, and limits the incurrence of debt and issuance of preferred stock subject to the Company meeting a minimum consolidated fixed charge ratio. The notes are guaranteed jointly and severally, fully and unconditionally by the Company's significant wholly-owned subsidiaries. Pursuant to the terms of the agreements under which the notes were issued, the Company, on August 18, 2003 commenced an exchange offer pursuant to which holders of the notes have the right to exchange the notes for substantially similar registered notes. The exchange offer was completed on September 24, 2003.

On February 2, 2004, the Company issued an additional \$45.0 million of 9.75% senior subordinated notes due 2013. Proceeds from the issuance were used to repay outstanding indebtedness under the Company's revolving credit facility and to pay transaction costs related to the offering and will be used for general corporate purposes, including acquisitions. On February 20, 2004, the Company filed a registration statement on Form S-4 with the Securities and Exchange Commission relating to an exchange offer pursuant to which senior subordinated notes (the "exchange notes") identical in terms and in principal amount to the notes issued on February 2, 2004 (the "old notes") would be issued in exchange for the old notes. The exchange notes, when issued, will be freely transferable under the Securities Act of 1933, as amended. The Securities and Exchange Commission declared the registration statement on Form S-4 effective on March 2, 2004, and on that date the Company commenced an exchange offer whereby each holder of the old notes is being given an opportunity to exchange the old notes for exchange notes which are equal in principal amount to the old notes surrendered.

Net cash provided by operating activities amounted to \$46.4 million for the nine months ended January 31, 2004 compared to \$36.8 million for the same period of the prior fiscal year. The increase was mainly due to changes in the Company's working capital.

Net cash used in investing activities was \$79.7 million for the nine months ended January 31, 2004 compared to \$32.9 million used in investing activities in the same period of the prior fiscal year. The increase in cash used in investing activities was due to a higher level of acquisitions, capital expenditures, advances to unconsolidated entities and payments under landfill operating lease contracts.

Net cash provided by financing activities was \$26.9 million for the nine months ended January 31, 2004 compared to \$10.7 million provided by financing activities in the same period of the prior fiscal year. The increase in cash provided by investing activities is primarily due to lower outlays on deferred financing costs, as well as higher net borrowings along with higher proceeds from the exercise of stock options.

Inflation and Prevailing Economic Conditions

To date, inflation has not had a significant impact on the Company's operations. Consistent with industry practice, most of the Company's contracts provide for a pass-through of certain costs, including increases in landfill tipping fees and, in some cases, fuel costs. The Company therefore believes it should be able to implement price increases sufficient to offset most cost increases resulting from inflation. However, competitive factors may require the Company to absorb at least a portion of these cost increases, particularly during periods of high inflation.

The Company's business is located mainly in the eastern United States. Therefore, the Company's business, financial condition and results of operations are susceptible to downturns in the general economy in this geographic region and other factors affecting the region, such as state regulations and severe weather

conditions. The Company is unable to forecast or determine the timing and /or the future impact of a sustained economic slowdown.

Certain Factors That May Affect Future Results

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Form 10-Q and presented elsewhere by management from time to time.

The Company's increased leverage may restrict its future operations and impact its ability to make future acquisitions.

As a result of the acquisition of KTI, the Company's indebtedness increased substantially. In addition, the Company's indebtedness has increased further as a result of the Company's new credit facility and the completion of the offerings of the senior subordinated notes. The payment of interest and principal due under this indebtedness has reduced, and may continue to reduce, funds available for other business purposes, including capital expenditures and acquisitions. In addition, the aggregate amount of indebtedness has limited and may continue to limit the Company's ability to incur additional indebtedness, and thereby may limit its acquisition program.

The Company may not be successful in making acquisitions of solid waste assets, including developing additional disposal capacity, or in integrating acquired businesses or assets, which could limit the Company's future growth.

The Company's strategy envisions that a substantial part of the Company's future growth will come from making acquisitions of traditional solid waste assets or operations and acquiring or developing additional disposal capacity. These acquisitions may include "tuck-in" acquisitions within the Company's existing markets, assets that are adjacent to or outside the Company's existing markets, or larger, more strategic acquisitions. In addition, from time to time the Company may acquire businesses that are complementary to the Company's core business strategy. The Company may not be able to identify suitable acquisition candidates. If the Company identifies suitable acquisition candidates, the Company may be unable to negotiate successfully their acquisition at a price or on terms and conditions favorable to the Company. Furthermore, the Company may be unable to obtain the necessary regulatory approval to complete potential acquisitions.

The Company's ability to achieve the benefits the Company anticipates from acquisitions, including cost savings and operating efficiencies, depends in part on the Company's ability to successfully integrate the operations of such acquired businesses with the Company's operations. The integration of acquired businesses and other assets may require significant management time and company resources that would otherwise be available for the ongoing management of the Company's existing operations.

In addition, the process of acquiring, developing and permitting additional disposal capacity is lengthy, expensive and uncertain. For example, the Company is currently involved in litigation with the Town of Bethlehem, New Hampshire relating to the expansion of a landfill owned by the Company's wholly owned subsidiary, North Country Environmental Services, Inc. Moreover, the disposal capacity at the Company's existing landfills is limited by the remaining available volume at the Company's landfills and annual and/or daily disposal limits imposed by the various governmental authorities with jurisdiction over the Company's landfills. The Company typically reaches or approximates the Company's daily and annual maximum permitted disposal capacity at all of the Company's landfills. If the Company is unable to develop or acquire additional disposal capacity, the Company's ability to achieve economies from the internalization of the Company's waste stream will be limited and the Company may be required to increase the Company's utilization of disposal facilities owned by third parties, which could reduce the Company's revenues and/or the Company's operating margins. Although the Company has entered into several landfill operating

contracts and has announced that it is the successful bidder for the operation of the McKean County Landfill in Pennsylvania, there can be no assurance that any or all of these landfill management contracts will result in successful operations at the respective sites or that the landfill projects will receive all necessary permits.

The Company's ability to make acquisitions is dependent on the availability of adequate cash and the attractiveness of the Company's stock price.

The Company anticipates that any future business acquisitions will be financed through cash from operations, borrowings under the Company's new senior secured credit facilities, the issuance of shares of the Company's Class A common stock and/or seller financing. The Company may not have sufficient existing capital resources and may be unable to raise sufficient additional capital resources on terms satisfactory to the Company, if at all, in order to meet the Company's capital requirements for such acquisitions.

The Company also believes that a significant factor in the Company's ability to close acquisitions will be the attractiveness to the Company and to persons selling businesses to the Company of the Company's Class A common stock as consideration for potential acquisition candidates. This attractiveness may, in large part, be dependent upon the relative market price and capital appreciation prospects of the Company's Class A common stock compared to the equity securities of the Company's competitors. The trading price of the Company's Class A common stock on the Nasdaq National Market has limited the Company's willingness to use the Company's equity as consideration and the willingness of sellers to accept the Company's shares and as a result has limited, and could continue to limit, the size and scope of the Company's acquisition program.

Environmental regulations and litigation could subject the Company to fines, penalties, judgments and limitations on the Company's ability to expand.

The Company is subject to potential liability and restrictions under environmental laws, including those relating to transport, recycling, treatment, storage and disposal of wastes, discharges to air and water, and the remediation of contaminated soil, surface water and groundwater. The waste management industry has been and will continue to be subject to regulation, including permitting and related financial assurance requirements, as well as to attempts to further regulate the industry through new legislation. The Company's waste-to-energy facility is subject to regulations limiting discharges of pollution into the air and water, and the Company's solid waste operations are subject to a wide range of federal, state and, in some cases, local environmental, odor and noise and land use restrictions. For example, the Company's waste-to-energy facility in Biddeford, Maine is affected by zoning restrictions and air emissions limitations in its efforts to implement a new odor control system. If the Company is not able to comply with the requirements that apply to a particular facility or if the Company operates without necessary approvals, the Company could be subject to civil, and possibly criminal, fines and penalties, and the Company may be required to spend substantial capital to bring an operation into compliance or to temporarily or permanently discontinue, and/or take corrective actions, possibly including removal of landfilled materials, regarding an operation that is not permitted under the law. The Company may not have sufficient insurance coverage for the Company's environmental liabilities. Those costs or actions could be significant to the Company and impact the Company's results of operations, as well as the Company's available capital.

Environmental and land use laws also impact the Company's ability to expand and, in the case of the Company's solid waste operations, may dictate those geographic areas from which the Company must, or, from which the Company may not, accept waste. Those laws and regulations may limit the overall size and daily waste volume that may be accepted by a solid waste operation. If the Company is not able to expand or otherwise operate one or more of the Company's facilities because of limits imposed under environmental laws, the Company may be required to increase the Company's utilization of disposal facilities owned by third parties, which could reduce the Company's revenues and/or operating margins.

The Company has historically grown and intends to continue to grow through acquisitions, and the Company has tried and will continue to try to evaluate and address environmental risks and liabilities presented by newly acquired businesses as the Company has identified them. It is possible that some liabilities, including ones that may exist only because of the past operations of an acquired business, may prove to be more difficult or costly to address than the Company anticipates. It is also possible that government officials responsible for enforcing environmental laws may believe an issue is more serious than the Company would expect, or that the Company will fail to identify or fully appreciate an existing liability before the Company becomes legally responsible to address it. Some of the legal sanctions to which the Company could become subject could cause the Company to lose a needed permit, or prevent the Company from or delay the Company in obtaining or renewing permits to operate the Company's facilities or harm the Company's reputation.

The Company's operating program depends on the Company's ability to operate and expand the landfills the Company owns and leases and to develop new landfill sites. Localities where the Company operates generally seek to regulate some or all landfill operations, including siting and expansion of operations. The laws adopted by municipalities in which the Company's landfills are located may limit or prohibit the expansion of the landfill as well as the amount of waste that the Company can accept at the landfill on a daily or annual basis and any effort to acquire or expand landfills typically involves a significant amount of time and expense. For example, expansion at the Company's North County Environmental Services, Inc. landfill will require the New Hampshire Supreme Court to overturn a lower court ruling which interpreted a local ordinance to prohibit expansion of the landfill with respect to 1.3 million tons of capacity, and expansion of the Company's Hyland landfill is subject to the passage of a town-wide referendum. The Company may not be successful in obtaining new landfill sites or expanding the permitted capacity of any of the Company's current landfills once their remaining disposal capacity has been consumed. If the Company is unable to develop additional disposal capacity, the Company's ability to achieve economies from the internalization of the Company's waste stream will be limited and the Company will be required to utilize the disposal facilities of the Company's competitors.

In addition to the costs of complying with environmental laws and regulations, the Company incurs costs defending against environmental litigation brought by governmental agencies and private parties. The Company is, and also may be in the future, a defendant in lawsuits brought by parties alleging environmental damage, personal injury, and/or property damage. For example, the Company is one of over twenty defendants named in a toxic tort lawsuit filed on July 2, 2001 by residents surrounding three sites in Cheektowaga, New York alleging, among other things, that the Company has liability as a result of the Company's airspace agreement at the Schultz construction and demolition debris landfill. In addition, the Company is also a defendant in a lawsuit filed on January 10, 2002 by the City of Biddeford, Maine alleging, among other things, that the Company's subsidiary, Maine Energy, processed amounts of waste above contractual limits without notice to the city. A significant judgment against the Company could harm the Company's business, the Company's prospects and the Company's reputation.

The Company's operations would be adversely affected if the Company does not have access to sufficient capital.

The Company's ability to remain competitive and sustain the Company's operations depends in part on cash flow from operations and the Company's access to capital. The Company intends to fund the Company's cash needs primarily through cash from operations and borrowings under the Company's new senior secured credit facilities. However, the Company may require additional equity and/or debt financing for debt repayment obligations and to fund the Company's growth and operations. In addition, if the Company undertakes more acquisitions or further expands the Company's operations, the Company's capital requirements may increase. The Company may not have access to the amount of capital that the Company requires from time to time, on favorable terms or at all.

The Company's results of operations could continue to be affected by changing prices or market requirements for recyclable materials.

The Company's results of operations have been and may continue to be affected by changing purchase or resale prices or market requirements for recyclable materials. The Company's recycling business involves the purchase and sale of recyclable materials, some of which are priced on a commodity basis. The resale and purchase prices of, and market demand for, recyclable materials, particularly waste paper, plastic and ferrous and aluminum metals, can be volatile due to numerous factors beyond the Company's control. Although the Company seeks to limit the Company's exposure to fluctuating commodity prices through the use of hedging agreements and long-term supply contracts with customers, these changes have in the past contributed, and may continue to contribute, to significant variability in the Company's period-to-period results of operations.

The Company's business is geographically concentrated and is therefore subject to regional economic downturns.

The Company's operations and customers are principally located in the eastern United States. Therefore, the Company's business, financial condition and results of operations are susceptible to regional economic downturns and other regional factors, including state regulations and budget constraints and severe weather conditions. In addition, as the Company expands in the Company's existing markets, opportunities for growth within these regions will become more limited and the geographic concentration of the Company's business will increase.

Maine Energy may be required to make a payment in connection with the payoff of certain obligations and limited partner loans earlier than the Company had anticipated and which may exceed the amount of the liability the Company recorded in connection with the KTI acquisition.

Under the terms of waste handling agreements among the Biddeford-Saco Waste Handling Committee, the cities of Biddeford and Saco, Maine, 13 other municipalities and the Company's subsidiary Maine Energy, Maine Energy will be required, following the date on which the bonds that financed Maine Energy and certain limited partner loans to Maine Energy are paid in full, to pay a residual cancellation payment to the respective municipalities party to those agreements equal to an aggregate of 18% of the fair market value of the equity of the partners in Maine Energy. In connection with the Company's merger with KTI, the Company estimated the fair market value of Maine Energy as of the date the limited partner loans are anticipated to be paid in full, and recorded a liability equal to 18% of such amount. The Company's estimate of the fair market value of Maine Energy may not prove to be accurate, and in the event the Company has underestimated the value of Maine Energy, the Company could be required to recognize unanticipated charges, in which case the Company's operating results could be harmed.

In connection with these waste handling agreements, the cities of Biddeford and Saco and the additional 13 municipalities that were parties to the agreements have filed lawsuits in the State of Maine seeking the residual cancellation payments and alleging, among other things, the Company's breach of the waste handling agreement for the Company's failure to pay the residual cancellation payments in connection with the KTI merger, failure to pay off limited partner loans in accordance with the terms of the agreement and processing amounts of waste above contractual limits without issuance of proper notice. The complaint seeks damages for breach of contract and a court order requiring the Company to provide an accounting of all relevant transactions since May 3, 1996. If the plaintiffs are successful in their claims against the Company and damages are awarded the Company's operating income in the period in which such a claim is paid would be impacted.

The Company may not be able to effectively compete in the highly competitive solid waste services industry.

The solid waste services industry is highly competitive, has undergone a period of rapid consolidation and requires substantial labor and capital resources. Some of the markets in which the Company competes or will likely compete are served by one or more of the large national or multinational solid waste companies, as well as numerous regional and local solid waste companies. Intense competition exists not only to provide services to customers, but also to acquire other businesses within each market. Some of the Company's competitors have significantly greater financial and other resources than the Company. From time to time, competitors may reduce the price of their services in an effort to expand market share or to win a competitively bid contract. These practices may either require the Company to reduce the pricing of the Company's services or result in the Company's loss of business.

As is generally the case in the industry, some municipal contracts are subject to periodic competitive bidding. The Company may not be the successful bidder to obtain or retain these contracts. If the Company is unable to compete with larger and better capitalized companies, or to replace municipal contracts lost through the competitive bidding process with comparable contracts or other revenue sources within a reasonable time period the Company's revenues would decrease and the Company's operating results would be harmed.

In the Company's solid waste disposal markets the Company also competes with operators of alternative disposal and recycling facilities and with counties, municipalities and solid waste districts that maintain their own waste collection, recycling and disposal operations. These entities may have financial advantages because user fees or similar charges, tax revenues and tax-exempt financing may be more available to them than to the Company.

The Company's GreenFiber insulation manufacturing joint venture with Louisiana-Pacific Corporation competes with other parties, principally national manufacturers of fiberglass insulation, which have substantially greater resources than GreenFiber does, which they could use for product development, marketing or other purposes to the Company's detriment.

The Company's results of operations and financial condition may be negatively affected if the Company inadequately accrues for closure and post-closure costs.

The Company has material financial obligations relating to closure and post-closure costs of the Company's existing landfills and will have material financial obligations with respect to any disposal facilities which the Company may own or operate in the future. Once the permitted capacity of a particular landfill is reached and additional capacity is not authorized, the landfill must be closed and capped, and post-closure maintenance started. The Company establishes reserves for the estimated costs associated with such closure and post-closure obligations over the anticipated useful life of each landfill on a per ton basis. In addition to the landfills the Company currently operates, the Company owns four unlined landfills, which are not currently in operation. The Company has provided and will in the future provide accruals for financial obligations relating to closure and post-closure costs of the Company's owned or operated landfills, generally for a term of 30 years after final closure of a landfill. The Company's financial obligations for closure or post-closure costs could exceed the amount accrued and reserved or amounts otherwise receivable pursuant to trust funds established for this purpose. Such a circumstance could result in significant unanticipated charges.

Fluctuations in fuel costs could affect the Company's operating expenses and results.

The price and supply of fuel is unpredictable and fluctuates based on events beyond the Company's control, including among others, geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regional production patterns. Because fuel is needed to run the Company's fleet of trucks, price escalations for fuel increase the Company's operating expenses. During fiscal 2003, the Company used approximately 6.5 million gallons of diesel fuel in the Company's solid waste operations. Although many of the Company's customer contracts permit the Company to pass on some or all fuel increases to the Company's customers, the Company may choose not to do so for competitive reasons.

The Company could be precluded from entering into contracts or obtaining permits if the Company is unable to obtain third party financial assurance to secure the Company's contractual obligations.

Public solid waste collection, recycling and disposal contracts, obligations associated with landfill closure and the operation and closure of waste-to-energy facilities may require performance or surety bonds, letters of credit or other means of financial assurance to secure the Company's contractual performance. If the Company is unable to obtain the necessary financial assurance in sufficient amounts or at acceptable rates, the Company could be precluded from entering into additional municipal solid waste collection contracts or from obtaining or retaining landfill management contracts or operating permits. Any future difficulty in obtaining insurance could also impair the Company's ability to secure future contracts conditioned upon the contractor having adequate insurance coverage.

The Company may be required to write-off capitalized charges or intangible assets in the future, which could harm the Company's earnings.

Any write-off of capitalized costs or intangible assets reduces the Company's earnings and, consequently, could affect the market price of the Company's Class A common stock. In accordance with generally accepted accounting principles, the Company capitalizes certain expenditures and advances relating to the Company's acquisitions, pending acquisitions, landfills and development projects. From time to time in future periods, the Company may be required to incur a charge against earnings in an amount equal to any unamortized capitalized expenditures and advances, net of any portion thereof that the Company estimate will be recoverable, through sale or otherwise, relating to (1) any operation that is permanently shut down or has not generated or is not expected to generate sufficient cash flow, (2) any pending acquisition that is not consummated, (3) any landfill or development project that is not expected to be successfully completed, and (4) any goodwill or other intangible assets that are determined to be impaired. The Company has incurred such charges in the past.

The Company's revenues and the Company's operating income experience seasonal fluctuations.

The Company's transfer and disposal revenues have historically been lower during the months of November through March. This seasonality reflects the lower volume of waste during the late fall, winter and early spring months primarily because:

- the volume of waste relating to construction and demolition activities decreases substantially during the winter months in the northeastern United States; and
- decreased tourism in Vermont, Maine and eastern New York during the winter months tends to lower the volume of waste generated by commercial and restaurant customers, which is partially offset by increased volume from the winter ski industry.

Since certain of the Company's operating and fixed costs remain constant throughout the fiscal year, operating income is therefore impacted by a similar seasonality. In addition, particularly harsh weather conditions typically result in increased operating costs to the Company's operations.

The Company's recycling business experiences increased volumes of newspaper in November and December due to increased newspaper advertising and retail activity during the holiday season. The Company's cellulose insulation joint venture experiences lower sales in November and December because of lower production of manufactured housing due to holiday plant shutdowns.

Efforts by labor unions to organize the Company's employees could divert management attention and increase the Company's operating expenses.

Labor unions regularly make attempts to organize the Company's employees, and these efforts will likely continue in the future. Certain groups of the Company's employees have chosen to be represented by unions, and the Company has negotiated collective bargaining agreements with these groups. Additional groups of employees may seek union representation in the future, and the negotiation of collective bargaining agreements could divert management attention and result in increased operating expenses and lower net income. If the Company is unable to negotiate acceptable collective bargaining agreements, the Company might have to wait through "cooling off" periods, which are often followed by union-initiated work stoppages, including strikes. Depending on the type and duration of any labor disruptions, the Company's revenues could decrease and the Company's operating expenses could increase, which could adversely affect the Company's financial condition, results of operations and cash flows. As of March 4, 2004, approximately 5.1% of the Company's employees involved in collection, transfer, disposal, recycling or other operations, including the Company's employees at the Company's Maine Energy waste-to-energy facility, were represented by unions.

The Company's Class B common stock has ten votes per share and is held exclusively by John W. Casella and Douglas R. Casella.

The holders of the Company's Class B common stock are entitled to ten votes per share and the holders of the Company's Class A common stock are entitled to one vote per share. At March 4, 2004, an aggregate of 988,200 shares of the Company's Class B common stock, representing 9,882,000 votes, were outstanding, all of which were beneficially owned by John W. Casella, the Company's Chairman and Chief Executive Officer, or by his brother, Douglas R. Casella, a member of the Company's Board of Directors. Based on the number of shares of common stock and Series A redeemable convertible preferred stock outstanding on March 4, 2004, the shares of the Company's Class A common stock and Class B common stock beneficially owned by John W. Casella and Douglas R. Casella represent approximately 30.1% of the aggregate voting power of the Company's stockholders. Consequently, John W. Casella and Douglas R. Casella are able to substantially influence all matters for stockholder consideration.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate volatility

The interest rate on \$53.0 million of long term debt has been fixed through two interest rate swaps. The Company had interest rate risk relating to approximately \$122.5 million of long-term debt at January 31, 2004. The interest rate on the variable rate portion of long-term debt was approximately 3.9% at January 31, 2004. Should the average interest rate on the variable rate portion of long-term debt change by 100 basis points, it would have an approximate interest expense change of \$0.3 million for the quarter reported. As a result of the issuance of the 9.75% senior subordinated notes on February 2, 2004, at March 4, 2004 the Company had interest rate risk relating to approximately \$96.6 million.

The remainder of the Company's long-term debt is at fixed rates and not subject to interest rate risk.

Commodity price volatility

The Company is subject to commodity price fluctuations related to the portion of its sales of recyclable commodities that are not under floor or flat pricing arrangements. To minimize the Company's commodity exposure, the Company is at January 31, 2004 party to twenty one commodity hedging agreements that have been authorized pursuant to the Company's policies and procedures. The Company does not use financial instruments for trading purposes and is not a party to any leveraged derivatives. If commodity prices were to change by 10%, the impact on the Company's operating margin is estimated at \$1.3 million for the quarter reported.

ITEM 4. CONTROLS AND PROCEDURES

- a) *Evaluation of disclosure controls and procedures.* Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.
- b) *Changes in internal controls.* During the period covered by this Quarterly Report on Form 10-Q, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f)) that have materially affected or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Pursuant to the applicable rules of the Securities and Exchange Commission, information as to material legal proceedings is presented in the Company's Annual Report on Form 10-K, and information as to such legal proceedings is only included in this Quarterly Report on Form 10-Q and in any other Quarterly Report on Form 10-Q to the extent there have been material developments with respect to such proceedings.

The Company's wholly owned subsidiary, North Country Environmental Services, Inc. ("NCES"), is a party to an appeal against the Town of Bethlehem, New Hampshire ("Town") before the New Hampshire Supreme Court. The appeal arose from cross actions for declaratory and injunctive relief filed by NCES and the Town to determine the permitted extent of NCES's landfill in the Town. The New Hampshire Superior Court in Grafton ruled on February 1, 1999 that the Town could not enforce an ordinance purportedly prohibiting expansion of the landfill, at least with respect to 51 acres of NCES's 87 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 Supreme Court denied the Town's appeal. Notwithstanding the Supreme Court's ruling, the Town continued to assert jurisdiction to conduct unqualified site plan review with respect to Stage III and has 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 Stage III, and also an order declaring that an ordinance prohibiting landfills applies to Stage IV expansion. The trial related to the Town's jurisdiction was held in December 2002 and on April 24, 2003, the Grafton Superior Court issued its ruling, upholding 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; 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 Court ruling to the New Hampshire Supreme Court, which agreed to hear the case, except for the Company's appeal of the Superior Court's ruling denying attorney's fees. On March 1, 2004, the Supreme Court issued its opinion affirming that NCES has all of the local approvals that it needs to operate within the 51 acres. If successful in obtaining state permits for development and operation within the 51 acres, NCES expects to be able to provide from three to five years of disposal capacity. 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 two legal claims raised by NCES as grounds for invalidating the 1992 ordinance.

On or about December 11, 2001, the Company was served with a bill in equity in aid of discovery filed in the Strafford Superior Court in New Hampshire by Nancy Hager. The bill in equity seeks an accounting related to non-compete tip fee payments from the Company to Ms. Hager pursuant to a 1993 release and settlement agreement. The bill in equity is a request for pre-litigation discovery for the purpose of investigating a potential claim for failure to pay appropriate non-compete tip fee amounts. In light of an arbitration clause in the 1993 release and settlement agreement, the Company filed a motion to stay the proceedings under the bill in equity pending completion of the arbitration process. On March 18, 2002, the court granted the Company's motion to stay. On August 5, 2002, the court extended the stay pending the arbitration process. On October 17, 2002, Ms. Hager voluntarily withdrew her bill in equity without prejudice. On January 15, 2003, Ms. Hager filed a written request for arbitration with the American Arbitration Association. On June 5, 2003, Mrs. Hager submitted a disclosure letter to the arbitration panel alleging that she is owed between \$480,000 and \$560,000. On July 7, 2003, Ms. Hager revised her claim to allege that she is owed between \$637,000 and \$1,000,000. On March 9, 2004, the Company reached a settlement with Ms. Hager that resolves not only her claims to date but also any potential future claims as a result of applying the non-compete language prospectively. The settlement includes (i) the pre-payment by the Company on June 1, 2004 of the amount of \$400,000 reflecting the amount of \$1.08 per ton for the next 372,000 tons disposed at the North Country Environmental Services Landfill; and (ii) payment by the Company of an additional \$479,880 million over time commencing on June 1, 2004 at the rate of \$1.29 per ton for the next 372,000 tons disposed at the North Country Environmental Services Landfill.

On or about December 3, 2003, Maine Energy Recovery Company ("Maine Energy"), the Company's wholly-owned subsidiary, was served with a complaint filed in the United States District Court, District of Maine. The complaint is a citizen suit under the federal Clean Air Act and similar state law alleging (1) emissions of volatile organic compounds ("VOCs") in violation of its federal operating permit; (2) failure to accurately identify emissions; and (3) failure to control VOC emissions through implementation of reasonably available control technology. In addition, the complaint alleges that Maine Energy was negligent and that the subject emissions cause odors and constitute a public nuisance. The allegations relate to Maine Energy's waste-to-energy facility located in Biddeford, Maine and its construction, installation and operation of a new odor control system which redirects air from tipping and processing buildings to a boiler building for treatment by three air vents. The complaint seeks an unspecified amount of civil penalties, damages, injunctive relief and attorney's fees. The Company is currently working with the Maine Department of Environmental Protection to determine the extent of any VOC emissions and whether any further action is

necessary.

The Company offers no prediction of the outcome of any of the proceedings described above. The Company is vigorously defending each of these lawsuits. However, the Company may not prevail and any judgments against the Company, if sustained on appeal, may result in the incurrence of significant costs or the restriction of the Company's operations.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS ON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

The exhibits that are filed as part of this Quarterly Report on Form 10-Q or that are incorporated by reference herein are set forth in the Exhibit Index hereto.

(b) Reports on Form 8-K:

(1) Form 8-K, dated and filed January 22, 2004, in which the Company announced its intention to offer \$45.0 million aggregate principal amount of 9.75% senior subordinated notes due 2013.

(2) Form 8-K, dated and filed January 22, 2004, in which the Company disclosed the status, as of the date thereof, of (i) certain landfill development projects being undertaken by the Company, (ii) its fiscal year 2004 outlook and (iii) certain previously unreported legal proceedings.

(3) Form 8-K, dated and filed January 23, 2004, in which the Company announced the pricing of its previously announced offering of an additional \$45.0 million aggregate principal amount of 9.75% senior subordinated notes due 2013 to be issued in an institutional private placement.

SIGNATURE

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

Casella Waste Systems, Inc.

Date: March 12, 2004

By: /s/ Richard A. Norris
Richard A. Norris
Chief Financial Officer
(Principal Financial and Accounting
Officer and Duly Authorized Officer)

Exhibit Index

- 31.1 Certification of John W. Casella, Chairman of the Board of Directors and Chief Executive Officer required by Rule 13a-15(e) or Rule 15(d)-15(e) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
- 31.2 Certification of Richard A. Norris, Senior Vice President and Chief Financial Officer required by Rule 13a-15(e) or Rule 15(d)-15(e) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. S 1350 of John W. Casella, Chairman of the Board of Directors and Chief Executive Officer, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. S 1350 of Richard A. Norris, Senior Vice President and Chief Financial Officer, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002.

CERTIFICATIONS

I, John W. Casella, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Casella Waste Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

By: /s/ John W. Casella
John W. Casella
Chief Executive Officer

CERTIFICATIONS

I, Richard A. Norris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Casella Waste Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

By: /s/ Richard A. Norris
Richard A. Norris
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Casella Waste Systems, Inc. (the "Company") for the period ended January 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, John W. Casella, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 12, 2004

By: /s/ John W. Casella
John W. Casella
Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Casella Waste Systems, Inc. (the "Company") for the period ended January 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Richard A. Norris, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 12, 2004

By: /s/ Richard A. Norris
Richard A. Norris
Chief Financial Officer