QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended April 30, 2002

or

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

For the transition period from _____ to _____

Commission file number 000-23211

CASELLA WASTE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:
Class A common stock, $.01 per share par value

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

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

The aggregate value of the voting stock held by non-affiliates of the registrant, based on the last sale price of the registrant's Class A common stock at the close of business on June 28, 2002 was $248,207,367. The Company does not have any non-voting common stock outstanding.

There were 22,701,762 shares of Class A common stock, $.01 par value per share, of the registrant outstanding as of June 28, 2002. There were 988,200 shares of Class B common stock, $.01 par value per share, of the registrant outstanding as of June 28, 2002.

Documents Incorporated by Reference

Items 10, 11, 12 and 13 of Part III (except for information required with respect to executive officers of the Company, which is set forth under Part I—Business—"Executive Officers and Other Key Employees of the Company" and with respect to certain equity compensation plan information which is set forth under Part III—"Equity Compensation Plan Information") have been omitted from this Annual Report on Form 10-K, since the Company expects to file with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, a definitive proxy statement. The information required by Items 10, 11, 12 and 13 of Part III of this report, which will appear in the definitive proxy statement, is incorporated by reference into this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Casella Waste Systems, Inc. (the "Company") is a vertically-integrated regional solid waste services company that provides collection, transfer, disposal and recycling services to approximately 211,000 residential customers and 46,000 industrial and commercial customers, primarily in the eastern United States. As of June 28, 2002, the Company owned and/or operated five Subtitle D landfills, one landfill permitted to accept construction and demolition materials, 35 solid waste collection operations, 32 transfer stations, 39 recycling facilities, one waste-to-energy facility and 50% interest in a joint venture that manufactures, markets and sells cellulose insulation made from recycled fiber.

Overview of the Company's Business

Background. Casella was founded in 1975 as a single truck operation in Rutland, Vermont and subsequently expanded to include operations in New Hampshire, Maine, upstate New York, northern Pennsylvania, and eastern Massachusetts. In 1993, the Company initiated an acquisition strategy to take advantage of anticipated reductions in available landfill capacity in Vermont and surrounding states due to increasing environmental regulation and other market forces driving consolidation in the solid waste services industry. In 1995, the Company expanded its operations from Vermont and New Hampshire to Maine with the acquisition of the companies comprising New England Waste Services of ME, Inc., and in January 1997 established a market presence in upstate New York and northern Pennsylvania through acquisition of Superior Disposal Services, Inc.'s business. From May 1, 1994 through December 30, 1999, the Company acquired 161 solid waste businesses, including five Subtitle D landfills.

In 1997, the Company raised $50.2 million from the initial public offering of shares of Class A common stock. In 1998, the Company raised an additional $41.3 million through a follow-on public offering of an additional 1.6 million shares of Class A common stock. In August 2000, the Company sold 55,750 shares of its Series A redeemable convertible preferred stock to Berkshire Partners LLC, an investment firm, and other investors for $55.8 million.

KTI Acquisition and Restructuring. In December 1999, the Company acquired KTI, Inc. ("KTI") an integrated provider of waste processing services, for aggregate consideration of $340.0 million. KTI represented a unique opportunity to acquire disposal capacity and collection operations in a primary market area and in contiguous markets in eastern Massachusetts, as well as other businesses which fit within the Company's operating strategy. KTI assets which were considered core to the Company's operations included the following:

- A majority interest in Maine Energy Recovery Company, Limited Partnership ("Maine Energy"), a waste-to-energy facility which provided the Company with important additional disposal capacity in the Eastern region and which generates electric power for sale. The Company subsequently acquired the remaining ownership interest in this facility;
- FCR, Inc. ("FCR") which consisted of 18 recycling facilities (now 23) that process and market recyclable materials under long-term contracts with municipalities and commercial customers. FCR also included a commercial brokerage business;
- Transfer and collection operations which were "tuck-ins" to existing Maine operations; and
- Cellulose insulation plants which manufacture cellulose insulation for use in residential dwellings and manufactured housing and which consume significant fiber produced from the residential recycling business of FCR.

Following the acquisition of KTI, the Company focused on the integration of KTI and the divestiture of non-core KTI assets, which included tire recycling assets, commercial recycling facilities, mulch recycling, certain waste-to-energy facilities in Florida and Virginia, a waste-to-oil remediation facility and a broker and a processor of high density polyethylene. We also sold our majority interest in a waste-to-energy facility in Maine. As part of this divestiture program, in the fourth quarter of fiscal year 2001 the Company incurred non-recurring charges of $111.7 million, of which $90.6 million were

---

non-cash, relating to the impairment of goodwill from the acquisition of KTI, the closure of certain facilities, severance payments to terminated employees and losses on sale of non-core assets. The Company has completed the divestiture program, for aggregate consideration of $107.6 million, including cash proceeds of $61.7 million which were used to reduce indebtedness.

Solid Waste Operations

The solid waste operations comprise a full range of non-hazardous solid waste services, including collection operations, transfer stations, material recycling facilities and disposal facilities.

Collections. A majority of the commercial and industrial collection services are performed under one-to-three-year service agreements, with prices and fees determined by such factors as collection frequency, type of equipment and containers furnished, the type, volume and weight of solid waste collected, distance to the disposal or processing facility and cost of disposal or processing. The residential collection and disposal services are performed either on a subscription basis (i.e., with no underlying contract) with individuals, or through contracts with municipalities, homeowner associations, apartment building owners or mobile home park operators.

Transfer Stations. Transfer stations receive, compact and transfer solid waste collected primarily by various collection operations, for transport to disposal facilities by larger vehicles. The Company believes that transfer stations benefit it by: (1) increasing the size of the wastesheds which have access to its landfills; (2) reducing costs by improving utilization of collection personnel and equipment; and (3) helping to build relationships with municipalities and other customers by providing a local physical presence and enhanced local service capabilities.

Material Recycling Facilities. Material recycling facilities, or MRFs, receive, sort, bale and resell recyclable materials originating from the municipal solid waste stream, including newsprint, cardboard, office paper, containers and bottles. Through FCR, the Company operates 23 MRFs in geographic areas not served by collection divisions or disposal facilities. Revenues are received from municipalities and customers in the form

of processing and tipping fees and commodity sales. These MRFs are large scale, high-volume facilities that process recycled materials delivered to them by municipalities and commercial customers under long term contracts. The Company also operates MRFs as an integral part of its core solid waste operations, which generally process recyclables collected from various residential collection operations. This latter group is concentrated primarily in Vermont, as the public sector in other states within the core solid waste services market area have generally maintained primary responsibility for recycling efforts.

Disposal Facilities. The Company disposes of solid waste at its landfills and at its waste-to-energy facility.

Landfills. The following table provides certain information regarding the landfills that the Company operates. All of this information is provided as of April 30, 2002. Each of the landfills in the

table is a Subtitle D landfill, with the exception of the Hakes landfill, which is permitted to accept only construction and demolition materials.

Landfill	Location	Estimated Remaining Permitted Capacity in Tons (1)	Estimated Annual Tonnage (2)	Estimated Remaining Permitted Life in Years (3)	Estimated Additional Permittable Capacity in Tons (1) (4)	Estimated Additional Permittable Life in Years (3)
			(tonnage in thousands)			
Clinton County(5)	Schuyler Falls, NY	1,493	175	8.5	6,500	37.1
Waste USA	Coventry, VT	1,392	240	5.8	5,560	23.2
Pine Tree	Hampden, ME	2,792	295	9.5	404	1.4
NCES	Bethlehem, NH	408(6)	135	3.0	—(7)	—(7)
Hyland(8)	Angelica, NY	1,581	227	7.0	1,455	6.4
Hakes	Campbell, NY	1,285	94	13.7	3,266	34.7

(1) The Company converts estimated remaining permitted capacity and estimated additional permittable capacity from cubic yards to tons by assuming a compaction factor equal to the historic average compaction factor applicable to the respective landfill over the last three fiscal years. In addition to a total capacity limit, certain permits may place a daily and/or annual limit on capacity.

(2) Based on current permitted capacity, estimated future use and permit limitations.

(3) Estimated remaining permitted and additional permittable life in years at a landfill is calculated by dividing the landfill's estimated remaining permitted and additional permittable capacity, respectively, in tons by the estimated annual tonnage.

(4) Represents capacity determined to be "permittable" in accordance with the following criteria: (i) the Company controls the land on which the expansion is sought; (ii) all technical siting criteria have been met or a variance has been obtained or is reasonably expected to be obtained; (iii) the Company has not identified any legal or political impediments which it believes will not be resolved in its favor; (iv) the Company is actively working on obtaining any necessary permits and expects that all required permits will be received within the next two to five years; and (v) senior management has approved the project.

(5) Operated pursuant to a lease expiring in 2021.

(6) Includes capacity which has been permitted as Stage II, Phase II and as Stage III and which has been operated under the authority of the New Hampshire Department of Environmental Services. The right to utilize this capacity is being contested by the Town of Bethlehem. See "Item 3—Legal Proceedings."

(7) Expansion capacity requires resolution of a local dispute on land use and state technical review, 1.3 million ton expansion capacity having an estimated useful life of 9.9 years, is omitted.

(8) Additionally, the Company is in the final stages of a local permissive expansion referendum which if approved would authorize an additional approximately 5.1 million tons of capacity having an estimated useful life of 22.5 years.

Clinton County. The Clinton County landfill, located in Schuyler Falls, New York, is leased from Clinton County pursuant to a 25 year lease which expires in 2021. The landfill serves the principal wastesheds of Clinton, Franklin, Essex, Warren and Washington Counties in New York, and certain selected contiguous Vermont wastesheds. Permitted waste accepted includes municipal solid waste, construction and demolition debris, and special waste which is approved by regulatory agencies. The facility is currently in the final stages of a multi-year landfill expansion permitting process which, if successful, would provide considerable additional volume beyond the current terms of the lease agreement. The Company has entered into extended agreements with the town and county applicable to this additional volume and expects to receive the necessary approvals during the next 12 months.

Waste USA. The Waste USA landfill is located in Coventry, Vermont and serves the major wastesheds associated with the northern two-thirds of Vermont. The landfill is permitted to accept all residential and commercially produced municipal solid waste, including pre-approved sludges, and construction and demolition debris. Since the purchase of this landfill in 1995, the Company has expanded the capacity of this landfill through approximately fiscal 2007. The Company currently is in the process of applying for approximately 5.5 million tons of additional capacity which, at the current usage rate, would add an additional 20-25 years of capacity.

Pine Tree. The Pine Tree landfill is located in Hampden, Maine and is one of only two commercial landfills serving principal wastesheds in the State of Maine. It is permitted to accept ash,

front-end processing residues from the waste-to-energy facilities within the State of Maine and related sludges and special waste which is approved by regulatory agencies. In addition, it is permitted to accept municipal solid waste that is by-pass waste, which is non-burnable waste,

from the Maine Energy and Penobscot Energy Recovery Company ("PERC") waste-to-energy facilities, as well as municipal solid waste that is in excess of the processing capacities of other waste-to-energy facilities within the State of Maine. The facility recently received final approval for approximately 3.0 million tons of additional capacity (of which approximately 200,000 tons have been utilized) and is currently developing its next expansion plan. See "—Regulation."

NCES. The North Country Environmental Services ("NCES") landfill located in Bethlehem, New Hampshire serves the northern and central wastesheds of New Hampshire and certain contiguous Vermont and Maine wastesheds. Since the purchase of this landfill in 1994, the Company has consistently experienced expansion opposition from the local town through enactment of restrictive local zoning and planning ordinances. In each case, in order to access additional permittable capacity, the Company has been required to assert its rights through litigation in the New Hampshire court system. In February, 1999, court approval was received for approximately 600,000 tons of additional capacity, which is expected to last through June 2005. The use of this capacity, which is ongoing, remains subject to court challenge by local authorities. The Company has recently applied for the next expansion permit for this landfill and expects that it will be required to assert its rights through the New Hampshire court system in order to overcome continued local opposition. See "Item 3—Legal Proceedings."

Hyland. The Hyland landfill located in Angelica, New York, serves certain Western region wastesheds located throughout western New York. The facility is permitted to accept all residential and commercial municipal solid waste, construction and demolition debris and special waste which is approved by regulatory agencies. The facility is located on a 600-acre property, which represents considerable additional expansion capabilities. In 1999, as part of a long-term settlement with the Town of Angelica, the Company entered into an agreement requiring a permissive referendum to expand beyond a pre-agreed footprint. As a result, the above table reflects only that capacity which has been pre-agreed with the Town of Angelica as being permittable. The Company expects expect to seek a townwide referendum during calendar year 2002 local elections. If successful, the Company expects to seek and receive a permit for an additional 38 acres, representing in excess of 5.0 million tons of additional capacity.

Hakes. The Hakes construction and demolition landfill, located in Campbell, New York, is permitted to accept only construction and demolition material. The landfill serves the principal rural wastesheds of western New York. The Company believes that the site has permittable capacity of over 3.0 million tons, based on existing regulatory requirements and local community support. The Company expects to apply for this expansion during the next 18 months and does not expect substantial opposition from the local community. The Company recently entered into a revised long-term host community agreement related to the expansion of the facility.

The Company also has rights to remaining capacity at three construction and demolition landfills, in Brockton and Woburn, Massachusetts and Cheektowaga, New York, totaling approximately 788,000 tons. Two of these landfills are expected to be closed in 2002 and the third (Brockton) has an expected remaining life of three years. In addition, the Company owned and/or operated five unlined landfills which are not currently in operation. All of these landfills have been closed and capped to environmental regulatory standards.

Maine Energy Waste-to-Energy Facility. The Company owns a waste-to-energy facility, Maine Energy, which generates electricity by processing non-hazardous solid waste. This waste-to-energy facility provides important additional disposal capacity and generates power for sale. The facility receives solid waste from municipalities under long-term waste handling agreements and also receives raw materials from commercial and private waste haulers and municipalities with short-term contracts, as well as from collection operations. Maine Energy is contractually required to sell all of the electricity generated at its facility to Central Maine Power, an electric utility, and guarantees 100% of its electric generating capacity to CL Power Sales One, LLC. Maine Energy is part of the Eastern region. The use of the facility is subject to permit conditions, some of which are opposed by local authorities. See "—Regulation."

Operating Segments

We manage our solid waste operations on a geographic basis through three regions, which are designated as the Central, Eastern and Western regions and which each comprise a full range of solid waste services serving approximately an aggregate of 257,000 customers, and FCR, which comprises larger-scale non-solid waste recycling and brokerage operations.

Within each geographic region, the Company organizes its solid waste services around smaller areas that are referred to as "wastesheds". A wasteshed is an area that comprises the complete cycle of activities in the solid waste services process, from collection to transfer operations and recycling to disposal in either landfills or waste-to-energy facilities, some of which may be owned and operated by third parties. Typically several divisions operate within each wasteshed, each of which provides a particular service, such as collection, recycling, disposal or transfer. Each of these divisions is managed as a separate profit center, but operates interdependently with the other divisions within the wasteshed. Each wasteshed generally operates autonomously from adjoining wastesheds.

Throughout its 23 material recycling facilities, FCR services 21 anchor contracts, which are long-term commitments from a municipality of five years or greater to guarantee the delivery of all recycled residential recyclables to FCR. These contracts may include a minimum volume guarantee committed by the municipality. The Company also has service agreements with individual towns and cities and commercial customers, including small solid waste companies and major competitors that do not have processing capacity within a specific geographic region. The 23 FCR facilities process recyclables collected from approximately 2.7 million households, representing a population of approximately 8.2 million.

The following table provides information about each operating region and FCR as of June 28, 2002.

	Central region	Eastern region	Western region	FCR Recycling
Fiscal year 2002 revenues	$95.3 million	$148.7 million	$65.6 million	$ 93.7 million
Solid waste collection operations	13	10	12	—
Transfer stations	13	9	10	—
Recycling facilities	5	9	2	23

Disposal facilities(1)	Bethlehem, NH Coventry, VT Schuyler Falls, NY	Biddeford, ME Hampden, ME	Angelica, NY Campbell, NY	—

(1) Each of the disposal facilities in the table is a Subtitle D landfill, with the exception of the disposal facility located in Campbell, New York, which is a landfill permitted to accept only construction and demolition materials and the disposal facility located in Biddeford, Maine, which is a waste-to-energy facility. In addition, the Company has rights to the remaining air space capacity at three construction and demolition landfills located in Brockton and Woburn, Massachusetts and Cheektowaga, New York, totaling approximately 788,000 tons. The rights to use the airspace in Woburn and Cheektowaga expire in fiscal year 2003, and Brockton has an expected remaining life of three years.

Central Region. The Central region consists of wastesheds located in Vermont, northwestern New Hampshire and eastern upstate New York. The portion of upstate New York served by the Central Region includes Clinton, Franklin, Essex, Warren, Washington, Saratoga, Rennselaer and Albany counties. Our Waste USA landfill in Coventry, Vermont is one of only two permitted Subtitle D landfills in Vermont, and the NCES landfill in Bethlehem, New Hampshire is one of only six permitted Subtitle D landfills in New Hampshire. In the Central Region, there are a total of 13 permitted Subtitle D landfills.

The Central region has become the Company's most mature operating platform, as it has operated in this region since the Company's inception in 1975. The Company has achieved a high degree of vertical integration of the wastestream in this region, resulting in stable cash flow performance. In the Central region, the Company also has a market leadership position. The primary competition in the Central region comes from Waste Management, Inc. in the larger population centers (primarily southern New Hampshire), and from smaller independent operators in the more rural areas. As the Company's most mature region, future operating efficiencies will be driven primarily by improving core operating efficiencies and providing enhanced customer service.

Eastern Region. The Eastern region consists of wastesheds located in Maine, southeastern New Hampshire and eastern Massachusetts. These wastesheds generally have been affected by the regional constraints on disposal capacity imposed by the public policies of New Hampshire, Maine and Massachusetts which have, over the past 10 years, either limited new landfill development or precluded development of additional capacity from existing landfills. The Pine Tree landfill is one of only two permitted Subtitle D commercial landfills in Maine. Consequently, the Eastern Region relies more heavily on non-landfill waste-to-energy disposal capacity than other regions. Maine Energy is one of nine waste-to-energy facilities in the Eastern Region.

The Company entered the State of Maine in 1996 with the purchase of the assets comprising New England Waste Services of ME., Inc. in Hampden, Maine. The acquisition of KTI in 1999 significantly improved the Company's disposal capacity in this region and provided an alternative internalization option for the Company's solid waste assets in eastern Massachusetts. The major competitor in the State of Maine is Waste Management, Inc., as well as several smaller local competitors.

The Company entered eastern Massachusetts in fiscal year 2000 with the acquisition of assets that were divested by Allied Waste Industries, Inc. under court order following its acquisition of Browning Ferris Industries, Inc., and through the acquisition of smaller independent operators. In this region, the Company generally relies on third party disposal capacity. Consequently, greater opportunity exists to increase internalization rates and operating efficiencies in the Eastern region than in the two other regions, where the Company's competitive position generally is stronger. The Company's primary competitors in eastern Massachusetts are Waste Management, Inc., Allied Waste Industries, Inc., and smaller independent operators.

Western Region. The Western region consists of wastesheds in upstate New York (which includes Ithaca, Elmira, Oneonta, Lowville, Potsdam, Geneva, Auburn, Buffalo, Jamestown and Olean) and northern Pennsylvania (Wellsboro, PA). The Company entered the Western Region with the acquisition of Superior Disposal Services, Inc.'s business in 1997 and have consistently expanded in this region largely through tuck-in acquisitions and internal growth. The collection operations include leadership positions in nearly every rural market in the Western region outside of larger metropolitan markets such as Syracuse, Rochester, Albany and Buffalo.

While the Company has achieved strong market positions in this region, focus remains on increasing vertical integration through the acquisition or privatization and operation of additional disposal capacity in the market. As compared to other operating regions, the Western Region, which includes the Hyland landfill, presently contains an excess of disposal capacity as a result of the proliferation during the 1990s of publicly-developed Subtitle D landfills. As a result, the Company

believes that opportunities exist to enter into long-term leasing arrangements and other strategic partnerships with county and municipal governments for the operation and/or utilization of their landfills, similar to the long-term lease for the Clinton County landfill being operated by the Central Region. The Company expects that successful implementation of this strategy will lead to improved internalization rates.

Primary competitors in the Western region are Waste Management, Inc., Republic Services Group, Inc. and Allied Waste Industries, Inc. in the larger urban areas and smaller independent operators in the more rural markets.

FCR Recycling. FCR Recycling is one of the largest processors and marketers of recycled materials in the eastern United States, comprising 23 material recycling facilities that process and then market recyclable materials that municipalities and commercial customers deliver to it under long term contracts. Ten of FCR's facilities are leased, eight are owned and five are under operating contracts. In fiscal year 2002, FCR processed and marketed approximately 850,000 tons of recyclable materials. FCR's facilities are principally located in key urban markets, including in Connecticut; North Carolina; New Jersey; Florida; Tennessee; Georgia; Michigan; New York; South Carolina; Virginia; New Hampshire; Massachusetts; Wisconsin; Maine; and Halifax, Canada.

A significant portion of the material provided to FCR is delivered pursuant to 21 anchor contracts, which are long-term contracts with municipal customers. The anchor contracts generally have a term of five to ten years and expire at various times between 2003 and 2018. The terms of each of the contracts vary, but all the contracts provide that the municipality or a third party delivers materials to a facility. In

approximately one-third of the contracts, the municipalities agree to deliver a guaranteed tonnage and the municipality pays a fee for the amount of any shortfall from the guaranteed tonnage. Under the terms of the individual contracts, the Company charges the municipality a fee for each ton of material delivered to the Company. Some contracts contain revenue sharing arrangements under which the municipality receives a specified percentage of the revenues from the sale by the Company of the recovered materials.

FCR derives a significant portion of its revenues from the sale of recyclable materials. The purchase and sale prices of recyclable materials, particularly newspaper, corrugated containers, plastics, ferrous and aluminum, can fluctuate based upon market conditions. The Company uses long-term supply contracts with customers with floor price arrangements to reduce the commodity risk for certain recyclables, particularly newspaper, cardboard, plastics and aluminum metals. Under such contracts, a guaranteed minimum price is obtained for the recyclable materials along with a commitment to receive additional amounts if the current market price rises above the floor price. The contracts are generally with large domestic companies that use the recyclable materials in their manufacturing process, such as paper, packaging and consumer goods companies. The Company also hedges against fluctuations in the commodity prices of recycled paper and corrugated containers in order to mitigate the variability in cash flows and earnings generated from the sales of recycled materials at floating prices. As of June 28, 2002, the Company has two commodity hedge contracts outstanding with designated terms effective through April 30, 2005.

The brokerage business operates out of two offices, one focused on domestic markets and the other on export markets. Both offices are located in New Jersey. The commercial brokerage operation derives all of its revenues from the sale of recyclable materials, predominately old newspaper, old corrugated cardboard, mixed paper and office paper. The brokerage business markets in excess of 850,000 tons per year of various paper fibers both domestically and overseas. The ability to market volumes of this quantity allows the Company to reach more markets and receive favorable industry pricing and to better forecast the direction of commodity pricing. The brokers in the brokerage operation are required to identify both the buyer and the seller of the recyclable materials before committing to broker the transaction, thereby minimizing pricing risk, and are not permitted to enter into speculative trading of commodities.

GreenFiber Cellulose Insulation Joint Venture

The Company is a 50% partner in US GreenFiber LLC ("GreenFiber"), a joint venture with Louisana-Pacific. GreenFiber, which is one of the largest manufacturers of high quality cellulose insulation for use in residential dwellings and manufactured housing, was formed through the combination of the Company's cellulose operations, which were acquired in the Company's acquisition of KTI, with those of Louisiana-Pacific. Based in Charlotte, North Carolina, GreenFiber has a national manufacturing and distribution capability and sells to contractors, manufactured home builders and retailers, including Home Depot, Inc. GreenFiber has ten manufacturing facilities located in Atlanta, Georgia; Charlotte, North Carolina; Delphos, Ohio; Elkwood, Virginia; Norfolk, Nebraska; Phoenix, Arizona; Sacramento, California; Tampa, Florida; and Waco, Texas. GreenFiber utilizes a hedging strategy to help stabilize its exposure to fluctuating newsprint costs, which generally represent approximately 30% of its raw material costs, and is a major purchaser of FCR recycling fiber material produced at various facilities. GreenFiber, which is accounted for under the equity method, had revenues of $99.0 million for the twelve months ended April 30, 2002. For the same period, the Company recognized equity income from GreenFiber of $4.3 million.

Competition

The solid waste services industry is highly competitive. Competition is for collection and disposal volume primarily on the basis of the quality, breadth and price of services. 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 municipal contract. These practices may also lead to reduced pricing for services or the loss of business. In addition, competition exists within the industry not only for collection, transportation and disposal volume, but also for acquisition candidates.

Some of the larger urban markets in which the Company competes are served by one or more of the large national solid waste companies that may be able to achieve greater economies of scale, including Waste Management, Inc., Allied Waste Industries, Inc. and Republic Services, Inc. The Company also competes with a number of regional and local companies that offer competitive prices and quality service. In addition, the Company competes with operators of alternative disposal facilities, including incinerators, and with certain municipalities, counties and districts that operate their own solid waste collection and disposal facilities. Public sector facilities may have certain advantages due to the availability of user fees, charges or tax revenues and tax-exempt financing.

The brokerage business faces extensive competition due, in part, to the low cost of market entry, including from Jordan Trading, International Forest Products Corp., Harmon, CellMark and Fibers International. The Company competes primarily on the basis of reputation, price, timeliness and quality and availability of recycled material.

The insulation industry is highly competitive and requires substantial capital and labor resources. GreenFiber, a joint venture with Louisiana-Pacific, competes primarily with manufacturers of fiberglass insulation such as Owens Corning, CertainTeed Corporation and Johns Manville. These manufacturers have significant market shares and are substantially better capitalized than GreenFiber.

Marketing and Sales

The Company has a coordinated marketing and sales strategy, which is formulated at the corporate level and implemented at the divisional level. The Company markets its services locally through division managers and direct sales representatives who focus on commercial, industrial, municipal and residential customers. New customers are obtained from referral sources, general reputation and local market print advertising. Leads are also developed from new building permits, business licenses and other public records. Additionally, each division generally advertises in the yellow pages and other local business print media that cover its service area.

Maintenance of a local presence and identity is an important aspect of the marketing plan, and managers are involved in local governmental, civic and business organizations. The Company's name and logo, or, where appropriate, that of its divisional operations, are displayed on all containers and trucks. Additionally, the Company attends and makes presentations at municipal and state conferences and advertises in governmental associations' membership publications.

The Company markets its commercial, industrial and municipal services through sales representatives who visit customers on a regular basis and make sales calls to potential new customers. These sales representatives receive a significant portion of their compensation based upon meeting certain incentive targets. The Company emphasises providing quality services and customer satisfaction and retention, as well as focuses on quality service which will help retain existing and attract additional customers.

Employees

As of June 28, 2002, the Company employed 2,594 persons, including 552 professionals or managers, sales, clerical, data processing or other administrative employees and 2,042 employees involved in collection, transfer, disposal, recycling or other operations. Certain employees are covered by collective bargaining agreements. The Company believes relations with employees to be satisfactory.

Risk Management, Insurance and Performance or Surety Bonds

The Company actively maintains environmental and other risk management programs, which are appropriate for its business. The environmental risk management program includes evaluating existing facilities, as well as potential acquisitions, for environmental law compliance and operating procedures. The Company also maintains a worker safety program, which encourages safe practices in the workplace. Operating practices at all of the operations are intended to reduce the possibility of environmental contamination and litigation.

A range of insurance is carried which is intended to protect the assets and operations of the Company, including a commercial general liability policy and a property damage policy. A partially or completely uninsured claim (including liabilities associated with cleanup or remediation at the Company's facilities), if successful and of sufficient magnitude, could have a material adverse effect on the business, financial condition and results of operations. Any future difficulty in obtaining insurance could also impair the ability to secure future contracts, which may be conditioned upon the availability of adequate insurance coverage.

Effective July 1, 1999, the Company established a captive insurance company, Casella Insurance Company, through which the Company is self-insured for worker's compensation and, effective May 1, 2000, automobile coverage. The maximum exposure under the worker's compensation plan is $500,000 per individual event with a $1,000,000 aggregate limit, after which reinsurance takes effect. Maximum exposure under the automobile plan is $500,000 per individual event with a $3,000,000 aggregate limit, after which reinsurance takes effect.

Municipal solid waste collection contracts and landfill closure obligations may require performance or surety bonds, letters of credit or other means of financial assurance to secure contractual performance. The Company has not experienced difficulty in obtaining these financial instruments and if it were unable to obtain these financial instruments in sufficient amounts or at acceptable rates the Company could be precluded from entering into additional municipal solid waste collection contracts or obtaining or retaining landfill operating permits.

Customers

The Company provides its collection services to commercial, industrial and residential customers. A majority of the commercial and industrial collection services are performed under one-to-three-year

service agreements, and fees are determined by such factors as collection frequency, type of equipment and containers furnished, the type, volume and weight of the solid waste collected, the distance to the disposal or processing facility and the cost of disposal or processing. Residential collection and disposal services are performed either on a subscription basis (i.e., with no underlying contract) with individuals, or through contracts with municipalities, homeowners associations, apartment owners or mobile home park operators.

Maine Energy is contractually required to sell all of the electricity generated at its facilities to Central Maine Power, an electric utility, pursuant to a contract that expires in 2012, and guarantee 100% of its electric generating capacity to CL Power Sales One, LLC, pursuant to a contract that expires in 2007.

FCR provides recycling services to municipalities, commercial haulers and commercial waste generators within the geographic proximity of the processing facilities. The Company also acts as a broker of recyclable materials, principally to paper and box board manufacturers in the United States, Canada, the Pacific Rim, Europe, South America and Asia.

GreenFiber sells to contractors, manufactured home builders and retailers, including Home Depot, Inc.

Raw Materials

Maine Energy received approximately 27% of its solid waste in fiscal year 2002 from 19 Maine municipalities under long-term waste handling agreements. Maine Energy also receives raw materials from commercial and private waste haulers and municipalities with short-term contracts, as well as from the Company's collection operations.

FCR received approximately 62% of its material under long-term agreements with municipalities. These contracts generally provide that all recyclables collected from the municipal recycling programs shall be delivered to a facility that is owned or operated by the Company. The quantity of material delivered by these communities is dependent on the participation of individual households in the recycling program.

The primary raw material for the insulation joint venture is newspaper. GreenFiber received approximately 23% of the newspaper used by it from FCR. It purchased the remaining newspaper from municipalities, commercial haulers and paper brokers. The chemicals used to make the newspaper fire retardant are purchased from industrial chemical manufacturers located in the United States and South America.

Seasonality

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 eastern

United States; and

- decreased tourism in Vermont, New Hampshire, 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 in the winter ski industry.

Since certain 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.

The recycling segment experiences increased volumes of newspaper in November and December due to increased newspaper advertising and retail activity during the holiday season. The insulation

business experiences lower sales in November and December because of lower production of manufactured housing due to holiday plant shutdowns.

Regulation

Introduction

The Company is subject to extensive and evolving federal, state and local environmental laws and regulations which have become increasingly stringent in recent years. The environmental regulations affecting the Company are administered by the United States Environmental Protection Agency ("EPA") and other federal, state and local environmental, zoning, health and safety agencies. Failure to comply with such requirements could result in substantial costs, including civil and criminal fines and penalties. Except as described below, the Company believes that it is currently in substantial compliance with applicable federal, state and local environmental laws, permits, orders and regulations. The Company does not currently anticipate any material environmental costs to bring operations into compliance, although there can be no assurance in this regard in the future. The Company expects that its operations in the solid waste services industry will be subject to continued and increased regulation, legislation and regulatory enforcement actions. The Company attempts to anticipate future legal and regulatory requirements and to carry out plans intended to keep its operations in compliance with those requirements.

In order to transport, process, incinerate, or dispose of solid waste, it is necessary to possess and comply with one or more permits from federal, state and/or local agencies. The Company must review these permits periodically, and the permits may be modified or revoked by the issuing agency.

The principal federal, state and local statutes and regulations applicable to various Company operations are as follows:

The Resource Conservation and Recovery Act of 1976, as amended ("RCRA")

RCRA regulates the generation, treatment, storage, handling, transportation and disposal of solid waste and requires states to develop programs to ensure the safe disposal of solid waste. RCRA divides solid waste into two groups, hazardous and non-hazardous. Wastes are generally classified as hazardous if they (1) either (a) are specifically included on a list of hazardous wastes, or (b) exhibit certain characteristics defined as hazardous, and (2) are not specifically designated as non-hazardous. Wastes classified as hazardous under RCRA are subject to more extensive regulation than wastes classified as non-hazardous, and businesses that deal with hazardous waste are subject to regulatory obligations in addition to those imposed on handlers of non-hazardous waste.

Among the wastes that are specifically designated as non-hazardous are household waste and "special" waste, including items such as petroleum contaminated soils, asbestos, foundry sand, shredder fluff and most non-hazardous industrial waste products.

The EPA regulations issued under Subtitle C of RCRA impose a comprehensive "cradle to grave" system for tracking the generation, transportation, treatment, storage and disposal of hazardous wastes. Subtitle C regulations impose obligations on generators, transporters and disposers of hazardous wastes, and require permits that are costly to obtain and maintain for sites where those businesses treat, store or dispose of such material. Subtitle C requirements include detailed operating, inspection, training and emergency preparedness and response standards, as well as requirements for manifesting, record keeping and reporting, corrective action, facility closure, post-closure and financial responsibility. Most states have promulgated regulations modeled on some or all of the Subtitle C provisions issued by the EPA, and in many instances the EPA has delegated to those states the principal role in regulating industries which are subject to those requirements. Some state regulations impose different, additional obligations.

The Company currently does not accept for transportation or disposal hazardous substances (as defined in CERCLA, discussed below) in concentrations or volumes that would classify those materials as hazardous wastes. However, the Company has transported hazardous substances in the past and very likely will transport and dispose of hazardous substances in the future, to the extent that materials defined as hazardous substances under CERCLA are present in consumer goods and in the non-hazardous waste streams of customers.

The Company does not accept hazardous wastes for incineration at its waste-to-energy facilities. The Company typically tests ash produced at its waste-to-energy facilities on a regular basis; that ash generally does not contain hazardous substances in sufficient concentrations or volumes to result in the ash being classified as hazardous waste. However, it is possible that future waste streams accepted for incineration could contain elevated volumes or concentrations of hazardous substances or that legal requirements will change, and that the resulting incineration ash would be classified as hazardous waste.

Leachate generated at the landfills and transfer stations is tested on a regular basis, and generally is not regulated as a hazardous waste under federal or state law. In the past, however, leachate generated from certain of the Company's landfills has been classified as hazardous waste under state law, and there is no guarantee that leachate generated from these facilities in the future will not be classified under federal or state law as hazardous waste.

In October 1991, the EPA adopted the Subtitle D regulations under RCRA governing solid waste landfills. The Subtitle D regulations, which generally became effective in October 1993, include location restrictions, facility design standards, operating criteria, closure and post-closure requirements, financial assurance requirements, groundwater monitoring requirements, groundwater remediation standards and corrective action requirements. In addition, the Subtitle D regulations require that new landfill sites meet more stringent liner design criteria (typically, composite soil and synthetic liners or two or more synthetic liners) intended to keep leachate out of groundwater and have extensive collection systems to carry away leachate for treatment prior to disposal. Regulations generally require us to install groundwater monitoring wells at virtually all landfills operated by the Company, to monitor groundwater quality and, indirectly, the effectiveness of the leachate collection systems. The Subtitle D regulations also require facility owners or operators to control emissions of methane gas generated at landfills exceeding certain regulatory thresholds. State landfill regulations must meet these requirements or the EPA will impose such requirements upon landfill owners and operators in that state. Each state also must adopt and implement a permit program or other appropriate system to ensure that landfills within the state comply with the Subtitle D regulatory criteria. Various states in which the Company operates or in which it may operate in the future have adopted regulations or programs as stringent as, or more stringent than, the Subtitle D regulations.

The Federal Water Pollution Control Act of 1972, as amended ("Clean Water Act")

The Clean Water Act regulates the discharge of pollutants into the "waters of the United States" from a variety of sources, including solid waste disposal sites and transfer stations, processing facilities and waste-to-energy facilities (collectively, "solid waste management facilities"). If run-off or collected leachate from the Company's solid waste management facilities, or process or cooling waters generated at its waste-to-energy facilities, is discharged into streams, rivers or other surface waters, the Clean Water Act would require us to apply for and obtain a discharge permit, conduct sampling and monitoring and, under certain circumstances, reduce the quantity of pollutants in such discharge. A permit also may be required if that run-off, leachate, or process or cooling water is discharged to a treatment facility that is owned by a local municipality. Numerous states have enacted regulations, which are equivalent to those issued under the Clean Water Act, but which also regulate the discharge of pollutants to groundwater. Finally, virtually all solid waste management facilities must comply with

the EPA's storm water regulations, which are designed to prevent contaminated storm water from flowing into surface waters.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA")

CERCLA established a regulatory and remedial program intended to provide for the investigation and remediation of facilities where or from which a release of any hazardous substance into the environment has occurred or is threatened. CERCLA has been interpreted to impose retroactive strict, and under certain circumstances, joint and several, liability for investigation and cleanup of facilities on current owners and operators of the site, former owners and operators of the site at the time of the disposal of the hazardous substances, as well as the generators of the hazardous substances and certain transporters of the hazardous substances. In addition, CERCLA imposes liability for the costs of evaluating and addressing damage to natural resources. The costs of CERCLA investigation and cleanup can be very substantial. Liability under CERCLA does not depend upon the existence or disposal of "hazardous waste" as defined by RCRA, but can be based on the existence of any of more than 700 "hazardous substances" listed by the EPA, many of which can be found in household waste. In addition, the definition of "hazardous substances" in CERCLA incorporates substances designated as hazardous or toxic under the Federal Clean Water Act, Clear Air Act and Toxic Substances Control Act. If the Company were found to be a responsible party for a CERCLA cleanup, the enforcing agency could hold us, under certain circumstances, or any other responsible party, responsible for all investigative and remedial costs, even if others also were liable. CERCLA also authorizes EPA to impose a lien in favor of the United States upon all real property subject to, or affected by, a remedial action for all costs for which a party is liable. CERCLA provides a responsible party with the right to bring a contribution action against other responsible parties for their allocable share of investigative and remedial costs. The Company's ability to get others to reimburse for their allocable share of such costs would be limited by its ability to identify and locate other responsible parties and prove the extent of their responsibility and by the financial resources of such other parties.

The Clean Air Act of 1970, as amended ("Clean Air Act")

The Clean Air Act, generally through state implementation of federal requirements, regulates emissions of air pollutants from certain landfills based upon the date the landfill was constructed and the annual volume of emissions. The EPA has promulgated new source performance standards regulating air emissions of certain regulated pollutants (methane and non-methane organic compounds) from municipal solid waste landfills. Landfills located in areas where levels of regulated pollutants exceed certain thresholds may be subject to even more extensive air pollution controls and emission limitations. In addition, the EPA has issued standards regulating the disposal of asbestos-containing materials under the Clean Air Act.

The Clean Air Act regulates emissions of air pollutants from the Company's waste-to-energy facilities and certain of its processing facilities. The EPA has enacted standards that apply to those emissions. It is possible that the EPA, or a state where the Company operates, will enact additional or different emission standards in the future.

All of the federal statutes described above authorize lawsuits by private citizens to enforce certain provisions of the statutes. In addition to a penalty award to the United States, some of those statutes authorize an award of attorney's fees to private parties successfully advancing such an action.

The Occupational Safety and Health Act of 1970, as amended ("OSHA")

OSHA establishes employer responsibilities and authorizes the Occupational Safety and Health Administration to promulgate occupational health and safety standards, including the obligation to maintain a workplace free of recognized hazards likely to cause death or serious injury, to comply with

adopted worker protection standards, to maintain certain records, to provide workers with required disclosures and to implement certain health and safety training programs. Various of those promulgated standards may apply to the Company's operations, including those standards concerning

notices of hazards, safety in excavation and demolition work, the handling of asbestos and asbestos-containing materials, and worker training and emergency response programs.

State and Local Regulations

Each state in which the Company now operates or may operate in the future has laws and regulations governing the generation, storage, treatment, handling, processing, transportation, incineration and disposal of solid waste, water and air pollution and, in most cases, the siting, design, operation, maintenance, closure and post-closure maintenance of solid waste management facilities. In addition, many states have adopted statutes comparable to, and in some cases more stringent than, CERCLA. These statutes impose requirements for investigation and remediation of contaminated sites and liability for costs and damages associated with such sites, and some authorize the state to impose liens to secure costs expended addressing contamination on property owned by responsible parties. Some of those liens may take priority over previously filed instruments. Furthermore, many municipalities also have ordinances, laws and regulations affecting the Company's operations. These include zoning and health measures that limit solid waste management activities to specified sites or conduct, flow control provisions that direct the delivery of solid wastes to specific facilities or to facilities in specific areas, laws that grant the right to establish franchises for collection services and then put out for bid the right to provide collection services, and bans or other restrictions on the movement of solid wastes into a municipality.

Certain permits and approvals may limit the types of waste that may be accepted at a landfill or the quantity of waste that may be accepted at a landfill during a given time period. In addition, certain permits and approvals, as well as certain state and local regulations, may limit a landfill to accepting waste that originates from specified geographic areas or seek to restrict the importation of out-of-state waste or otherwise discriminate against out-of-state waste. Generally, restrictions on importing out-of-state waste have not withstood judicial challenge. However, from time to time federal legislation is proposed which would allow individual states to prohibit the disposal of out-of-state waste or to limit the amount of out-of-state waste that could be imported for disposal and would require states, under certain circumstances, to reduce the amounts of waste exported to other states. Although such legislation has not been passed by Congress, if this or similar legislation is enacted, states in which the Company operates landfills could limit or prohibit the importation of out-of-state waste. Such actions could materially and adversely affect the business, financial condition and results of operations of any of the Company's landfills within those states that receive a significant portion of waste originating from out-of-state.

Certain states and localities may, for economic or other reasons, restrict the export of waste from their jurisdiction, or require that a specified amount of waste be disposed of at facilities within their jurisdiction. In 1994, the U.S. Supreme Court rejected as unconstitutional, and therefore invalid, a local ordinance that sought to limit waste going out of the locality by imposing a requirement that the waste be delivered to a particular facility. However, it is uncertain how that precedent will be applied in different circumstances. For example, in 2002, the U.S. Supreme Court decided not to hear an appeal of a federal Appeals Court decision that held that the flow control ordinances directing waste to a publicly owned facility are not per se unconstitutional and should be analyzed under a standard that is less stringent than if waste had been directed to a private facility. The less stringent standard has not yet been applied to the facts of that case, which involves flow control regulations in Oneida and Herkimer Counties in New York, and the outcome is uncertain. Additionally, certain state and local jurisdictions continue to seek to enforce such restrictions and, in certain cases, may elect not to challenge such restrictions. Further, some proposed federal legislation would allow states and localities to impose flow restrictions. Those restrictions could reduce the volume of waste going to landfills or

transfer stations in certain areas, which may materially adversely affect the Company's ability to operate its facilities and/or affect the prices charged for certain services. Those restrictions also may result in higher disposal costs for the Company's collection operations. In sum, flow control restrictions could have a material adverse effect on its business, financial condition and results of operations.

There has been an increasing trend at the federal, state and local levels to mandate or encourage both waste reduction at the source and waste recycling, and to prohibit or restrict the disposal in landfills of certain types of solid wastes, such as yard wastes and leaves, beverage containers, newspapers, household appliances and batteries. Regulations reducing the volume and types of wastes available for transport to and disposal in landfills could affect the Company's ability to operate its landfill facilities.

The Company's waste-to-energy facility has been certified by the Federal Energy Regulatory Commission as a "qualifying small power production facility" under the Public Utility Regulatory Policies Act of 1978, as amended ("PURPA"). PURPA exempts qualifying facilities from most federal and state laws governing electric utility rates and financial organization, and generally requires electric utilities to purchase electricity generated by qualifying facilities at a price equal to the utility's full "avoided cost".

The waste-to-energy business is dependent upon the Company's ability to sell the electricity generated by its facility to an electric utility or a third party such as an energy marketer. Maine Energy currently sells electricity to an electric utility under a long-term power purchase agreement. When that agreement expires, or if the electric utility were to default under the agreement, there is no guarantee that any new agreement would contain a purchase price as favorable as the one in the current agreement.

The Company has obtained approval from the Maine Department of Environmental Protection ("DEP") for an odor control system at its waste-to-energy facility in Biddeford, Maine. For optimum odor control, that system involves, among other items, an increase in the height of its scrubber stacks and a change in its odor control chemicals. At the municipal level, the Biddeford Planning Board has denied the Company's request to increase scrubber stack heights and to use alternative chemicals as part of the control system and the Company intends to appeal this decision to Superior Court and to pursue other available remedies. The Company believes the city's actions are preempted by state law. However, there can be no assurance that the Company will prevail. If the Company is not able to increase its stack heights and use alternative chemicals, there is no assurance that its state-approved odor control system will operate optimally to control odors, or if it does not, that its operations would not be significantly curtailed, which could have a material adverse effect on the Company's business, financial condition and results of operations.

In 2002, the Company received approval from the Maine Department of Environmental Protection to allow the Pine Tree landfill in Hampden, Maine to accept municipal solid waste that is by-pass waste from the Maine Energy and PERC waste-to-energy facilities, as well as municipal solid waste that is in excess of the processing capacities of other waste-to-energy facilities within the State of Maine. The Municipal Review Committee ("MRC") appealed that approval to the Maine Bureau of Environmental Protection ("BEP"). MRC is a nonprofit corporation formed to review the administration of contracts for Maine municipalities, including 136 municipalities that have long-term waste disposal contracts with PERC. MRC alleges, among other things, that Pine Tree Landfill's acceptance of municipal solid waste will cause substantial financial hardship to PERC and the municipalities that rely on PERC for municipal solid waste disposal by diverting commercial municipal solid waste away from

PERC. A hearing before the BEP is scheduled for September 2002. The Company believes that MRC's claims are without merit, although there can be no assurance that the Company will prevail. If the Company does not prevail, however, the Company does not believe that there will be a material adverse effect on its business, financial condition and results of operations.

The Company owns a membership interest in New Heights Investor Co., LLC, through which it owns a 50% interest in the power plant assets owned by New Heights Recovery & Power LLC. The power plant is a waste-to-energy facility using tires as fuel, in Ford Heights, Illinois. In August 2000, the Illinois Environmental Protection Agency ("IEPA") issued a violation notice to the facility asserting non-compliance with its construction permit related to air emissions. The facility has undertaken certain corrective measures and is working with IEPA to negotiate a new permit. While non-compliance with permitting requirements is subject to civil penalties, the Company does not expect them to be assessed. However, there can be no assurance that, if civil penalties were assessed, they would not have a material adverse effect on the Company's financial position or results of operations.

Executive Officers and Other Key Employees of the Company

The Company's executive officers and other key employees and their respective ages as of June 28, 2002 are as follows:

Name	Age	Position
Executive Officers		
John W. Casella	51	Chairman, Chief Executive Officer and Secretary
James W. Bohlig	56	President and Chief Operating Officer, Director
Richard A. Norris	58	Senior Vice President, Chief Financial Officer and Treasurer
Charles E. Leonard	48	Senior Vice President, Solid Waste Operations
Other Key Employees		
Michael J. Brennan	44	Vice President and General Counsel
Timothy A. Cretney	38	Regional Vice President
Christopher M. DesRoches	44	Vice President, Sales and Marketing
Sean P. Duffy	42	Regional Vice President
Joseph S. Fusco	38	Vice President, Communications
James M. Hiltner	38	Regional Vice President
Larry B. Lackey	41	Vice President, Permits, Compliance and Engineering
Alan N. Sabino	42	Regional Vice President
Gary R. Simmons	52	Vice President, Fleet Management

John W. Casella has served as Chairman of the Board of Directors since July 2001 and as the Chief Executive Officer since 1993. Mr. Casella served as President from 1993 to July 2001 and as Chairman of the Board of Directors from 1993 to December 1999. In addition, Mr. Casella has been Chairman of the Board of Directors of Casella Waste Management, Inc. since 1977. Mr. Casella is also an executive officer and director of Casella Construction, Inc., a company owned by Mr. Casella and Douglas R. Casella. Mr. Casella has been a member of numerous industry-related and community service-related state and local boards and commissions including the Board of Directors of the Associated Industries of Vermont, The Association of Vermont Recyclers, Vermont State Chamber of Commerce and the Rutland Industrial Development Corporation. Mr. Casella has also served on various state task forces, serving in an advisory capacity to the Governors of Vermont and New Hampshire on solid waste issues. Mr. Casella holds an Associate of Science in Business Management from Bryant & Stratton University and a Bachelor of Science in Business Education from Castleton State College. Mr. Casella is the brother of Douglas R. Casella, a member of its Board of Directors.

James W. Bohlig has served as President since July 2001 and as Chief Operating Officer since 1993. Mr. Bohlig also served as Senior Vice President from 1993 to July 2001. Mr. Bohlig has served as a member of the Board of Directors since 1993. From 1989 until he joined us, Mr. Bohlig was Executive Vice President and Chief Operating Officer of Russell Corporation, a general contractor and developer based in Rutland, Vermont. Mr. Bohlig is a licensed professional engineer. Mr. Bohlig holds a Bachelor

of Science in Engineering and Chemistry from the U.S. Naval Academy, and is a graduate of the Columbia University Management Program in Business Administration.

Richard A. Norris has served as the Senior Vice President, Chief Financial Officer and Treasurer since July 2001. He joined the Company in July 2000 as Vice President and Corporate Controller. From 1997 to July 2000, Mr. Norris served as Vice President and Chief Financial Officer for NexCycle, Inc., a processor of secondary materials. From 1986 to 1997, he served as Vice President of Finance, US Operations for Laidlaw Waste Systems, Inc.

Charles E. Leonard has served as Senior Vice President, Solid Waste Operations since July 2001. From December 1999 until he joined the Company, he acted as a consultant to several corporations, including Allied Waste Industries, Inc. From November 1997 to December 1999, he was Regional Vice President for Service Corporation International, a provider of death-care services. From September 1988 to January 1997, he served as Senior Vice President, US Operations for Laidlaw Waste Systems, Inc. From June 1978 to July 1988, Mr. Leonard was employed by Browning-Ferris Industries in various management positions. Mr. Leonard is a graduate of Memphis State University with a Bachelor of Arts in Marketing.

Michael J. Brennan has served as Vice President and General Counsel since July 2000. From January 1996 to July 2000, he served in various capacities at Waste Management, Inc., including most recently as Associate General Counsel.

Timothy A. Cretney has served as Regional Vice President since May 2002. From January 1997 to May 2002 he served as Regional Controller for the Western region. From August 1995 to January 1997, Mr. Cretney was Treasurer and Vice President of Superior Disposal Services, Inc., a waste services company acquired in January 1997. From 1992 to 1995, he was General Manager of the Binghamton, New York office of Laidlaw Waste Systems, Inc. and from 1989 to 1992 he was Central New York Controller of Laidlaw Waste Systems. Mr. Cretney holds a B.A. in Accounting from State University of New York College at Brockport.

Christopher M. DesRoches has served as Vice President, Sales and Marketing since November 1996. From January 1989 to November 1996, he was a regional vice president of sales for Waste Management, Inc. Mr. DesRoches is a graduate of Arizona State University.

Sean P. Duffy has served as Regional Vice President since December 1999. Since December 1999, Mr. Duffy has also served as President of FCR, Inc. ("FCR"), which he co-founded in 1983 and which became a wholly-owned subsidiary of the Company in December 1999. From May 1983 to December 1999, Mr. Duffy served in various capacities at FCR, including, most recently, as President. From May 1998 to May 2001, Mr. Duffy also served as President of FCR Plastics, Inc., a subsidiary of FCR.

Joseph S. Fusco has served as Vice President, Communications since January 1995. From January 1991 through January 1995, Mr. Fusco was self-employed as a corporate and political communications consultant. Mr. Fusco is a graduate of the State University of New York at Albany.

James M. Hiltner has served as Regional Vice President since March 1998. From 1990 to March 1998, Mr. Hiltner held various positions at Waste Management, Inc. including serving as a region president from June 1995 to February 1998, where his responsibilities included overseeing waste management operations in upstate New York and northwestern Pennsylvania, a division president from April 1992 to June 1995 and a general manager from November 1990 to April 1992.

Larry B. Lackey has served as Vice President, Permits, Compliance and Engineering since 1995. From 1993 to 1995, Mr. Lackey served as Manager of Permits, Compliance and Engineering. From 1984 to 1993, Mr. Lackey was an Associate Engineer for Dufresne-Henry, Inc., an engineering consulting firm. Mr. Lackey is a graduate of Vermont Technical College.

Alan N. Sabino has served as Regional Vice President since July 1996. From 1995 to July 1996, Mr. Sabino served as a Division President for Waste Management, Inc. From 1985 to 1994, he served as Region Operations Manager for Chambers Development Company, Inc., a waste management company. Mr. Sabino is a graduate of Pennsylvania State University.

Gary R. Simmons has served as Vice President, Fleet Management since May 1997. From December 1996 to May 1997 Mr. Simmons was the owner of GRS Consulting, a waste industry consulting firm. From 1995 to December 1996, Mr. Simmons served as National and Regional Fleet Service Manager for USA Waste Services, Inc., a waste management company. From 1977 to 1995, Mr. Simmons served in various fleet maintenance and management positions for Chambers Development Company, Inc.

ITEM 2. PROPERTIES

At June 28, 2002, the Company owned and/or operated five subtitle D landfills, one landfill permitted to accept construction and demolition materials, 32 transfer stations, 20 of which are owned, eight of which are leased and four of which are under operating contract, 35 solid waste collection facilities, 21 of which are owned and 14 of which are leased, 39 recyclable processing facilities, 17 of which are owned, 16 of which are leased and six of which are under operating contracts, one waste-to-energy facility, and utilized 11 corporate office and other administrative facilities, three of which are owned and eight of which are leased.

ITEM 3. LEGAL PROCEEDINGS

The Company's wholly owned subsidiary, NCES, was 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 has continued to assert jurisdiction to conduct unqualified site plan review with respect to Stage II, Phase II. Additionally, the Town has asserted such jurisdiction 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 following approval by the New Hampshire Department of Environmental Services ("DHES"), 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 for which the Company has filed an application with DHES. Trial is currently scheduled to commence in December 2002. The Company believes that the State Supreme Court's denial of the town's appeal last year and DHES' approval of the Company's landfill operations provide adequate authority for the Company to operate. However, there can be no guarantee the Company will prevail, or will be able to continue, or to expand, current operations in accordance with the Company's plans, which could have a material adverse effect on the Company's financial position or results of operations.

On May 11, 2000, the Company was granted a permit modification by the New Hampshire Department of Environmental Services to increase the volume of solid waste processed and stored at the Company's Gobin Disposal Systems transfer station in Newport, New Hampshire. On or about June 12, 2000, a local environmental activist appealed the permit modification to the New Hampshire

Waste Management Council. The appeal claims that the modification will lead to adverse environmental impacts through higher waste flows and increased levels of incineration at a nearby waste-to-energy facility, that the Company has been the subject of "complaints" arising from its New England and New York operations, and that the Company has failed to demonstrate that the modification is consistent with the waste management plan of the local waste management district. On August 23, 2001 the New Hampshire Waste Management Council voted to dismiss the appeal due to the appellant's lack of standing. The Council issued its order dismissing the appeal on September 27, 2001. On October 18, 2001, the appellant filed a motion for reconsideration and the Company filed an objection on October 24, 2001. On March 21, 2002, the Council voted unanimously to deny the motion.

On or about March 24, 2000, a complaint was filed in the United States District Court, District of New Jersey against the Company, KTI, and Ross Pirasteh, Martin J. Sergi, and Paul A. Garrett, who were KTI's principal officers. The complaint purported to be on behalf of all shareholders who purchased KTI common stock from January 1, 1998 through April 14, 1999. The complaint alleged that the defendants made unspecified misrepresentations regarding KTI's financial condition during the class period in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The plaintiffs seek undisclosed damages. On or about April 6, 2000, the plaintiffs filed an amended class action complaint, which changes the class period covered by the complaint to the period including August 15, 1998 through April 14, 1999. The Company filed a motion to dismiss. On October 1, 2001, the court partially granted the motion, dismissing the Company, but not KTI, Pirasteh, Sergi or Garrett as defendants. The Company is defending the claims against the remaining defendants.

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 Clinton County landfill, located in Clinton County, New York. On or about April 1999, the New York State Department of Labor alleged that the Company should have paid prevailing wages in connection with the labor associated with such activities. The Company has disputed the allegations and the State has scheduled a hearing for August 15, 2002 on the liability issue, the result of which will determine if a hearing on damages is warranted. The Company continues to explore settlement possibilities with the State. The Company believes it has meritorious defenses to these claims.

On or about July 2, 2001, the Company was served with a complaint filed in New York State Supreme Court, Erie County, as one of over twenty defendants named in a toxic tort lawsuit filed by residents surrounding three sites in Cheektowaga, New York known as the Buffalo Crushed Stone limestone quarry, the Old Land Reclamation inactive landfill and the Schultz landfill. The Company is alleged to have liability as a result of its airspace agreement at the Schultz landfill, which is a permitted construction and demolition landfill. Plaintiffs claim property damages and some personal injuries based on alleged nuisance conditions arising out of these facilities and seek compensatory damages in excess of $3 million, punitive damages of $10 million and injunctive relief. The Company believes it has meritorious defenses to these claims.

On or about November 7, 2001, the Company's subsidiary, New England Waste Services of ME., Inc., was served with a complaint filed in Massachusetts Superior Court on behalf of Daniel J. Quirk, Inc. and 14 citizens against The Massachusetts Department of Environmental Protection ("MADEP"), Quarry Hill Associates, Inc. and New England Waste Services of ME., Inc. dba New England Organics, et al. The complaint seeks injunctive relief related to the use of MADEP-approved wastewater treatment sludge in place of naturally occurring topsoil as final landfill cover material at the site of the Quarry Hills Recreation Complex Project in Quincy, Massachusetts (the "Project"), including removal of the material, or placement of an additional "clean" cover. On February 21, 2002, the MADEP filed a motion for stay pending a litigation control schedule. Plaintiffs have filed a cross-motion to consolidate the case with 11 other cases they filed related to the Project. Additionally, the

Company has cross-claimed against other named defendants seeking indemnification and contribution. The Company believes it has meritorious defenses to these claims.

On January 10, 2002, the City of Biddeford, Maine filed a lawsuit in York County Superior Court in Maine alleging breach of the waste handling agreement among the Biddeford-Saco Waste Handling Committee, the cities of Biddeford and Saco, Maine and the Company's subsidiary Maine Energy for (1) failure to pay the residual cancellation payments in connection with the Company's merger with KTI and (2) processing amounts of waste above contractual limits without notice to the City. On May 3, 2002, The City of Saco filed a lawsuit in York County Superior Court against the Company, Maine Energy, Fleet National Bank, KeyBank National Association and Bank of America. The complaint seeks the residual cancellation payment, alleging that such payment is due as a result of (1) the Company's merger with KTI and (2) transfers of funds by KTI, the Company and the banks that allegedly should have been used to pay off certain limited partner loans. The complaint also seeks damages for breach of contract, tortious interference with contract, breach of fiduciary duties, and fraudulent transfers and seeks treble damages, punitive damages and a constructive trust upon the Company's assets with the appointment of a trustee to operate the Company's business. The claims against the banks allege tortious interference with the 1991 waste handling agreement and fraudulent transfers. The City of Saco in its Notice of Claim asserts it is entitled to a residual cancellation payment of approximately $33 million as well as treble damages of approximately $100 million. On June 6, 2002, the additional 13 municipalities that were parties to the 1991 waste handling agreements filed a lawsuit in York County Superior Court against Maine Energy alleging breaches of the 1991 waste handling agreements for failure to pay the residual cancellation payment which they allege is due as a result of (1) the Company's merger with KTI; and (2) failure to pay off the limited partner loans when funds were allegedly available. The Company believes it has meritorious defenses to these claims.

The Company executed an assurance of discontinuance with the Vermont Attorney General's Office, effective June 10, 2002, relating to the terms of the Company's commercial small container hauling contracts entered into with customers in Vermont, which requires the Company to make modifications to its commercial small container hauling contracts used within the State of Vermont. The required modifications will not have a material adverse effect on the Company's business, financial condition or results of operations. Additionally, following the finalization of the assurance of discontinuance, the Company received a letter from an attorney representing a competitor in Vermont who is threatening to file a lawsuit against the Company alleging that the competitor was damaged as a result of the Company's use of the earlier versions of the contracts. The Company believes that it has meritorious defenses to any such claims that may be brought.

On June 10, 2002, the Company was served with a complaint filed in the United States District Court, District of Vermont, by Cheryl Coletti alleging breach by the Company of the Noncompete Agreement, dated as of September 24, 2000, by and between Ms. Coletti and the Company. The agreement provided, among other things, for certain payments to Ms. Coletti in exchange for her agreement not to compete with the Company and for certain business development efforts provided by Ms. Coletti on the Company's behalf, if any. Ms. Coletti is demanding $329,400 as compensation for alleged business development efforts, as well as attorneys fees and punitive damages. The Company believes it has meritorious defenses to these claims.

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

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

There were no matters submitted to a vote of the security holders during the fiscal quarter ended April 30, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's Class A common stock trades on the Nasdaq National Market under the symbol "CWST". The following table sets forth the high and low sale prices of the Company's Class A common stock for the periods indicated as quoted on the Nasdaq National Market.

Period	High	Low
Fiscal Year 2001		
First quarter	$ 13.6875	$ 7.4375
Second quarter	$ 12.50	$ 7.9375
Third quarter	$ 9.35	$ 3.25
Fourth quarter	$ 9.50	$ 5.625
Fiscal Year 2002		
First quarter	$ 14.20	$ 9.00
Second quarter	$ 13.675	$ 9.50
Third quarter	$ 14.89	$ 11.45
Fourth quarter	$ 13.35	$ 9.55

On June 28, 2002, the high and low sale prices per share of the Company's Class A common stock as quoted on the Nasdaq National Market were $12.25 and $11.30, respectively. As of June 28, 2002 there were approximately 437 holders of record of the Company's Class A common stock and two holders of record of the Company's Class B common stock.

For purposes of calculating the aggregate market value of the shares of common stock of the Company held by non-affiliates, as shown on the cover page of this Annual Report on Form 10-K, it has been assumed that all the outstanding shares of Class A common stock were held by nonaffiliates except for the shares beneficially held by directors and executive officers of the Company and funds represented by them.

No dividends have ever been declared or paid on the Company's common stock and the Company does not anticipate paying any cash dividends on its common stock in the foreseeable future. The Company's credit facility restricts the payment of dividends.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following selected consolidated financial and operating data set forth below with respect to the Company's consolidated statements of operations and cash flows for the fiscal years 2000, 2001 and 2002, and the consolidated balance sheets as of April 30, 2001 and 2002 are derived from the Company's Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations and cash flows data for the fiscal years ended 1998 and 1999, and the consolidated balance sheet data as of April 30, 1998, 1999 and 2000 are derived from the Company's Consolidated Financial Statements. During the fiscal year 2001, the Company decided to divest or close certain operations, and accounted for those operations as discontinued. Accordingly, the Company's financial and operating data for prior periods presented have been restated. The data set forth below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K.

Casella Waste Systems, Inc.
Selected Consolidated Financial And Operating Data
(In thousands, except per share data)

	Fiscal Year				
	1998 (1)	1999 (1)	2000 (1)	2001	2002
Statement of Operations Data:					
Revenues	$ 140,991	$ 179,264	$ 315,013	$ 479,816	$ 420,821
Cost of operations	87,567	106,893	195,495	323,703	275,706
General and administration	19,155	26,210	40,003	62,612	53,105
Depreciation and amortization	19,921	25,334	38,343	52,883	50,696
Impairment charge	1,571	—	—	59,619	—
Restructuring charge	—	—	—	4,151	(438)
Legal settlements	—	—	—	4,209	—

Other miscellaneous charges	—	—	—	1,604	—
Merger-related costs	290	1,951	1,490	—	—
Operating income (loss)	12,487	18,876	39,682	(28,965)	41,752
Interest expense, net	7,346	5,564	15,673	38,647	30,571
Other (income) expense, net	(549)	(353)	2,204	27,360	(6,533)
Income (loss) from continuing operations before income taxes, discontinued operations, extraordinary item and cumulative effect of change in accounting principle	5,690	13,665	21,805	(94,972)	17,714
(Provision) benefit for income taxes	(3,048)	(7,315)	(10,615)	12,731	(5,887)
(Loss) income from discontinued operations, net	(808)	265	1,884	(15,448)	—
Estimated loss on disposal of discontinued operations, net	—	—	(1,393)	(3,846)	(4,096)
Extraordinary item, net	—	—	(631)	—	—
Cumulative effect of change in accounting principle, net	—	—	—	—	(250)
Net income (loss)	1,834	6,615	11,050	(101,535)	7,481
Preferred stock dividend and put warrants	(5,738)	—	—	(1,970)	(3,010)
Net income (loss) available to common stockholders	$ (3,904)	$ 6,615	$ 11,050	$ (103,505)	$ 4,471
Basic net income (loss) per common share	$ (0.41)	$ 0.44	$ 0.59	$ (4.46)	$ 0.19
Basic weighted average common shares outstanding (2)	9,547	15,145	18,731	23,189	23,496
Diluted net income (loss) per common share	$ (0.41)	$ 0.41	$ 0.57	$ (4.46)	$ 0.19
Diluted weighted average common shares outstanding (2)	9,547	16,019	19,272	23,189	24,169

Casella Waste Systems, Inc.
Selected Consolidated Financial And Operating Data
(In thousands)

	Fiscal Year				
	1998 (1)	1999 (1)	2000 (1)	2001	2002
Other Operating Data:					
Capital expenditures	$ (29,671)	$ (54,118)	$ (68,575)	$ (61,518)	$ (37,674)
Other Data:					
Cash flows provided by operating activities	$ 19,726	$ 37,462	$ 48,398	$ 63,767	$ 68,530
Cash flows used in investing activities	$ (59,939)	$ (95,690)	$ (155,088)	$ (55,565)	$ (9,533)
Cash flows (used in) provided by financing activities	$ 40,564	$ 59,154	$ 116,423	$ 18,765	$ (70,065)
Adjusted EBITDA (3)	$ 34,269	$ 46,161	$ 79,013	$ 92,475	$ 92,164
Balance Sheet Data:					
Cash and cash equivalents	$ 3,087	$ 4,195	$ 7,788	$ 22,001	$ 4,298
Working capital (deficit) net (4)	$ 685	$ (1,515)	$ 106,580	$ 33,056	$ (281)
Property, plant and equipment, net	$ 88,518	$ 128,374	$ 369,261	$ 290,537	$ 287,115
Total assets	$ 205,251	$ 282,228	$ 860,470	$ 686,293	$ 621,041
Long-term debt, less current maturities	$ 82,493	$ 86,523	$ 437,853	$ 350,511	$ 277,545
Redeemable preferred stock	$ —	$ —	$ —	$ 57,720	$ 60,730
Total stockholders' equity	$ 85,004	$ 148,554	$ 274,718	$ 172,951	$ 176,796

(1) The Company has restated its consolidated statements of operations, consolidated statements of cash flows and consolidated balance sheets to reflect discontinuing certain operations during the fiscal years 2000, 1999 and 1998. See Note 14 of the Notes to Consolidated Financial Statements.

(2) Computed on the basis described in Note 1 (n) of Notes to Consolidated Financial Statements.

(3) Adjusted EBITDA is defined as operating income (loss) plus depreciation and amortization, impairment charges, restructuring charges, legal settlements, other miscellaneous charges, and merger-related costs less minority interest. Adjusted EBITDA does not represent, and should not be considered as, an alternative to net income or cash flows from operating activities, each as determined in accordance with generally accepted accounting principles, known as GAAP. Moreover, Adjusted EBITDA does not necessarily indicate whether cash flow will be sufficient for such items as working capital or capital expenditures, or to react to changes in the Company's industry or to the economy generally. Because Adjusted EBITDA is not calculated by all companies in the same fashion, the Adjusted EBITDA measures presented by the Company may not be comparable to similarly titled measures reported by other companies. Therefore, in evaluating Adjusted EBITDA data, investors should consider, among other factors: the non-GAAP nature of Adjusted EBITDA data; actual cash flows; the actual availability of funds for debt service, capital expenditures and working capital; and the comparability of the Company's Adjusted EBITDA data to similarly titled measures reported by other companies. For more information about the Company's cash flows, see the consolidated statements of cash flows in the Company's Consolidated Financial Statements.

(4) Working capital, net is defined as current assets, excluding cash and cash equivalents, minus current liabilities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and other financial information, included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of this Annual Report on Form 10-K. The Company's actual results may differ materially from those contained in any forward-looking statements.

Casella is a vertically-integrated regional solid waste services company that provides collection, transfer, disposal and recycling services to residential, industrial and commercial customers, primarily in the eastern region of the United States. As of June 28, 2002, the Company owned and/or operated five Subtitle D landfills, one landfill permitted to accept construction and demolition materials, 35 solid waste collection operations, 32 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.

From May 1, 1994 through December 1999, the Company acquired 161 solid waste collection, transfer and disposal operations. In December 1999, the Company acquired KTI. KTI assets which were considered core to the Company's operations included interests in waste-to-energy facilities in Maine, significant residential and commercial recycling operations, transfer and collection operations which were "tuck-ins" to existing operations and cellulose insulation manufacturing operations. In addition, KTI's assets included a number of businesses that were not core to the Company's operating strategy. Following the acquisition of KTI, the Company focused on the integration of KTI and the divestiture of non-core KTI assets, which has now been completed. As part of the divestiture program, in the fourth quarter of fiscal year 2001, the Company incurred non-recurring charges of $111.7 million, of which $90.6 million was non-cash. The divestiture program resulted in aggregate consideration of $107.6 million, including cash proceeds of $61.7 million which were used to reduce indebtedness. The divestitures reduced revenues in fiscal year 2002 by $54.9 million from fiscal year 2001.

Since December 1999, the Company has made 24 acquisitions. Eight of the acquisitions during the three years ended April 30, 2000 were accounted for as poolings of interests. Under the rules governing poolings of interests, the financial statements were restated for all years prior to the acquisitions to reflect the financial position, results of operations and cash flows of the merged entities as if they had been one company for all prior periods presented in the accompanying financial statements. All of the Company's other acquisitions, including KTI, were accounted for under the purchase method of accounting. Under the rules of purchase accounting, the acquired companies' revenues and results of operations have been included together with those of the Company's from the actual dates of the acquisitions and materially affect the period-to-period comparisons of its historical results of operations. As pooling accounting has been eliminated, all future acquisitions will be accounted for under the purchase method.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of their evaluation form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from

these estimates under different assumptions and circumstances. The Company's significant accounting policies are more fully discussed in the Notes to the Consolidated Financial Statements.

Landfill Accounting—Capitalized Costs and Amortization

The Company uses life-cycle accounting and the units-of-production method to recognize certain landfill costs. Under life-cycle accounting, all costs related to the acquisition, construction, closure and post-closure of landfill sites are capitalized or accrued and charged to income based on tonnage placed into each site. Capitalized landfill costs include expenditures for land and related airspace, permitting costs and preparation costs. Landfill permitting and preparation costs represent only direct costs related to these activities, including legal, engineering and construction. Landfill preparation costs include the costs of construction associated with excavation, liners, site berms and the installation of leak detection and leachate collection systems. Interest is capitalized on landfill permitting and construction projects while the assets are undergoing activities to ready them for their intended use. Management routinely reviews its investment in operating landfills, transfer stations and other significant facilities to determine whether the cost of these investments are realizable. The Company's judgments regarding the existence of impairment indicators are based on regulatory factors, market conditions and the operational performance of landfills. Future events could cause the Company to conclude that impairment indicators exist and that landfill carrying costs are impaired. Any resulting impairment charge could have a material adverse effect on the Company's financial condition and results of operations.

Landfill permitting, acquisition and preparation costs, excluding the estimated residual value of land, are amortized on the units-of-production method as landfill airspace is consumed. In determining the amortization rate for these landfills, preparation costs include the total estimated costs to complete construction of the landfills' permitted and permittable capacity. To be considered permittable, airspace must meet all of the following criteria:

- the Company controls the land on which the expansion is sought;
- all technical siting criteria have been met or a variance has been obtained or is reasonably expected to be obtained;
- the Company has not identified any legal or political impediments which it believes will not be resolved in its favor;
- the Company is actively working on obtaining any necessary permits and it expects that all required permits will be received within the next two to five years; and
- senior management has approved the project.

Units-of-production amortization rates are determined annually for each of the Company's operating landfills. The rates are based on estimates provided by the Company's engineers and accounting personnel and consider the information provided by surveys, which are performed at least annually. Significant changes in estimates could materially increase landfill depletion rates, which could have a material adverse effect on the Company's financial condition and results of operations.

Landfill Accounting—Accrued Closure and Post-Closure Costs

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

leachate management, methane gas control and recovery, and operation and maintenance costs to be incurred during the period after the facility closes.

The Company provides accruals for these estimated future costs on an undiscounted basis as the remaining permitted airspace of such facilities is consumed. Significant reductions in estimates of the remaining lives of landfills or significant increases in estimates of the landfill closure and post-closure maintenance costs could have a material adverse effect on the Company's financial condition and results of operations.

Asset Impairment

In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, the Company continually reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the remaining estimated useful life of such assets might warrant revision or that the balances may not be recoverable. The Company evaluates possible impairment by comparing estimated future cash flows, before interest expense and on an undiscounted basis, with the net book value of long-term assets including goodwill and other intangible assets. If undiscounted cash flows are insufficient to recover assets, further analysis is performed in order to determine the amount of the impairment. An impairment loss is then recorded equal to the amount by which the carrying amount of the assets exceeds their fair market value. Fair market value is usually determined based on the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved. In instances where goodwill is identified with assets that are subject to an impairment loss, the carrying amount of the identified goodwill is reduced before making any reduction to the carrying amounts of other long-lived assets.

Bad Debt Allowance

Estimates are used in determining allowance for bad debts and are based on historical collection experience, current trends, credit policy and a review of accounts receivable by aging category. The reserve is evaluated and revised on a monthly basis.

Self-Insurance Liabilities and Related Costs

The Company is self insured for vehicles and workers compensation. The liability for unpaid claims and associated expenses, including incurred but not reported losses, is determined by a third party actuary and reflected in the consolidated balance sheet as an accrued liability. The Company uses a third party to track and evaluate actual claims experience for consistency with the data used in the annual actuarial valuation. The actuarially determined liability is calculated in part by past claims experience, which considers both the frequency and settlement amount of claims.

Discontinued Operations

In April 2001, the Company adopted a formal plan to dispose of its tire processing, commercial recycling and mulch recycling businesses. The Company has accounted for these planned dispositions in accordance with APB Opinion No. 30, *Reporting the Effects of Disposal of a Segment of a Business,* and accordingly, the discontinued businesses are carried at estimated net realizable value less costs to be incurred through the date of disposition. Net assets of discontinued operations are stated at their expected net realizable values and have been separately classified in the accompanying consolidated balance sheets.

Income Tax Accruals

The Company records income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under SFAS No. 109, deferred

income taxes are recognized based on the expected future tax

consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using currently enacted tax rates. Management judgment is required in determining the provision for income taxes and liabilities and any valuation allowance recorded against net deferred tax assets. Valuation allowances have been established for the possibility that tax benefits may not be realized for certain deferred tax assets.

Forward Looking Statements

This Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 attributable primarily to fees charged to customers for solid waste disposal and collection, landfill, waste-to-energy, transfer and recycling services. The Company derives a substantial portion of its collection revenues from commercial, industrial and municipal services that are generally performed under service agreements or pursuant to contracts with municipalities. The majority of 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 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 revenues include revenues from commercial brokerage operations.

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 the "Other" segment, the Company has ancillary revenues including residue recycling and major customer accounts.

Revenues are shown net of intercompany eliminations. The Company typically establishes intercompany transfer pricing based upon prevailing market rates. The table below shows, for the periods indicated, the percentage of total revenues attributable to services provided. Collection revenues increased as a percentage of total revenues in fiscal year 2002 compared to fiscal year 2001 due to the effects of price and volume increases. The decrease in collection revenues as a percentage of total revenues in fiscal year 2001 compared to fiscal year 2000 is primarily attributable to the effects of the KTI acquisition, as fiscal year 2000 includes only a partial year of KTI collection revenues.

Significant recycling and brokerage revenues were added through that acquisition. The decrease in fiscal year 2002 landfill/disposal facilities revenues compared to fiscal year 2001 is mainly attributable to the disposition of the majority interest in PERC, which occurred late in fiscal year 2001. Transfer revenues as a percentage of total revenues has continued to increase between years due to an increase in transfer volumes. The increase in recycling revenues as a percentage of total revenues in fiscal year 2002 compared to the prior year is due to higher volumes partially offset by lower average prices. The increase in recycling revenues in fiscal year 2001 compared to fiscal year 2000 is due to recycling revenues added through the KTI acquisition. The decrease in brokerage revenues as a percentage of revenues in fiscal year 2002 compared to the prior year is primarily attributable to the overall effects of commodity prices. The increase in brokerage revenues as a percent of total revenues in fiscal year 2001 compared to fiscal year 2000 is due to the brokerage revenues added through the KTI acquisition. The decrease in other revenues as a percentage of revenues during fiscal year 2002 is primarily attributable to divestitures made during the period.

	% of Revenues(1) Fiscal Year		
	2000	2001	2002
Collection	55.8%	42.8%	46.9%
Landfill/disposal facilities	14.1	16.3	13.7
Transfer	5.2	7.7	10.7
Recycling	7.6	11.9	15.9
Brokerage	10.2	14.7	11.7
Other	7.1	6.6	1.1
Total revenues	100.0%	100.0%	100.0%

(1) We restated percentages of total revenues for fiscal year 2001 and fiscal year 2000 to conform with classification of revenues attributable to services provided in fiscal year 2002.

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. Landfill operating expenses also include a provision for closure and post-closure expenditures anticipated to be incurred in the future, and 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 goodwill and other intangible assets using the straight-line method. 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, excluding non-depreciable land, down 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 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 future financial obligations relating to closure and post-closure costs of its landfills (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. 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.

Results of Operations

The following table sets forth for the periods indicated the percentage relationship that certain items from the Company's Consolidated Statements of Operations bear in relation to revenues.

	Fiscal Year % of Revenues		
	2000	2001	2002
Revenues	100.0%	100.0%	100.0%
Cost of operations	62.1	67.5	65.5
General and administration	12.7	13.0	12.6
Depreciation and amortization	12.2	11.0	12.1
Impairment charge	—	12.4	—
Restructuring charge	—	0.9	(0.1)
Legal settlements	—	0.9	—
Other miscellaneous charges	—	0.3	—
Merger-related costs	0.5	—	—
Operating income (loss)	12.5	(6.0)	9.9
Interest expense, net	5.0	8.1	7.3
(Income) loss from equity method investments, net	0.3	5.5	(0.5)
Other (income)/expenses, net	0.4	0.2	(1.1)
(Provision) benefit for income taxes	(3.4)	2.7	(1.4)
Net income (loss) from continuing operations before discontinued operations, extraordinary item and cumulative effect of change in accounting principle	3.4%	(17.1)%	2.8%
Adjusted EBITDA (1)	25.1%	19.3%	21.9%

(1) See discussion and computation of Adjusted EBITDA below.

Fiscal Year 2002 versus Fiscal Year 2001

Revenues. Revenues decreased $59.0 million, or 12.3%, to $420.8 million in fiscal year 2002 from $479.8 million in fiscal year 2001. Divested businesses accounted for approximately $54.9 million of the decrease, while lower average brokerage commodity prices and volumes represented $32.5 million of the decrease. These decreases were partially offset by price and volume increases in the core solid waste business amounting to $24.9 million and the positive rollover effect of acquisitions amounting to approximately $3.5 million.

Cost of operations. Cost of operations decreased $48.0 million, or 14.8%, to $275.7 million in fiscal year 2002 from $323.7 million in fiscal year 2001. This decrease arose mainly from lower volumes of recyclable material purchases and divestitures. Cost of operations as a percentage of revenues decreased to 65.5% in fiscal year 2002 from 67.5% in the prior fiscal year. The decrease in cost of operations as a percentage of revenues was primarily the result of a decreased contribution from commercial brokerage operations, which carry a high cost of operations as a percentage of revenues of approximately 90%.

General and administration. General and administration expenses decreased $9.5 million, or 15.2%, to $53.1 million in fiscal year 2002 from $62.6 million in fiscal year 2001. General and administration expenses decreased slightly as a percentage of revenues to 12.6% in fiscal year 2002 from 13.0% in the prior fiscal year. The decrease in general and administration expenses was primarily the result of divestitures as well as lower legal and bad debt expenses.

Depreciation and amortization. Depreciation and amortization expense decreased $2.2 million, or 4.1%, to $50.7 million in fiscal year 2002 from $52.9 million in fiscal year 2001. The decrease was attributable to lower intangible amortization due to the impairment charge taken in fiscal year 2001 and the impact of divested entities. Depreciation and amortization expense as a percentage of revenues increased to 12.1% in fiscal year 2002 from 11.0% in fiscal year 2001. The increase as a percentage of revenues resulted primarily from a lower level of revenues.

Restructuring charge. A restructuring charge of $0.4 million in fiscal year 2002 represents the reversal of certain unrealized fiscal year 2001 restructuring expenses, partially offset by additional restructuring charges expensed in fiscal year 2002.

Interest expense, net. Net interest expense decreased $8.1 million, or 21.0%, to $30.6 million in fiscal year 2002, from $38.6 million in fiscal year 2001. This decrease is primarily attributable to lower average debt balances and lower interest rates on variable debt in the current period, versus the prior period. Interest expense, as a percentage of revenues, decreased to 7.3% in fiscal year 2002 from 8.1% in fiscal year 2001.

(Income) loss from equity method investments, net. Income from equity method investments in fiscal year 2002 of $1.9 million reflects equity income in the Company's 50% joint venture interest in GreenFiber amounting to $4.3 million, offset by a $2.4 million loss related to the Company's further investment in the New Heights tire processing business. In the prior year, the Company recorded its share of a loss of $4.2 million, recorded at GreenFiber due to significant transitional and restructuring expenses. In fiscal year 2001, equity method investment losses also included a $22.0 million loss attributable to impairment charges taken to reduce the investment in Oakhurst Company, Inc. ("OCI") and New Heights Recovery and Power, LLC ("New Heights").

A portion of the Company's 50% interest in New Heights was sold in September 2001 for consideration of $0.3 million. The Company retained an interest of 9.95% in the tire recycling business of New Heights, as well as financial obligations related solely to the New Heights power plant. In addition, the Company has an interest in certain notes granted by New Heights collectively valued at approximately $9.0 million, payment of which is contingent upon certain events. The Company will record the contingent consideration when the contingency is removed. The Company is accounting for its retained investment under the equity method.

Minority interest. At April 30, 2002, this amount represented the minority owners' interest in the Company's majority owned subsidiary American Ash Recycling of Tennessee, Ltd, which recorded a loss for the period. At April 30, 2001 minority interest reflected the minority owners' interest in the Company's majority owned subsidiaries Maine Energy and PERC. Effective March 1, 2001, the Company acquired the remaining 16.25% minority interest in Maine Energy and sold its majority interest in PERC.

Other (income)/expense, net. Other income was $4.5 million in fiscal year 2002 compared to $0.1 million in other expenses in fiscal year 2001. This increase is attributable to the divestitures of Multitrade and S&S Commercial, which resulted in a gain of $4.8 million. Other income in fiscal year 2002 also includes a gain on the sale of Bangor Hydro warrants of $1.7 million and gains on the sale of equipment of $0.1 million, offset by the write off of $1.7 million of commodity hedges due to the bankruptcy of Enron, as well as impairment of the Company's U.S. Plastic Lumber Corp. equity holdings, amounting to $0.4 million.

Provision (benefit) for income taxes. Provision for income taxes increased $18.6 million in fiscal year 2002 to $5.9 million from a benefit of $12.7 million in fiscal year 2001. This increase, as well as the change in the effective tax rate to 33.2%, is primarily due to the change in pretax income to a profit, the tax benefit from the sale of 80.1% of the Company's equity interest in New Heights in fiscal

year 2002 and the write-off of non-deductible goodwill and the equity loss in OCI and in New Heights in fiscal year 2001.

Fiscal Year 2001 versus Fiscal Year 2000

Revenues. Revenues increased approximately $164.8 million, or 52.3%, to $479.8 million in fiscal year 2001 from $315.0 million in fiscal year 2000. The impact of businesses acquired, net of divestitures, throughout fiscal year 2000 and fiscal year 2001, including the KTI acquisition which closed in December 1999, resulted in an increase of $154.5 million. The remaining increase of $10.3 million was attributable to internal volume and price growth, including the negative impact of $10.0 million of lower average recyclable commodity prices in fiscal year 2001 compared

to fiscal year 2000.

Cost of operations. Cost of operations increased approximately $128.2 million, or 65.6%, to $323.7 million in fiscal year 2001 from $195.5 million in fiscal year 2000. Cost of operations as a percentage of revenues increased to 67.5% in fiscal year 2001 from 62.1% in fiscal year 2000. The increase in cost of operations as a percentage of revenues was primarily the result of acquiring KTI's commercial brokerage operations, which carry a high cost of operations as a percentage of revenues of approximately 90%. The brokerage operations comprised approximately 14.7% of the Company's revenues in fiscal year 2001, versus 10.2% in fiscal year 2000.

General and administration. General and administration expenses increased approximately $22.6 million, or 56.5%, to $62.6 million in fiscal year 2001 from $40.0 million in fiscal year 2000. General and administration expenses as a percentage of revenues increased to 13.0% in fiscal year 2001 from 12.7% in fiscal year 2000. The increase in general and administration expenses was primarily the result of acquisitions, principally KTI. In addition, the Company incurred high legal expenses on outstanding litigation against KTI, which it assumed in connection with the acquisition of KTI.

Depreciation and amortization. Depreciation and amortization expenses increased $14.5 million, or 37.9%, to $52.9 million in fiscal year 2001 from $38.3 million in fiscal year 2000. Depreciation and amortization expenses as a percentage of revenues decreased to 11.0% in fiscal year 2001 from 12.2% in fiscal year 2000. The decrease in depreciation and amortization expenses as a percentage of revenues was primarily attributable to the acquisition of KTI. KTI carried lower depreciation expense as a percentage of revenues of approximately 7% than the Company's existing operations of approximately 14.5%.

Impairment charge. In the fourth quarter of fiscal year 2001, the Company determined that certain assets (mainly goodwill) were impaired and therefore recorded a charge of $59.6 million to reduce those assets to their estimated fair value. The assets impaired consisted primarily of assets acquired in the acquisition of KTI.

Restructuring charge. In April 2001, the Company incurred a restructuring charge amounting to $4.2 million. This amount was primarily attributable to severance and facility closures. See Note 11 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Legal settlements. During fiscal year 2001, the Company settled five outstanding lawsuits and established a reserve for the settlement of four others. The amount provided includes associated legal fees.

Other miscellaneous charges. During fiscal year 2001, the Company provided for the recapping of a landfill and for a loss contract.

Interest expense, net. Net interest expense increased approximately $23.0 million, or 146.6%, to $38.6 million in fiscal year 2001 from $15.7 million in fiscal year 2000. Interest expense, net, as a percentage of revenues, increased to 8.1% in fiscal year 2001 from 5.0% in fiscal year 2000. The

increase in net interest expense as a percentage of revenues is primarily attributable to three factors: (i) higher average debt balances in fiscal year 2001, versus fiscal year 2000; (ii) closing on $450.0 million senior credit facilities in December 1999 that raised the Company's borrowing cost by approximately 200 basis points over the previous senior credit facilities; and (iii) amending this facility twice in 2001, resulting in fees that further increased the cost of borrowing by approximately 60 basis points.

(Income) loss from equity method investments, net. This amount comprises two items, the loss from OCI and New Heights ($22.0 million) and the loss from GreenFiber ($4.2 million). The former amount arises from the Company's 35% ownership of OCI, which was acquired as part of KTI. OCI owned 37.5% of New Heights. The Company also had a direct ownership interest in New Heights of 12.5%. The charge in the year included writing down this investment to net realizable value.

On July 3, 2001, the Company acquired OCI's 37.5% interest in New Heights, a promissory note for $1 million and common share purchase warrants, all in exchange for the cancellation of all amounts due from OCI and all equity interests in OCI. The Company's interest in New Heights was subsequently reduced, as described above under "Fiscal Year 2002 versus Fiscal Year 2001—(Income) loss from equity method investments, net".

The second item relates to GreenFiber, which was formed effective August 1, 2000 and in which the Company acquired a 50% interest. The Company's share of GreenFiber's income in fiscal year 2001 was more than offset by the restructuring charge and transition costs incurred in setting up the new business and closing redundant plants, leading to a net loss for the period.

Minority interest. This amount now represents the minority owners' interest in the Company's majority owned subsidiary American Ash Recycling of Tennessee, Ltd. Effective March 1, 2001, the Company acquired the remaining 16.25% minority interest in Maine Energy and sold its majority interest in PERC. Net cash proceeds for the two transactions amounted to $12.0 million.

Other (income)/expense, net. Other (income)/expense, net decreased by $0.6 million, in fiscal year 2001. The other expenses in fiscal year 2001 are primarily attributable to the loss on the sale of certain assets in the fourth quarter ($2.8 million), and the cost of early termination of a letter of credit ($1.4 million), offset by a gain on the sale of two-thirds of the Bangor Hydro warrants held by the Company in the amount of $3.1 million.

Provision (benefit) for income taxes. Provision for income taxes decreased $23.3 million, to a benefit of $12.7 million in fiscal year 2001 from $10.6 million in fiscal year 2000. Provision for income taxes, as a percentage of revenues, decreased to (2.7)% in fiscal year 2001 from 3.4% in fiscal year 2000. The decrease is primarily due to the Company's loss in fiscal year 2001 compared to fiscal year 2000. The other primary factors causing the provision for income taxes as a percentage of pre-tax net income to vary were: (i) the write-off of goodwill and recording of the equity loss from OCI and New Heights, which were non-deductible; and (ii) increased amortization of non-deductible KTI goodwill.

Adjusted EBITDA

Adjusted EBITDA represents operating income (loss) plus depreciation and amortization expense, impairment charges, restructuring charges, legal settlements, other miscellaneous charges and merger-related costs less minority interest. Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles, known as GAAP.

The following table sets forth the reconciliation from operating income (loss) to Adjusted EBITDA:

	Fiscal Year		
	2000	2001	2002
	(in thousands)		
Operating income (loss)	$ 39,682	$ (28,965)	$ 41,752
Depreciation and amortization	38,343	52,883	50,696
Impairment charge (i)	—	59,619	—
Restructuring charge (ii)	—	4,151	(438)
Legal settlements	—	4,209	—
Other miscellaneous charges	—	1,604	—
Merger-related costs	1,490	—	—
Minority interest	(502)	(1,026)	154
Adjusted EBITDA	$ 79,013	$ 92,475	$ 92,164
EBITDA as a percentage of revenues	25.1%	19.3%	21.9%

(i) See Note 1(i) of the Notes to Consolidated Financial Statements.

(ii) See Note 11 of the Notes to Consolidated Financial Statements.

Analysis of the factors contributing to the change in Adjusted EBITDA is included in the discussion above.

Liquidity and Capital Resources

The Company's business is capital intensive. 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 $0.3 million at April 30, 2002 compared to net working capital of $33.1 million at April 30, 2001. Working capital, net comprises current assets, excluding cash and cash equivalents, minus current liabilities. The main factors accounting for the decrease were lower trade receivable balances, increases in the current portion of accrued closure and post-closure costs, lower cash balances, recognition of the current portion of interest rate swaps and the sale of assets of discontinued operations and net assets held for sale.

The Company has a $399.3 million credit facility with a group of banks for which Fleet Bank, N.A. is acting as agent. This credit facility consists of a $280 million Senior Secured Revolving Credit Facility ("Revolver") and a Senior Secured Delayed Draw Term "B" Loan, which had an outstanding balance of $119.3 million at April 30, 2002 ("Term Loan"). This credit facility is secured by all assets of the Company, including its interest in the equity securities of its subsidiaries. The Revolver matures in December 2004 and the Term Loan matures in December 2006. Funds available to the Company under the Revolver were approximately $83.3 million at April 30, 2002.

Net cash provided by operations in fiscal year 2002 and fiscal year 2001 amounted to $68.5 million and $63.8 million, respectively. The increase was primarily due to the change in working capital, primarily reflecting an improvement in accounts receivable collections and an increase in the current portion of accrued closure and post-closure costs.

Net cash used in investing activities in fiscal year 2002 and fiscal year 2001 amounted to $9.5 million and $55.6 million, respectively. The decrease in cash used in investing activities reflected mainly lower capital expenditures, which were reduced to $37.7 million in fiscal year 2002 from $61.5 million in fiscal year 2001. The decrease in cash used in investing activities between years was also as a result of fewer acquisitions and higher proceeds from divestitures.

Net cash used in financing activities was $70.1 million in fiscal year 2002 compared to $18.8 million provided by financing activities in fiscal year 2001. This increase was primarily due to paying down debt from the proceeds from divestitures.

The Company's capital expenditures were $37.7 million in fiscal year 2002 compared to $61.5 million in fiscal year 2001. Significant capital projects in fiscal year 2002 included the expenditure of approximately $20.0 million in connection with landfill site development. Capital spending was significantly higher in fiscal year 2001 mainly due to capital expenditures related to the upgrade of the truck fleet and Maine Energy, especially relating to odor control. The Company expects its capital spending to total approximately $39.0 million in fiscal year 2003.

During fiscal year 2002, the Company completed four acquisitions for an aggregate consideration of $7.4 million, consisting of $4.6 million in cash and $2.8 million in notes payable and other consideration. In comparison, during fiscal year 2001, it completed 13 acquisitions for an aggregate consideration of $22.6 million, consisting of $9.3 million in cash and $13.3 million of its notes receivable. In fiscal year 2002, the Company completed its divestiture program which was announced in March 2001, from which it received total consideration of $107.6 million,

including cash proceeds of $61.7 million which were used to reduce the Company's indebtedness.

The Company is negotiating a new senior secured credit facility which will provide for a $150.0 million term loan and a $175.0 million revolving credit facility, for total aggregate borrowings of up to $325.0 million. The new credit facilities will be available to the Company contingent upon the closing of a senior subordinated note offering in the amount of $150.0 million. The net proceeds from the senior subordinated note offering and initial borrowings under the new senior secured credit facilities will be used to repay all outstanding amounts under its existing senior secured credit facilities, fees and expenses related to the new senior secured credit facilities and for general corporate purposes. There can be no assurance that these financings will be completed.

Contractual Obligations

The following table summarizes the Company's significant contractual obligations and commitments as of April 30, 2002 (in thousands) and the anticipated effect of these obligations on its liquidity in future years:

	Fiscal Year(s)			
	2003	2004-2006	2007+	Total
Long-term debt	$ 6,436	$ 162,889	$ 114,656	$ 283,981
Capital lease obligations	2,070	2,562	1,029	5,661
Operating leases	5,013	11,454	3,610	20,077
Closure/post closure	6,225	5,157	71,285	82,667
Redeemable preferred securities (i)	—	—	78,951	78,951
Total contractual cash obligations (ii)	$ 19,744	$ 182,062	$ 269,531	$ 471,337

(i) Assumes redemption on the seventh anniversary of the closing date at the book value which includes all accrued and unpaid dividends.

(ii) Contractual cash obligations do not include accounts payable or accrued liabilities, which will be paid in fiscal year 2003.

The Company believes that its cash provided internally from operations together with its existing senior secured credit facility should enable it to meet its working capital and other cash needs for the foreseeable future. The Company is negotiating a new senior secured credit facility and intends to make an offering of senior subordinated notes. There can be no assurance that these financings will be completed.

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.

New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, *Business Combinations,* and SFAS No. 142, *Goodwill and Other Intangible Assets*. These new standards significantly modify the current accounting rules related to accounting for business acquisitions, amortization of intangible assets and the method of accounting for impairments of existing goodwill. The effective date for SFAS No. 142 is fiscal years beginning after December 15, 2001.

SFAS No. 142, among other things, eliminates the amortization of goodwill and requires an annual assessment of goodwill impairment. SFAS No. 142 requires that any goodwill recorded in connection with an acquisition consummated on or after July 1, 2001 not be amortized. Accordingly, during fiscal year 2002, the Company did not record goodwill amortization expense of approximately $18.3 related to three acquisitions consummated after June 30, 2001. In connection with our adoption of SFAS No. 142 as of May 1, 2002, goodwill was determined to be impaired and the amount of $62.8 million (net of estimated tax benefit of $0.2 million), will be charged to earnings as a cumulative effect of a change in accounting principle. Remaining goodwill will be tested for impairment on an annual basis and further impairment charges may result. In accordance with the non-amortization provisions of SFAS No. 142, remaining goodwill will not be amortized going forward. As a result, it is estimated that operating income will increase by approximately $6.3 million per year.

In July 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the entity either settles the obligation for the amount recorded or incurs a gain or loss. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Management is evaluating the effect of this statement on the Company's results of operations and financial position as well as related disclosures.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*. SFAS No. 144

supercedes SFAS No. 121, *Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed of*. SFAS No. 144 addresses financial accounting and reporting for the impairment of long lived assets held for use and for long-lived assets that are to be disposed of by sale (including discontinued operations). SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management is evaluating the effect of this statement on the Company's results of operations and financial position as well as related disclosures.

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 Annual Report on Form 10-K 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 and the increase in the Company's credit facility, the Company's indebtedness has increased substantially. In addition, the Company's indebtedness will increase further in the event of the closing of the Company's new credit facility and the completion of the offering of its senior subordinated notes. This increased indebtedness has resulted in increased borrowing costs, which have adversely impacted the Company's operating results and may adversely affect the Company's operating results in the future. 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 its future growth.

The Company strategy envisions that a substantial part of its 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 existing markets, assets that are adjacent to or outside existing markets, or larger, more strategic acquisitions. In addition, from time to time the Company may acquire businesses that are complementary to its core business strategy. The Company cannot assure that it will be able to identify suitable acquisition candidates and, once identified, 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 it anticipates from acquisitions, including cost savings and operating efficiencies, depends in part on its ability to successfully integrate the operations of such acquired businesses with its operations. The integration of acquired businesses and other assets may require significant management time and Company resources. If the Company is unable to efficiently manage the integration process, the Company's financial condition and results of operations could be materially adversely affected.

In addition, the process of acquiring or developing additional disposal capacity is lengthy, expensive and uncertain. The disposal capacity at the Company's existing landfills is limited by the remaining available volume at 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 its daily and annual maximum permitted disposal capacity at all of its landfills. If the Company is unable to develop or acquire additional disposal capacity, the Company's ability to achieve economies from the internalization of its waste stream will be limited and it will be required to utilize the disposal facilities of its competitors.

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

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

The Company also believes that a significant factor in its ability to close acquisitions will be the attractiveness 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 affected and could in the future materially adversely affect its acquisition program.

Environmental regulations and litigation could subject the Company to fines, penalties, judgments and limitations on its 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 likely 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. For example, the Company's waste-to-energy and manufacturing facilities are subject to regulations limiting discharges of pollution into the air and water, and its 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. If the Company is not able to comply with the requirements that apply to a particular facility or if it operates without necessary approvals, it could be subject to civil, and possibly criminal, fines and penalties, and 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 its environmental liabilities. Those costs or actions could have a material adverse effect upon the Company's business, financial condition and results of operations.

Environmental and land use laws may also impact the Company's ability to expand and, in the case of its solid waste operations, may dictate those geographic areas from which it must, or, from which it may not, accept waste. Those laws and regulations may also 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 its facilities profitably because of limits imposed under environmental laws, the Company may be required to increase its utilization of disposal facilities owned by third parties or reduce overall operations, and if so, its business, financial condition and results of operations could suffer a material adverse effect.

The Company has historically grown and intends to continue to grow through acquisitions, and has tried and will continue to try to evaluate and address environmental risks and liabilities presented by newly acquired businesses. 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 expects, or that the Company will fail to identify or fully appreciate an existing liability before it becomes legally

responsible to address it. Some of the legal sanctions to which the Company could become subject could cause it to lose a needed permit, or prevent it from or delay it in obtaining or renewing permits to operate its facilities. The number, size and nature of those liabilities could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's operating program depends on its ability to operate and expand the landfills it 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 Company cannot assure that the laws adopted by municipalities in which landfills are located will not have a material adverse effect on the utilization of its landfills or that the Company will be successful in obtaining new landfill sites or expanding the permitted capacity of any of its current landfills once their remaining disposal capacity has been consumed. If the Company is unable to develop additional disposal capacity, its ability to achieve economies from the internalization of its waste stream will be limited and it will be required to utilize the disposal facilities of its 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, defendants in lawsuits brought by parties alleging environmental damage, personal injury, and/or property damage. A significant judgment against the Company could have a material adverse effect upon the Company's business, financial condition and results of operations. See "Item —: Business—Regulation" and "Item 3—Legal Proceedings."

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

The Company's ability to remain competitive and sustain its operations depends in part on cash flow from operations and access to capital. The Company intends to fund its cash needs primarily through cash from operations and borrowings under 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 its operations, the Company's capital requirements may increase. The Company cannot assure you that it will have access to the amount of capital that it requires from time to time, on favorable terms or at all.

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

The Company's results of operations have been and may continue to be materially adversely 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. 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.

Some of the Company's subsidiaries involved in the recycling business use long-term supply contracts with customers with floor price arrangements to minimize the commodity risk for recyclable materials, particularly waste paper and aluminum metals. Under these contracts, the Company's subsidiaries obtain a guaranteed minimum floor price for the recyclable materials along with a commitment to receive additional amounts if the current market price rises above the minimum price. These contracts are generally with large domestic companies, which use the recyclable materials in their manufacturing processes. Any failure to continue to secure long-term supply contracts with minimum price arrangements, or a breach by customers of one or more of these contracts could reduce recycling

revenues and have a material adverse effect on the Company's business, financial condition and 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 severe weather conditions. In addition, as the Company expands its existing markets, opportunities for growth within these regions will become more limited and the geographic concentration of the Company's business will increase. The costs and time involved in permitting and the scarcity of available landfills will make it difficult for the Company to expand vertically in these markets. The Company cannot assure you that it will lessen their regional geographic concentration through any other acquisitions.

Maine Energy may be required to make a payment in connection with the payoff of the Maine Energy bonds and limited partner loans earlier than the Company has 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 muncipalities and the Company's subsidiary Maine Energy, Maine Energy will be required, following the date on which the bonds financing 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 cannot assure you that its estimate of the fair market value of Maine Energy will prove to be accurate, and in the event the Company has underestimated the value of Maine Energy, it could be required to recognize unanticipated charges, in which case the Company's financial condition, results of operations could be materially adversely affected.

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 and processing amounts of waste above contractual limits without issuance of proper notice. The complaint seeks damages for breach of contract, tortious interference with contract, breach of fiduciary duties, and fraudulent transfers as well as treble damages, punitive damages and a constructive trust upon the Company's assets with the appointment of a trustee to operate its business. If the plaintiffs are successful in their claims against the Company and damages are awarded, the Company's business, financial condition and results of operations could be materially adversely affected. See "Item 3—Legal Proceedings."

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 does. 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 its 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 cannot assure you that it will 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 business, financial condition and results of operations could be materially adversely affected.

In the Company's solid waste disposal markets it 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 competes with other parties, some of 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 it inadequately accrues for closure and post-closure costs.

The Company has material financial obligations relating to closure and post-closure costs of its existing landfills and will have material financial obligations with respect to any disposal facilities which it 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 costs over the anticipated useful life of each landfill on a per ton basis. In addition to the landfills the Company currently operates, it 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 its owned or operated landfills, generally for a term of 30 years after final closure of a landfill. The Company cannot assure you that its financial obligations for closure or post-closure costs will not exceed the amount accrued and reserved or amounts otherwise receivable pursuant to trust funds established for this purpose. Such a circumstance could result in unanticipated charges and have a material adverse effect on the Company's business, financial condition and results of operations.

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 may increase its operating expenses and have a material adverse effect upon its business, financial condition and results of operations.

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

Municipal solid waste collection and recycling 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, it could be precluded from entering into additional municipal solid waste collection contracts or from obtaining or retaining landfill operating permits. Any future difficulty in obtaining insurance could also impair its ability to secure future contracts conditioned upon the contractor having adequate insurance coverage. Accordingly, the Company's failure to obtain financial assurance bonds, letters of credit or other means of financial assurance or to maintain adequate insurance could have a material adverse effect on its business, financial condition and results of operations.

The Company may be required to write-off capitalized charges in the future, which could adversely affect its earnings.

Any charge against earnings could have a material adverse effect on the Company's earnings and the market price of its Class A common stock. In accordance with generally accepted accounting principles, the Company capitalizes certain expenditures and advances relating to its 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 estimates 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 seasonality of the Company's revenues could adversely impact its financial condition.

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: (1) the volume of waste relating to construction and demolition activities decreases substantially during the winter months in the northeastern United States; and (2) 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.

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 Class B common stock are entitled to ten votes per share and the holders of Class A common stock are entitled to one vote per share. At June 28, 2002, an aggregate of 988,200 shares of Class B common stock, representing 9,882,000 votes, were outstanding, all of which were beneficially owned by John W. Casella, our Chairman and Chief Executive Officer, or by his brother, Douglas R. Casella, a member of the Board of Directors. Based on the number of shares of common stock and Series A redeemable convertible preferred stock outstanding on June 28, 2002, the shares of Class A common stock and Class B common stock beneficially owned by John W. Casella and

Douglas R. Casella represent approximately 31.2% 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Quantitative and Qualitative Disclosure About Market Risk.

The Company is subject to interest rate fluctuation risk with regard to its variable rate revolving credit facility. To modify the risk from these possible interest rate fluctuations, the Company enters into hedging transactions that have been authorized pursuant to its policies and procedures. The Company does not use financial instruments for trading purposes and is not a party to any leveraged derivatives.

As of April 30, 2002, the Company was party to six interest rate swap agreements (the "Swap Agreements") with two banks. The purpose was to effectively convert a portion of the Company's interest rate exposure on advances under its existing revolving credit facility from a floating rate to a fixed rate. The Swap Agreements effectively fix the interest rate on the notional amount of $250.0 million, at rates from 5.194% to 6.875%. Net monthly payments or monthly receipts under the Swap Agreements were recorded as adjustments to interest expense. In addition, in the event of non-performance by the counterparties, the Company would be exposed to interest rate risk on the entire balance in the event the variable interest rate paid was to exceed the fixed rate paid under the terms of the Swap Agreements.

Ignoring the impact of its interest rate swaps, if interest rates on the total variable rate facility as of April 30, 2002 increased or decreased by 100 basis points, the Company's annual interest expenses would increase or decrease by approximately $2.7 million. The impact based on the balance of the facility exposed to interest rate risk at April 30, 2002 would result in an increase or decrease in annual interest expense of approximately $0.3 million. The fair market value of the swaps is estimated at a loss of $8.2 million as of April 30, 2002.

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

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 its commodity exposure, the Company has entered into a commodity hedging agreement authorized pursuant to its 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 $6.7 million as of April 30, 2002, without considering its hedging agreements. The impact of the hedge position would reduce the impact by $0.8 million.

On December 2, 2001, Enron, the counterparty for all of the Company's commodity hedges, filed for Chapter 11 bankruptcy protection. As a result of the filing, the Company executed the early termination provisions provided under the forward contracts, and filed a claim with the bankruptcy court. Additionally, the Company agreed with its equity method investee, GreenFiber, to include GreenFiber in its claim (as allowed under the applicable affiliate provisions). The Company recorded a charge of $1.7 million in other expense to recognize the change in fair value of its commodity contracts. Subsequent changes in the fair value of these commodity contracts ($0.3 million loss in fiscal year 2002) will be reflected in earnings until their March 2003 termination.

Deferred gains of approximately $0.7 million, net of tax, related to the Company's terminated contracts with Enron are included in accumulated other comprehensive income, and will be reclassified into earnings as the original hedged transactions settle.

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheet as of April 30, 2002 and the related consolidated statements of operations, of redeemable convertible preferred stock and stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Casella Waste Systems, Inc. and its subsidiaries at April 30, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of April 30, 2001 and for each of the years ended April 30, 2001 and 2000 were audited by other independent accountants whose report dated July 19, 2001 expressed an unqualified opinion on those statements.

As discussed in Note 2 to the financial statements, on May 1, 2002, the Company changed its method of accounting for derivative instruments and hedging activities.

/S/ PricewaterhouseCoopers LLP
Boston, Massachusetts
June 29, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Casella Waste Systems, Inc. (a Delaware Corporation) and subsidiaries as of April 30, 2000 and 2001, and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' equity and cash flows for each of the three years ended April 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Casella Waste Systems, Inc. and subsidiaries as of April 30, 2000 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years ended April 30, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
/s/ Arthur Andersen LLP
Boston, Massachusetts
July 19, 2001

The above report of Arthur Andersen LLP is a copy of the previously issued report of Arthur Andersen LLP and the report has not been reissued by Arthur Andersen LLP.

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	April 30, 2001	April 30, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,001	$ 4,298
Restricted cash	7,175	10,286
Accounts receivable—trade, net of allowance for doubtful accounts of $4,904 and $786	51,776	43,130
Notes receivable—officers/employees	1,953	1,105
Prepaid expenses	5,669	3,156
Inventory	3,017	2,410
Investments	3,641	62
Deferred income taxes	8,015	8,767
Net assets held for sale	8,041	—
Net assets of discontinued operations	11,534	1,619
Other current assets	2,763	2,267
Total current assets	125,585	77,100
Property, plant and equipment, net of accumulated depreciation and amortization of $125,160 and $163,521	290,537	287,115
Intangible assets, net	237,573	228,451
Restricted cash	2,902	2
Deferred income taxes	5,259	648
Investments in unconsolidated entities	21,844	26,865
Other non-current assets	2,593	860
	560,708	543,941
	$ 686,293	$ 621,041

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

	April 30, 2001	April 30, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 6,690	$ 6,436
Current maturities of capital lease obligations	1,429	1,816
Accounts payable	29,158	23,690
Accrued payroll and related expenses	2,542	5,813
Accrued interest	4,880	1,481
Accrued income taxes	3,388	3,676
Accrued closure and post-closure costs, current portion	77	6,465
Other accrued liabilities	22,364	23,706
Total current liabilities	70,528	73,083
Long-term debt, less current maturities	350,511	277,545
Capital lease obligations, less current maturities	4,593	3,051
Accrued closure and post-closure costs, less current maturities	17,153	18,307
Minority interest	677	523
Other long-term liabilities	12,160	11,006
COMMITMENTS AND CONTINGENCIES		

Series A redeemable, convertible preferred stock, 55,750 shares authorized, issued and outstanding as of April 30, 2001 and 2002, liquidation preference of $1,000 per share plus accrued but unpaid dividends	57,720	60,730
STOCKHOLDERS' EQUITY:		
Class A common stock—		
Authorized—100,000,000 shares, $0.01 par value issued and outstanding— 22,198,000 and 22,667,000 shares as of April 30, 2001 and 2002, respectively	222	227
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	586	(4,250)
Additional paid-in capital	271,502	272,697
Accumulated deficit	(99,369)	(91,888)
Total stockholders' equity	172,951	176,796
	$ 686,293	$ 621,041

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	Fiscal Year Ended April 30,		
	2000	2001	2002
Revenues	$ 315,013	$ 479,816	$ 420,821
Operating Expenses:			
Cost of operations	195,495	323,703	275,706
General and administration	40,003	62,612	53,105
Depreciation and amortization	38,343	52,883	50,696
Impairment charge	—	59,619	—
Restructuring charge	—	4,151	(438)
Legal settlements	—	4,209	—
Other miscellaneous charges	—	1,604	—
Merger-related costs	1,490	—	—
	275,331	508,781	379,069
Operating income (loss)	39,682	(28,965)	41,752
Other (income)/expense, net:			
Interest income	(1,234)	(2,941)	(880)
Interest expense	16,907	41,588	31,451
(Income) loss from equity method investments, net	1,062	26,256	(1,899)
Minority interest	502	1,026	(154)
Other (income)/expense, net	640	78	(4,480)
Other expense, net	17,877	66,007	24,038
Income (loss) from continuing operations before income taxes, discontinued operations, extraordinary item and cumulative effect of change in accounting principle	21,805	(94,972)	17,714
Provision (benefit) for income taxes	10,615	(12,731)	5,887

Net income (loss) from continuing operations before discontinued operations, extraordinary item and cumulative effect of change in accounting principle	11,190	(82,241)	11,827
Discontinued Operations:			
(Loss) income from discontinued operations (net of income taxes of $1,471 in 2000 and tax benefit of $8,781 in 2001)	1,884	(15,448)	—
Estimated loss on disposal of discontinued operations (net of income tax benefit of $891, $1085 and $157)	(1,393)	(3,846)	(4,096)
Extraordinary item—early extinguishment of debt, (net of income tax benefit of $448)	(631)	—	—
Cumulative effect of change in accounting principle (net of income tax benefit of $170)	—	—	(250)
Net income (loss)	11,050	(101,535)	7,481
Preferred stock dividend	—	1,970	3,010
Net income (loss) available to common stockholders	$ 11,050	$ (103,505)	$ 4,471

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

	Fiscal Year Ended April 30,		
	2000	2001	2002
Earnings Per Share:			
Basic:			
Income (loss) from continuing operations before income taxes, discontinued operations, extraordinary item and cumulative effect of change in accounting principle	$ 0.59	$ (3.63)	$ 0.38
(Income) loss from discontinued operations, net	0.10	(0.66)	—
Estimated loss on disposal of discontinued operations, net	(0.07)	(0.17)	(0.18)
Extraordinary item, net	(0.03)	—	—
Cumulative effect of change in accounting principle, net	—	—	(0.01)
Net income (loss) per common share	$ 0.59	$ (4.46)	$ 0.19
Basic weighted average common shares outstanding	18,731	23,189	23,496
Diluted:			
Income (loss) from continuing operations before income taxes, discontinued operations, extraordinary item and cumulative effect of change in accounting principle	$ 0.57	$ (3.63)	$ 0.37
(Income) loss from discontinued operations, net	0.10	(0.66)	—
Estimated loss on disposal of discontinued operations, net	(0.07)	(0.17)	(0.17)
Extraordinary item, net	(0.03)	—	—
Cumulative effect of change in accounting principle, net	—	—	(0.01)
Net income (loss) per common share	$ 0.57	$ (4.46)	$ 0.19
Diluted weighted average common shares outstanding	19,272	23,189	24,169

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

(In thousands)

	Stockholders' Equity					
	Series A Redeemable Convertible Preferred Stock		Class A Common Stock		Class B Common Stock	
	# of Shares	Amount	# of Shares	Par Value	# of Shares	Par Value
Balance, April 30, 1999	—	$ —	14,869	$ 149	988	$ 10
Issuance of Class A common stock and stock options—KTI acquisition	—	—	7,152	72	—	—
Issuance of Class A common stock from the exercise of stock warrants/options and employee stock purchase plan	—	—	194	1	—	—
Equity transactions of majority-owned subsidiary	—	—	—	—	—	—
Net income	—	—	—	—	—	—
Unrealized loss on securities	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—
Balance, April 30, 2000	—	—	22,215	222	988	10
Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan	—	—	32	—	—	—
Issuance of Series A redeemable convertible preferred stock	56	55,750	—	—	—	—
Accrual of preferred stock dividend	—	1,970	—	—	—	—
Equity transactions of majority-owned subsidiary	—	—	—	—	—	—
Net loss	—	—	—	—	—	—
Unrealized gain on securities	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—	—
Other	—	—	(49)	—	—	—
Balance, April 30, 2001	56	57,720	22,198	222	988	10
Issuance of Class A common stock	—	—	12	—	—	—
Issuance of Class A common stock from the exercise of stock warrants, options and employee stock purchase plan	—	—	457	5	—	—
Accrual of preferred stock dividend	—	3,010	—	—	—	—
Net income	—	—	—	—	—	—
Unrealized gain/(loss) on securities, net of reclassification adjustments	—	—	—	—	—	—
Change in fair value of interest rate swaps and commodity hedges, net of reclassification adjustments	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—
Other	—	—	—	—	—	—
Balance, April 30, 2002	56	$ 60,730	22,667	$ 227	988	$ 10

	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Total Comprehensive Income (Loss)
Balance, April 30, 1999	$ 154,733	$ (6,914)	$ —	$ 147,978	
Issuance of Class A common stock and stock options—KTI acquisition	113,788	—	—	113,860	
Issuance of Class A common stock from the exercise of stock warrants/options and employee stock purchase plan	859	—	—	860	
Equity transactions of majority-owned subsidiary	1,275	—	—	1,275	
Net income	—	11,050	—	11,050	$ 11,050
Unrealized loss on securities	—	—	(305)	(305)	(305)
Total comprehensive income	—	—	—	—	$ 10,745
Balance, April 30, 2000	270,655	4,136	(305)	274,718	
Issuance of Class A common stock from the exercise of stock options and employee stock purchase plan	258	—	—	258	

Issuance of Series A redeemable convertible preferred stock	(1,009)	—	—	(1,009)	
Accrual of preferred stock dividend	—	(1,970)	—	(1,970)	
Equity transactions of majority-owned subsidiary	1,506	—	—	1,506	
Net loss	—	(101,535)	—	(101,535)	$ (101,535)
Unrealized gain on securities	—	—	891	891	891
Total comprehensive loss	—	—	—	—	$ (100,644)
Other	92	—	—	92	
Balance, April 30, 2001	271,502	(99,369)	586	172,951	
Issuance of Class A common stock	138	—	—	138	
Issuance of Class A common stock from the exercise of stock warrants, options and employee stock purchase plan	4,063	—	—	4,068	
Accrual of preferred stock dividend	(3,010)	—	—	(3,010)	
Net income	—	7,481	—	7,481	$ 7,481
Unrealized gain/(loss) on securities, net of reclassification adjustments	—	—	(586)	(586)	(586)
Change in fair value of interest rate swaps and commodity hedges, net of reclassification adjustments	—	—	(4,250)	(4,250)	(4,250)
Total comprehensive income	—	—	—	—	$ 2,645
Other	4	—	—	4	
Balance, April 30, 2002	$ 272,697	$ (91,888)	$ (4,250)	$ 176,796	

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Year Ended April 30,		
	2000	2001	2002
Cash Flows from Operating Activities:			
Net income (loss)	$ 11,050	$ (101,535)	$ 7,481
Adjustments to reconcile net income (loss) to net cash provided by operating activities—			
Depreciation and amortization	38,343	52,883	50,696
Loss (income) from discontinued operations, net	(1,884)	15,448	—
Estimated loss on disposal of discontinued operations, net	1,393	3,846	4,096
Extraordinary item, net	631	—	—
(Income) loss from equity method investments	1,062	26,256	(1,899)
Impairment charge	—	59,619	—
Loss from commodity hedge contracts, net	—	—	1,289
Gain on investments, net	—	(3,131)	(1,216)
(Gain) loss on sale of equipment	840	1,101	(76)
Gain on sale of assets	—	—	(4,848)
Minority interest	502	1,026	(154)
Deferred income taxes	11,939	(10,866)	5,593
Changes in assets and liabilities, net of effects of acquisitions and divestitures—			
Accounts receivable	(17,320)	16,692	8,055

Accounts payable	1,433	(6,643)	(5,564)
Other assets and liabilities	409	9,071	5,077
	37,348	165,302	61,049
Net Cash Provided by Operating Activities	48,398	63,767	68,530
Cash Flows from Investing Activities:			
Acquisitions, net of cash acquired	(81,838)	(9,331)	(4,601)
Proceeds from divestitures, net of cash divested	—	15,814	31,216
Additions to property, plant and equipment	(68,575)	(61,518)	(37,674)
Proceeds from sale of equipment	1,317	2,298	1,938
Proceeds from sale of investments	—	6,718	3,530
Advances to unconsolidated entities	(5,580)	(9,546)	(3,942)
Other	(412)	—	—
Net Cash Used In Investing Activities	(155,088)	(55,565)	(9,533)
Cash Flows from Financing Activities:			
Proceeds from long-term borrowings	423,955	49,590	73,384
Principal payments on long-term debt	(309,667)	(87,331)	(147,009)
Proceeds from equity transactions of majority-owned subsidiary	1,275	1,506	—
Proceeds from exercise of stock options	860	259	3,560
Proceeds from the issuance of Series A redeemable, convertible preferred stock, net	—	54,741	—
Net Cash (Used In) Provided by Financing Activities	116,423	18,765	(70,065)
Cash used in discontinued operations	(6,140)	(12,754)	(6,635)
Net (decrease) increase in cash and cash equivalents	3,593	14,213	(17,703)
Cash and cash equivalents, beginning of period	4,195	7,788	22,001
Cash and cash equivalents, end of period	$ 7,788	$ 22,001	$ 4,298

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

	Fiscal Year Ended April 30,		
	2000	2001	2002
Supplemental Disclosures of Cash Flow Information:			
Cash paid (received) during the year for			
Interest	$ 12,514	$ 37,484	$ 32,887
Income taxes, net of refunds	$ 1,876	$ (1,773)	$ (1,267)
Supplemental disclosures of non-cash investing and financing activities:			
Summary of entities acquired in purchase business combinations			
Fair market value of assets acquired	$ 519,054	$ 22,602	$ 7,377
Notes receivable exchanged for assets	—	(13,263)	—
Common stock and stock options issued	(113,860)	—	—
Cash paid, net	(81,838)	(9,335)	(4,601)
Liabilities Assumed, Notes Payable and Notes Receivable Forgiven to Seller	$ 323,356	$ 4	$ 2,776
Common Stock and Stock Options Issued as Compensation	$ —	$ —	$ 650

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Casella Waste Systems, Inc. ("the Company") is a regional, integrated solid waste services company, that provides collection, transfer, disposal and recycling services, primarily in the eastern United States. The Company markets recyclable metals, aluminum, plastics, paper and corrugated cardboard which has been processed at its facilities as well as recyclables purchased from third parties. The Company also generates and sells electricity under a long-term contract at a waste-to-energy facility, Maine Energy Recovery Company LP ("Maine Energy") (see Note 9).

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

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

(b) Use of Estimates and Assumptions

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

Landfill Accounting—Capitalized Costs and Amortization

The Company uses life-cycle accounting and the units-of-production method to recognize certain landfill costs. Under life-cycle accounting, all costs related to acquisition, construction, closure and post-closure of landfill sites are capitalized or accrued and charged to income based on tonnage placed into each site. The Company routinely reviews its investment in operating landfills, transfer stations and other significant facilities to determine whether the costs of these investments is realizable. The Company's judgments regarding the existence of impairment indicators are based on regulatory factors, market conditions and operational performance of its landfills.

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

Landfill Accounting—Accrued Closure and Post-Closure Costs

Accrued closure and post-closure costs represent future estimated costs related to monitoring and maintenance of a solid waste landfill, after a landfill facility ceases to accept waste and closes. The Company provides accruals for these estimated future costs on an undiscounted basis as the remaining permitted airspace of such facilities is consumed.

Recovery of Long-Lived Assets

In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, the Company continually reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the remaining estimated useful life of such assets might warrant revision or that the balances may not be recoverable. An impairment loss is recorded if the amount by which the carrying amount of the assets exceeds their fair market value. Fair market value is usually determined based on the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved. In instances where goodwill is identified with assets that are subject to an impairment loss, the carrying amount of the identified goodwill is reduced before making any reduction to the carrying amounts of other long-lived assets.

Allowance for Doubtful Accounts

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

Self Insurance Reserves

The Company is self insured for vehicles and worker's compensation. Through the use of actuarial calculations, the Company estimates the amounts required to settle insurance claims. The actuarially determined liability is calculated in part by past claims experience, which considers both frequency and settlement of claims.

Discontinued Operations

Discontinued businesses are carried at estimated net realizable value less costs to be incurred through the date of disposition. Net assets of discontinued operations are stated at their expected net realizable values and have been separately classified in the accompanying consolidated balance sheets.

Income Taxes

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

(c) Revenue Recognition

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

Revenues from the sale of electricity to local utilities by the Company's waste-to-energy facility (see Note 9) are recorded at the contract rate specified by its power purchase agreement as the electricity is delivered.

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

Revenues from brokerage are recognized at the time of shipment.

(d) Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, investments in closure trust funds, trade payables and debt instruments. The carrying values

of these financial instruments approximate their respective fair values. See Note 8 for the terms and carrying values of the Company's various debt instruments.

(e) Cash and Cash Equivalents

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

(f) Inventory

Inventory includes secondary fibers, recyclables ready for sale and supplies and is stated at the lower of cost (first-in, first-out) or market. Inventory consisted of finished goods and supplies of approximately $2,651 and $2,410 at April 30, 2001 and 2002, respectively, and raw materials of $366 and $0 at April 30, 2001 and 2002, respectively.

(g) Investments

In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Company classifies its investment in equity securities as "available for sale." Accordingly, the carrying value of the securities is adjusted to fair value through other comprehensive (loss) income.

In October, 2001, the Company sold its remaining Bangor Hydro Warrants for $3,530. The resulting gain of $1,654 is included in other income. $1,038 (net of taxes of $707) of the gain was reclassified from other comprehensive (loss) income. The Company used the specific identification method as a basis for calculating the gain on sale.

At April 30, 2002, the Company wrote down to fair value certain equity security investments. The write down, which was reclassified from other comprehensive (loss) income, amounted to $438 and was due to a decline in the fair value which, in the opinion of management, was considered to be other than temporary. The write down is included in other (income)/expense in the accompanying statement of operations.

As of April 30, 2001 and 2002, the fair value of investments was approximately $3,641 and $62, respectively, which is included in investments in the accompanying consolidated balance sheets. Unrealized holdings gains/(losses) on such securities, which are included net of tax in stockholders' equity as of April 30, 2001 and 2002, amounted to $586 (net of taxes of $399) and $0, respectively.

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and amortization. The Company provides for depreciation and amortization using the straight-line method by charges to operations in amounts that allocate the cost of the assets over their estimated useful lives as follows (See Note 5):

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

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

Capitalized landfill costs include expenditures for land and related airspace, permitting costs and preparation costs. Landfill permitting and preparation costs represent only direct costs related to these activities, including legal, engineering and construction. Landfill preparation costs include the costs of construction associated with excavation, liners, site berms and the installation of leak detection and

leachate collection systems. Interest is capitalized on landfill permitting and construction projects while the assets are undergoing activities to ready them for their intended use. The interest capitalization rate is based on the Company's weighted average cost of indebtedness. Interest capitalized for the years ended April 30, 2000, 2001 and 2002 was $640, $373 and $437, respectively. Management routinely reviews its investment in operating landfills, transfer stations and other significant facilities to determine whether the costs of these investments are realizable.

Landfill permitting, acquisition and preparation costs, excluding the estimated residual value of land, are amortized as landfill airspace is consumed. In determining the amortization rate for these landfills, preparation costs include the total estimated costs to complete construction of the landfills' permitted and permittable capacity. To be considered permittable, airspace must meet all of the following criteria: the Company must control the land on which the expansion is sought; all technical siting criteria have been met or a variance has been obtained or is reasonably expected to be obtained; no legal or political impediments have been identified which the Company believes will not be resolved in its favor; the Company is actively working on obtaining any necessary permits and expects that all required permits will be received within the next two to five years; and senior management has approved the project. Units-of-production amortization rates are determined annually for each of the Company's operating landfills. The rates are based on estimates provided by the Company's engineers and accounting personnel and consider the information provided by surveys, which are performed at least annually.

(i) Intangible Assets

Covenants not to compete and customer lists are amortized using the straight-line method over their estimated useful lives, typically no more than 10 years. Deferred debt acquisition costs are capitalized and amortized over the life of the related debt using the effective interest method (See Note 6).

Goodwill is the cost in excess of fair value of identifiable assets of acquired businesses and has been amortized through April 30, 2002 using the straight-line method over periods not exceeding 40 years. In July 2001, the FASB issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. These standards, among other things, significantly modify the current accounting rules related to accounting for business acquisitions, amortization of intangible assets and the method of accounting for impairments. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives (see Note 1(o)).

In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, the Company continually reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the remaining estimated useful life of such assets might warrant revision or that the balances may not be recoverable.

As a result of the factors discussed in Note 14, during 2001, the Company recorded a charge of $59,619 to reduce certain assets (mainly goodwill arising from the acquisition of KTI, see Note 3), to their estimated fair value.

(j) Investments in Unconsolidated Entities

The Company entered into an agreement in July 2000 with Louisiana-Pacific to combine their respective cellulose insulation businesses into a single operating entity, US GreenFiber LLC ("GreenFiber") under a joint venture agreement effective August 1, 2000. The Company contributed the operating assets of its cellulose insulation manufacturing business together with $1,000 in cash. There was no gain or loss recognized on this transaction. The Company's investment in GreenFiber amounted to $17,881 and $21,672 at April 30, 2001 and 2002, respectively.

A portion of the Company's 50% interest in New Heights was sold in September 2001 for consideration of $250. The Company retained an interest of 9.95% in the tire assets of New Heights, as well as financial obligations related solely to the New Heights power plant. In addition, the Company has an interest in certain notes granted by New Heights collectively valued at approximately $9,000, payment of which is contingent upon certain events. The Company will record the contingent consideration when the contingency is removed. The Company's investment in New Heights amounted to $3,963 and $2,113 at April 30, 2001 and 2002, respectively.

The Company sold 80.1% of Recovery Technologies Group, Inc. ("RTG") in September, 2001 as part of the sale of the tire processing business. The Company retained a 19.9% indirect interest in the RTG tire collection and processing business which is valued at $3,080 at April 30, 2002.

The Company accounts for its 50% ownership in GreenFiber as well as its retained investment in the New Heights project under the equity method of accounting.

(k) Income Taxes

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

(l) Accrued Closure and Post-Closure Costs

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

Accruals for closure and post-closure monitoring and maintenance requirements consider final capping of the site, site inspection, groundwater monitoring, leachate management, methane gas control and recovery, and operation and maintenance costs to be incurred during the

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

The Company operates in states which require a certain portion of landfill closure and post-closure obligations to be secured by financial assurance, which may take the form of restricted cash, surety bonds and letters of credit. Surety bonds securing closure and post-closure obligations at April 30, 2001 and 2002 totaled $14,424 and $13,654, respectively.

(m) Comprehensive (Loss) Income

Comprehensive (loss) income is defined as the change in net assets of a business enterprise during a period from transactions generated from non-owner sources. It includes all changes in equity during a

period except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive (loss) income included in the accompanying balance sheets consists of unrealized gains and losses on the Company's available for sale securities, change in the fair market value of the Company's interest swap and commodity hedge agreements as well as the cumulative effect of the change in accounting principle relative to the adoption of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (See Note 2).

(n) Earnings Per Share

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

(o) New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. These new standards significantly modify the current accounting rules related to accounting for business acquisitions, amortization of intangible assets and the method of accounting for impairments of existing goodwill. The effective date for SFAS No. 142 is fiscal years beginning after December 15, 2001.

SFAS No. 142, among other things, eliminates the amortization of goodwill and requires an annual assessment of goodwill impairment by applying a fair value based test. SFAS No. 142 requires that any goodwill recorded in connection with an acquisition consummated on or after July 1, 2001 not be amortized. Accordingly, during the fiscal year ended April 30, 2002, the Company did not record goodwill amortization expense of approximately $18 related to three acquisitions consummated after June 30, 2001. In connection with our adoption of SFAS No. 142 as of May 1, 2002, goodwill was determined to be impaired and the amount of $62,826 (net of estimated tax benefit of $187), was charged to earnings as a cumulative effect of a change in accounting principle. Remaining goodwill will be tested for impairment on an annual basis and further impairment charges may result. In accordance with the non-amortization provisions of SFAS No. 142, remaining goodwill will not be amortized going forward. As a result, it is estimated that operating income will increase by approximately $6,285 per year.

In July 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the entity either settles the obligation for the amount recorded or incurs a gain or loss. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Management is evaluating the effect of this statement on the Company's results of operations and financial position as well as related disclosures.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*. SFAS No. 144 supercedes SFAS No. 121, *Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed Of*. SFAS No. 144 addresses financial accounting and reporting for the impairment of long lived assets held for use and for long-lived assets that are to be disposed of by sale (including discontinued operations). SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management is evaluating the effect of this statement on the Company's results of operations and financial position as well as related disclosures.

(p) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers comprise the Company's customer base, thus spreading the trade credit risk. For the years ended April 30, 2001 and 2002, no single group or customer represents greater than 2.0% of total accounts receivable. The Company controls credit risk through credit evaluations, credit limits, and monitoring procedures. The Company performs credit evaluations for commercial and industrial customers and performs ongoing credit evaluations of its customers, but generally does not require collateral to support accounts receivable. Credit risk related to derivative instruments results from the fact the Company enters into interest rate and commodity price swap agreements with various counterparties. However, the Company monitors its derivative positions by regularly evaluating positions and the credit worthiness of the counterparties.

2. ADOPTION OF NEW ACCOUNTING STANDARD

The Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, on May 1, 2001. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company's objective for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the variable interest rates under its credit facility and changes in the commodity prices of recycled paper.

The Company's strategy to hedge against fluctuations in variable interest rates involves entering into interest rate swaps that are specifically designated to existing interest payments under the credit facility and accounted for as cash flow hedges pursuant to SFAS No. 133. The Company has six interest rate swaps outstanding, expiring at various times between January and April 2003 with an aggregate notional amount of $250,000. The Company has evaluated these swaps and believes these instruments qualify for hedge accounting pursuant to SFAS No. 133.

Upon adoption of SFAS No. 133, the Company recorded the fair value of these interest rate swaps as an obligation of $6,900, with the offset (net of taxes of $2,796) recorded as an unrealized loss in other comprehensive (loss) income (see Note 8). Because the relevant terms of the interest rate swaps and the specific debts they have been designated to hedge are not identical, the swaps are not perfectly effective, and could result in ineffectiveness being recorded in earnings. Accordingly, the ineffective portion of the hedge amounting to $250 (net of taxes of $170) has been recorded as a cumulative effect of change in accounting principle in the accompanying financial statements.

As of April 30, 2002 the fair value of these swaps was an obligation of $8,225, with the net amount (net of taxes of $3,312) recorded as an unrealized loss in other comprehensive (loss) income. The estimated net amount of the existing losses as of April 30, 2002 included in accumulated other comprehensive 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 $8,225. The actual amounts reclassified into earnings are dependent on future movements in interest rates.

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 had entered into 10 commodity hedges, which expired at various times between December 2001 and February 2003. The Company had evaluated these hedges and believed that these instruments qualified for hedge accounting pursuant to SFAS No. 133. Because the relevant terms of the hedges and the transactions they were designated to hedge were identical, there was no ineffectiveness required to be recognized in

earnings. Upon adoption of SFAS No. 133, the Company recorded the fair value of these hedges as an asset of $1,800, with the net amount (net of taxes of $729) recorded as an unrealized gain in other comprehensive (loss) income.

On December 2, 2001, Enron Corporation (Enron), the counterparty for all of the Company's commodity hedges, filed for Chapter 11 bankruptcy protection. As a result of the filing, the Company executed the early termination provisions provided under the forward contracts, and filed a claim with the bankruptcy court. Additionally, the Company agreed with its equity method investee, GreenFiber, to include GreenFiber in its claim (as allowed under the applicable affiliate provisions). The Company recorded a charge of $1,688 in other expense to recognize the change in fair value of its commodity contracts. Subsequent changes in the fair value of these commodity contracts (currently $319 in fiscal year 2002) will be reflected in earnings until their March 2003 termination.

Deferred gains of approximately $661, net of tax, related to the Company's terminated contracts with Enron are included in accumulated other comprehensive income, and will be reclassified into earnings as the original hedged transactions settle.

3. BUSINESS COMBINATIONS

(a) Transactions Recorded as Purchases

On December 14, 1999, the Company consummated its acquisition of KTI, a publicly traded solid waste handling company. KTI specializes in solid waste disposal and recycling, and operates manufacturing facilities utilizing recycled materials. All of KTI's common stock was acquired in exchange for 7,152,157 shares of Class A Common Stock.

In addition to the above, the Company also acquired 38, 13 and four solid waste hauling operations in fiscal years 2000, 2001 and 2002, respectively, in transactions accounted for as purchases. Accordingly, the operating results of these businesses are included in the accompanying consolidated statements of operations from the dates of acquisition, and the purchase prices have been allocated to the net assets acquired based on fair values at the dates of acquisition, with the residual amounts allocated to goodwill. Management does not believe the final purchase price allocation will produce materially different results than reflected herein.

The purchase prices allocated to those net assets acquired (including KTI) were as follows:

	April 30,		
	2000	2001	2002
Current assets	$ 107,457	$ 644	$ 60
Property, plant and equipment	220,830	2,671	5,821
Intangible assets (including goodwill)	190,178	19,287	1,496
Other non-current assets	589	—	—
Current liabilities	(41,647)	(4)	—
Other non-current liabilities	(281,709)	—	—
Total Consideration	$ 195,698	$ 22,598	$ 7,377

The following unaudited pro forma combined information shows the results of the Company's operations for the fiscal years 2000 and 2001 as though each of the acquisitions completed in the two years occurred as of May 1, 1999. For the fiscal year 2002, unaudited pro forma combined information

shows the results of the Company's operations as though each of the acquisitions completed in 2002 had occurred as of May 1, 2001.

	Fiscal Year		
	2000	2001	2002
Revenues	$ 562,462	$ 482,759	$ 427,139
Operating income (loss)	$ 53,912	$ (28,474)	$ 41,879
Net income (loss) available to common stockholders	$ 11,345	$ (103,446)	$ 4,762
Diluted pro forma net income (loss) per common share	$ 0.51	$ (4.46)	$ 0.20
Weighted average diluted shares outstanding	22,346	23,189	24,169

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

(b) Transactions Recorded as Poolings of Interests

The Company has completed several mergers and business acquisitions accounted for as poolings of interests. For the year ended April 30, 2000 the Company merged with two businesses and issued 362,973 Class A common shares. There were no acquisitions accounted for as poolings of interests in the fiscal years ended 2001 and 2002.

4. RESTRICTED CASH

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

A summary of restricted cash is as follows:

	April 30, 2001			April 30, 2002		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Insurance	$ 6,872	$ —	$ 6,872	$ 10,144	$ —	$ 10,144
Landfill closure	—	2,498	2,498	91	2	93
Other facilities closure	—	301	301	—	—	—
Facility maintenance and operations	—	—	—	50	—	50
Other	303	103	406	1	—	1
Total	$ 7,175	$ 2,902	$ 10,077	$ 10,286	$ 2	$ 10,288

5. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment at April 30, 2001 and 2002 consist of the following:

	April 30,	
	2001	2002
Land	$ 11,813	$ 13,289
Landfills	90,173	112,506
Buildings and improvements	50,597	51,690
Machinery and equipment	139,921	147,838
Rolling stock	84,076	84,825
Containers	39,117	40,488
	415,697	450,636
Less—Accumulated depreciation and amortization	125,160	163,521
	$ 290,537	$ 287,115

Depreciation expense for the fiscal years 2000, 2001 and 2002 was $23,246, $35,033 and $32,382, respectively.

6. INTANGIBLE ASSETS

Intangible assets at April 30, 2001 and 2002 consist of the following:

	April 30,	
	2001	2002
Goodwill	$ 241,181	$ 239,836
Covenants not to compete	14,206	14,447
Customer lists	562	420
Deferred debt acquisition costs and other	8,040	8,490
	263,989	263,193
Less: accumulated amortization	26,416	34,742
	$ 237,573	$ 228,451

Amortization expense for the fiscal years 2000, 2001 and 2002 was $15,097, $17,850 and $18,314, respectively.

7. OTHER ACCRUED LIABILITIES

Other accrued liabilities at April 30, 2001 and 2002 consist of the following:

	April 30,	
	2001	2002
Interest rate swap obligation	$ —	$ 8,225
Self insurance reserve	5,341	5,491
Accrued restructuring liability	4,151	37
Other accrued liabilities	12,872	9,953
Total other accrued liabilities	$ 22,364	$ 23,706

8. LONG-TERM DEBT

Long-term debt as of April 30, 2001 and 2002 consists of the following:

	April 30,	
	2001	2002
Advances on senior secured revolving credit facility (the "Revolver") which provides for advances of up to $280,000, due December 14, 2004, bearing interest at LIBOR plus 2.50%, (approximately 4.50% at April 30, 2002 based on 3 month LIBOR), and decreasing to $275,000 and $250,000 in fiscal 2003 and 2004, respectively, collateralized by substantially all of the assets of the Company	$ 208,415	$ 156,800
Advances on senior secured delayed draw term "B" Loan (the "Term Loan") due December 14, 2006, bearing interest at LIBOR plus 3.75% (approximately 5.75% at April 30, 2002 based on 3 month LIBOR), and calling for principal payments of $1,500 per year, beginning in fiscal 2001 with the remaining principal balance due at maturity. This loan is collateralized by substantially all of the assets of the Company	137,500	119,300
Notes payable in connection with businesses acquired, bearing interest at rates of 0% - 12.5%, due in monthly or annual installments varying to $22, expiring December 2002 through May 2009	4,329	1,797
Subordinated, convertible notes payable in connection with business acquired, bearing interest at 7.5%, due in monthly installments varying to $48, expiring on March 15, 2003. Convertible into Class A common stock of the Company, at the note holder's election, at the rate of one share of common stock for each $15.375 of the principal amount surrendered for conversion	4,110	2,419
Notes payable in connection with businesses acquired, bearing interest at 0%, discounted at 4.74% to 5.5%, due in monthly and quarterly installments varying to $375 through April 2005	2,847	3,665
	357,201	283,981
Less—Current Portion	6,690	6,436

$	350,511	$ 277,545

The Revolver and the Term Loan credit facility agreements contain covenants that restrict dividends and stock repurchases, limit capital expenditures and annual operating lease payments, set minimum fixed charges, interest coverage and leverage ratios and positive quarterly profitable operations, as defined. For the year ended April 30, 2002, the Company considered its quarterly profitable operations measure to be the most restrictive. For the quarter ended April 30, 2001, the Company's compliance with the covenants was waived. The Revolver credit agreement requires the Company to pay a quarterly commitment fee of 0.50% on the full amount of the facility.

Further advances were available under the Revolver in the amount of $44,985 and $83,276 as of April 30, 2001 and 2002, respectively. These available amounts are net of outstanding irrevocable letters of credit totaling $26,600 and $39,923 as of April 30, 2001 and 2002. As of April 30, 2001 and 2002 no amounts had been drawn under the outstanding letters of credit.

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

interest expense on the underlying debt. The fair market value of the swaps is estimated at a loss of $6,900 and $8,225 as of April 30, 2001 and 2002, respectively.

As of April 30, 2002, interest rate agreements in notional amounts and with terms as set forth in the following table were outstanding:

Bank	Notional Amounts	Receive	Pay	Range of Agreement
Bank A	$ 130,000	LIBOR	5.43–6.74%	January 2001 to March 2003
Bank B	$ 120,000	LIBOR	5.19–6.875%	April 2000 to April 2003

As of April 30, 2002, debt matures as follows:

Fiscal Year	
2003	$ 6,436
2004	2,365
2005	159,072
2006	1,452
2007	114,512
Thereafter	144
	$ 283,981

The Company is negotiating a new senior secured credit facility which will provide for a $150,000 term loan and a $175,000 revolving credit facility, for total aggregate borrowings of up to $325,000. The new credit facilities will be available to the Company contingent upon the closing of a senior subordinated note offering in the amount of $150,000. The net proceeds from the senior subordinated note offering and initial borrowings under the new senior secured credit facilities will be used to repay all outstanding amounts under its existing senior secured credit facilities, fees and expenses related to the new senior secured credit facilities and for general corporate purposes. There can be no assurance that these financings will be completed.

9. COMMITMENTS AND CONTINGENCIES

(a) Leases

The following is a schedule of future minimum lease payments, together with the present value of the net minimum lease payments under capital leases, as of April 30, 2002.

	Operating Leases	Capital Leases
Fiscal Year		
2003	$ 5,013	$ 2,070
2004	4,260	1,297
2005	3,844	730
2006	3,350	535
2007	2,158	494
Thereafter	1,452	535
Total Minimum Lease Payments	$ 20,077	5,661

Less—amount representing interest	794
	4,867
Current maturities of capital lease obligations	1,816
Present value of long term capital lease obligations	$ 3,051

The Company leases real estate, compactors and hauling vehicles under leases that qualify for treatment as capital leases. The assets related to these leases have been capitalized and are included in property and equipment at April 30, 2001 and 2002.

The Company leases operating facilities and equipment under operating leases with monthly payments varying to $63.

Total rent expense under operating leases charged to operations was $1,979, $2,649 and $5,787 for each of the fiscal years 2000, 2001 and 2002, respectively.

(b) Investment in Waste to Energy Facilities

Effective March 1, 2001, the Company acquired the remaining 16.25% minority interest in its majority owned subsidiary, Maine Energy, and sold all of its majority interest in the Penobscot Energy Recovery Company LP. Net proceeds for these transactions amounted to $12,011. Therefore, the Company now owns a 100% interest in Maine Energy, which utilizes non-hazardous solid waste as the fuel for the generation of electricity.

Maine Energy sells the electricity it produces to Central Maine Power ("Central Maine") pursuant to a long-term power purchase agreement. Under this agreement, Maine Energy has agreed to sell energy to Central Maine through May 31, 2007 at an initial rate of 7.18 cents (determined in 1996) per kilowatt-hour ("kWh"), which escalates annually by 2% (8.32 cents per kWh as of April 30, 2002). From June 1, 2007 until December 31, 2012, Maine Energy is to be paid the then current market value for both its energy and capacity by Central Maine.

If, in any year, Maine Energy fails to produce 100,000,000 kWh of electricity and Maine Energy does not have a force majeure defense, such as physical damage to the plant or other similar events, Maine Energy must pay approximately $3,750 to Central Maine as liquidated damages. This payment obligation is secured by a letter of credit with a bank. Additionally, if, in any year, Maine Energy fails to produce 15,000,000 kWh of electricity and Maine Energy does not have a force majeure defense, Maine Energy must pay the balance of the letter of credit to Central Maine as liquidated damages. The balance of the letter of credit at April 30, 2002 was $22,500.

The Company has met all of its kWh requirements under the power purchase agreement for the fiscal years 2000, 2001 and 2002.

Under the terms of a waste handling agreement between certain municipalities and Maine Energy, the latter is obligated to make a payment at the point in time that Maine Energy pays off its debt obligations (as defined), currently estimated to occur between 2003 and 2005, or upon the consummation of an outright sale of Maine Energy. The estimated obligation has been recorded in other long-term liabilities as of April 30, 2002.

Additionally, the Company owned 100% of Timber Energy Resources, Inc. ("Timber Energy"). Timber Energy uses biomass waste as its source of fuel to be combusted for the generation of electricity. Timber Energy also operates two wood processing facilities. Timber Energy sells the electricity that it generates to Florida Power Corporation ("Florida Power"), a local electric utility, under a power purchase agreement. Under the terms of the power purchase agreement, Florida Power has agreed to purchase all of the electricity generated by Timber Energy. Timber Energy was sold effective July 31, 2001.

(c) 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 pending 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.

During fiscal year 2002, the Company settled four lawsuits all of which had been previously provided for, thus having no effect on the Company's financial position.

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

(d) Environmental Liability

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 on the results of operations or financial condition.

(e) Employment Contracts

The Company has entered into employment contracts with four of its senior officers. Two contracts are dated December 8, 1999, while the other two are dated June 18, 2001 and July 20, 2001, respectively. Each contract has a three-year term and a two-year covenant not to compete from the date of termination. Total annual commitments for salaries under these contracts are $1,033. In the event of a change in control of the Company, or in the event of involuntary termination without cause, the employment contracts provide for the payment of from one to three years of salary and bonuses.

10. STOCKHOLDERS' EQUITY

(a) Preferred Stock

The Company is authorized to issue up to 1,000,000 shares of preferred stock in one or more series. As of April 30, 2001 and 2002, the Company had 55,750 shares outstanding of Series A Redeemable Convertible Preferred Stock issued at $1,000 per share. These shares are convertible into Class A common stock, at the option of the Holders, at $14 per share. Dividends are cumulative at a rate of 5%, compounded quarterly. The Company has the option to redeem the preferred stock for cash at any time after three years at a price giving the holder a defined yield, but must redeem the shares by the seventh anniversary date at liquidation value, which equals original cost, plus accrued but unpaid dividends, if any. Pursuant to the stock agreement, acceleration of the liquidation provisions would occur upon change in control of the Company.

During the fiscal years 2001 and 2002, the Company accrued $1,970 and $3,010 of dividends, respectively, which are included in the carrying value of the preferred stock in the accompanying consolidated balance sheet.

(b) Common Stock

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

(c) Stock Warrants

At April 30, 2001 and 2002, the Company had outstanding warrants to purchase 250,880 and 227,530 shares, respectively, of the Company's Class A Common Stock at exercise prices between $0.01 and $43.63 per share, based on the fair market value of the underlying common stock at the time of the warrants' issuance. The warrants are exercisable and expire at varying times through November 2008.

(d) Stock Option Plans

During 1993, the Company adopted an incentive stock option plan for officers and other key employees. The 1993 Incentive Stock Option Plan (the "1993 Option Plan") provided for the issuance of a maximum of 300,000 shares of Class A Common Stock. As of April 30, 2001, options to purchase 17,000 shares of Class A common stock were outstanding at a weighted average exercise price of $4.61. As of April 30, 2002, options to purchase 15,000 shares of Class A common stock were outstanding at a weighted average exercise price of $4.61. No further options may be granted under this plan.

During 1994, the Company adopted a non-statutory stock option plan for officers and other key employees. The 1994 Stock Option Plan (the "1994 Option Plan") provided for the issuance of a maximum of 150,000 shares of Class A Common Stock. As of April 30, 2001 and 2002, options to purchase 15,000 shares of Class A common stock at a weighted average exercise price of $0.60 were outstanding under the 1994 Option Plan. No further options may be granted under this plan.

In May 1994, the Company also established a nonqualified stock option pool for certain key employees. The plan, which was not approved by stockholders, established 338,000 stock options to purchase Class A common stock. As of April 30, 2001, options to purchase 302,656 shares of Class A common stock were outstanding at a weighted average exercise price of $2.00. As of April 30, 2002, options to purchase 264,000 shares of Class A common stock were outstanding at a weighted average exercise price of $2.00. No further options may be granted under this plan.

During 1996, the Company adopted a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. The 1996 Stock Option Plan (the "1996 Option Plan") provided for the issuance of a maximum of 918,135 shares of Class A Common Stock pursuant to the grant of either incentive stock options or non-statutory options. As of April 30, 2001, a total of 363,707 options to purchase Class A Common Stock were outstanding at a weighted average exercise price of $11.98. As of April 30, 2002, a total of 320,238 options to purchase Class A common Stock were outstanding at an average exercise price of $11.76. No further options may be granted under this plan.

On July 31, 1997, the Company adopted a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. The Board of Directors has the authority to select the optionees and determine the terms of the options granted. The 1997 Stock Option Plan (the "1997 Option Plan") provides for the issuance of 5,328,135 shares of Class A Common Stock pursuant to the

grant of either incentive stock options or non-statutory options, which includes all authorized, but unissued options under previous plans. As of April 30, 2001, options to purchase 4,066,020 shares of Class A Common Stock at an average exercise price of $11.41 were outstanding under the 1997 Option Plan. As of April 30, 2002, options to purchase 3,404,628 shares of Class A Common Stock at a weighted average exercise price of $13.81 were outstanding under the 1997 Option Plan. As of April 30, 2002, 2,007,534 options were available for future grant under the 1997 Option Plan.

Additionally, options outstanding under the assumed KTI Stock Option Plan totaled 588,769 and 123,992 at April 30, 2001 and 2002, respectively, at weighted average exercise prices of $26.31 and $23.18, respectively. Upon assumption of this plan, entitled optionees under the KTI plan received one option to acquire one share of the Company's stock for every option held. The exercise price of the converted options was increased by 96.1% based on relative fair values of the underlying stock at the date of the KTI acquisistion.

On July 31, 1997, the Company adopted a stock option plan for non-employee directors of the Company. The 1997 Non-Employee Director Stock Option Plan provides for the issuance of a maximum of 100,000 shares of Class A Common Stock pursuant to the grant of non-statutory options. As of April 30, 2001 and 2002, options to purchase 56,500 shares of Class A Common Stock at a weighted average exercise price of $16.00 and 94,000 shares of Class A Common Stock at a weighted average exercise price of $14.12, respectively, were outstanding under the 1997 Non-Employee Director Stock Option Plan. As of April 30, 2002, 6,000 options were available for future grant under the 1997 Non-Employee Director Stock Option Plan.

On July 2, 2001, the Company offered its employees, other than executive officers, the opportunity to ask the Company to exchange options having an exercise price of $12.00 or more per share. For every two eligible options surrendered, the participating option holders received one new option on February 4, 2002 at an exercise price of $12.75, which was equal to the closing price of a common share as quoted by NASDAQ on that day.

Options generally vest over a one to three year period from the date of grant and are granted at prices at least equal to the prevailing fair market value at the issue date. In general, options are issued with a life not to exceed ten years.

Stock option activity for the fiscal years 2000, 2001 and 2002 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, April 30, 1999	1,969,559	$ 17.65
Granted	1,402,000	16.27
Issued in Connection with the Acquisition of KTI	930,417	26.59
Terminated	(216,335)	(20.56)
Exercised	(168,901)	(2.05)
Outstanding, April 30, 2000	3,916,740	19.78
Granted	1,929,060	9.26
Terminated	(433,148)	(24.62)
Exercised	(3,000)	(8.69)
Outstanding, April 30, 2001	5,409,652	15.65
Granted	710,565	13.09
Surrendered under Exchange Program	(666,315)	(27.77)
Terminated	(802,009)	(20.56)
Exercised	(415,035)	(7.87)
Outstanding, April 30, 2002	4,236,858	$ 13.09
Exercisable, April 30, 2001	4,071,188	$ 16.44
Exercisable, April 30, 2002	3,811,775	$ 13.27

Set forth below is a summary of options outstanding and exercisable as of April 30, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Exercisable Options	Weighted Average Exercise Price
$.60—$2.00	279,000	2.1	$ 1.92	279,000	$ 1.92
$4.61—$8.78	1,205,127	6.2	8.29	1,173,794	8.32
$10.00—$18.00	2,110,674	6.9	13.46	1,735,700	13.91
$18.01—$27.00	406,310	6.6	22.60	390,954	22.75
Over $27.00	235,747	2.0	31.13	232,327	31.11
Totals	4,236,858	6.1	$ 13.09	3,811,775	$ 13.27

During fiscal 1996, the FASB issued SFAS No. 123, *Accounting for Stock-Based Compensation*, which defines a fair value based method of accounting for stock-based employee compensation and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation costs for those plans using the intrinsic method of accounting prescribed by APB Opinion No. 25. Entities electing to remain with the accounting in APB Opinion No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting defined in SFAS No. 123 had been applied.

The Company has elected to account for its stock-based compensation plans under APB Opinion No. 25. However, the Company has computed, for pro forma disclosure purposes, the value of all options granted during the fiscal years 2000, 2001 and 2002 using the Black-Scholes option pricing

model as prescribed by SFAS No. 123, using the following weighted average assumptions for grants in the fiscal years ended 2000, 2001 and 2002.

	April 30,		
	2000	2001	2002
Risk free interest rate	5.81%—6.69%	4.85%—6.76%	4.03%—5.05%
Expected dividend yield	N/A	N/A	N/A
Expected life	5 Years	7 Years	5 Years
Expected volatility	67.37%	84.20%	65.00%

The total value of options granted during the years ended April 30, 2000, 2001 and 2002 would be amortized on a pro forma basis over the vesting period of the options. Options generally vest over a one to three year period. If the Company had accounted for these plans in accordance with SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have changed as reflected in the following pro forma amounts:

	Fiscal Year		
	2000	2001	2002
Net income (loss) available to common stockholders			
As reported	$ 11,050	$ (103,505)	$ 4,471
Pro forma	$ 4,379	$ (116,594)	$ 667
Diluted net income (loss) per share of common stock			
As reported	$ 0.57	$ (4.46)	$ 0.19
Pro forma	$ 0.23	$ (5.03)	$ 0.03

The weighted average grant date fair value of options granted during the fiscal years 2000, 2001 and 2002 is $3.30, $7.28 and $7.06, respectively.

11. RESTRUCTURING

In April 2001, the Company's Board of Directors approved a reorganization of certain of the Company's operations. This reorganization consisted of the elimination of various positions and the closure of certain facilities. The following items were charged to earnings during 2001:

Severance	$ 3,786
Facility closures	365
	$ 4,151

Severance relates to the termination of 19 employees, primarily in management and administration, as well as three officers of the Company. Facility closures include the costs of closing two transfer stations.

During the fiscal year 2002, $3,676 was charged against the accrual. At April 30, 2002, the reversal of various prior year unrealized restructuring expenses netted with current year restructuring charges of $254, amounted to ($438). The remaining balance included in other accrued liabilities in the accompanying April 30, 2002 balance sheet amounts to $37.

12. EMPLOYEE BENEFIT PLANS

The Company offers its eligible employees the opportunity to contribute to a 401(k) plan. The Company may contribute up to $500 dollars per individual per calendar year. Participants vest in

employer contributions ratably over a three-year period. Employer contributions for the fiscal years 2000, 2001 and 2002 amounted to $387, $434 and $406, respectively.

In January 1998, the Company implemented its Employee Stock Purchase Plan. Under this plan, qualified employees may purchase shares of Class A Common Stock by payroll deduction at a 15% discount from the market price. 600,000 shares of Class A Common Stock have been reserved for this purpose. During the fiscal years 2000, 2001 and 2002, 6,616, 29,287 and 30,904 shares, respectively, of Class A Common Stock were issued under this plan.

13. INCOME TAXES

The provision (benefit) for income taxes from continuing operations for the fiscal years 2000, 2001 and 2002 consists of the following:

	April 30,		
	2000	2001	2002
Federal—			
Current	$ 4,912	$ (1,036)	$ (1,639)
Deferred	3,079	(2,935)	9,071
Deferred benefit of loss carryforwards	—	(5,721)	(4,049)
	7,991	(9,692)	3,383
State—			
Current	1,791	(829)	565
Deferred	833	(1,068)	2,966
Deferred benefit of loss carryforwards	—	(1,142)	(1,027)
	2,624	(3,039)	2,504
Total	$ 10,615	$ (12,731)	$ 5,887

The differences in the provision for income taxes and the amounts determined by applying the Federal statutory rate to income before provision for income taxes for the years ended April 30, 2000, 2001 and 2002 are as follows:

	Fiscal Year		
	2000	2001	2002
Federal statutory rate	35%	35%	35%
Tax at statutory rate	$ 7,632	$ (32,978)	$ 6,200
State income taxes, net of federal benefit	1,706	(1,975)	1,628
Non-deductible impairment charge	—	12,825	—
Non-deductible goodwill	205	1,155	1,052
Losses on business dispositions	—	—	(2,072)
Equity in loss of unconsolidated entities	295	6,390	(390)
Other, net	777	1,852	(531)
	$ 10,615	$ (12,731)	$ 5,887

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes.

Deferred tax assets and liabilities consist of the following at April 30, 2001 and 2002:

	April 30,	
	2001	2002
Deferred tax assets:		
Accrued expenses and reserves	$ 16,293	$ 14,291
Basis difference in partnership interests	428	5,532
Amortization of intangibles	13,562	8,833
Unrealized loss on securities	—	3,727
Capital loss carryforward	—	1,900
Net operating loss carryforwards	35,931	38,672
Alternative minimum tax credit carryforwards	1,442	672
Other tax carryforwards	235	—

Other	875	1,534
Total deferred tax assets	68,766	75,161
Less: valuation allowance	(24,134)	(28,512)
Total deferred tax assets after valuation allowance	44,632	46,649
Deferred tax liabilities:		
Accelerated depreciation of property and equipment	(28,980)	(35,495)
Other	(2,378)	(1,739)
Total deferred tax liabilities	(31,358)	(37,234)
Net deferred tax asset (liability)	$ 13,274	$ 9,415

At April 30, 2002, the Company has for income tax purposes Federal net operating loss carryforwards of approximately $90,255 that expire in years 2005 through 2022 and state net operating loss carryforwards of approximately $88,897 that expire in years 2003 through 2022. Substantial limitations restrict the Company's ability to utilize certain Federal and state loss carryforwards. Due to uncertainty of the utilization of the carryforwards, no tax benefit has been recognized for approximately $38,386 of the Federal net operating loss carryforwards and $76,560 of the state net operating loss carryforwards. In addition, the Company has approximately $672 minimum tax credit carryforward available that is not subject to limitation.

The $4,378 net increase in the valuation allowance is due to the addition of a valuation allowance for a capital loss carryforward generated in the current year and the increase in the basis difference for the investment in New Heights, less the expiration of certain state loss carryforwards and $3,156 reduction in Federal losses acquired through acquisitions and recorded as a reduction of goodwill. The Company reduced the valuation allowance for Federal losses due to higher estimates of future taxable income and due to a reduction of the limitation on a portion of the losses upon the sale of certain operations.

The valuation allowance includes $15,690 related to losses acquired through acquisitions. To the extent that future realization of such carryforwards exceeds the Company's current estimates, additional benefits received will be recorded as a reduction of goodwill. In assessing the realizability of carryforwards and other deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company adjusts the valuation allowance in the period management determines it is more likely than not that deferred tax assets will or will not be realized.

14. DISCONTINUED OPERATIONS, ASSETS HELD FOR SALE, DIVESTITURES AND EXTRAORDINARY ITEM

Discontinued Operations:

At the end of fiscal year 2001, the Company adopted a formal plan to dispose of its tire processing, commercial recycling and mulch recycling businesses (herein "discontinued businesses"). The Company is accounting for these planned dispositions in accordance with APB Opinion No. 30, and accordingly the discontinued businesses are carried at estimated net realizable value less costs to be incurred through date of disposition.

For the fiscal year 2001, the estimated loss on the disposal of the discontinued operations of $3,846, net of income tax benefit of $1,085, represents the estimated loss on the disposal of the assets of the discontinued operations and includes costs to sell, estimated loss on sale and a provision for losses during the phase-out period.

The mulch recycling business was sold effective June 30, 2001. The Company's tire processing business was sold in September 2001 for cash consideration of $13,745. The Company retained a 19.9% interest in the new venture, which was valued at $3,080. The Company is accounting for its retained investment under the cost method. The commercial recycling center in Newark, New Jersey was sold effective April 18, 2002.

Actual operating results of discontinued businesses for the fiscal year 2002 exceeded the original estimate by $599 (net of income tax provision of $408), and the actual loss on the sale of assets exceeded the estimate by $4,695 (net of income tax benefit of $565). Accordingly, the accompanying income statement for the year ended April 30, 2002 includes an additional loss on disposal of discontinued operations of $4,096.

Net assets of discontinued operations at April 30, 2002 represent a commercial recycling facility that the company expects to sell in fiscal year 2003. Net assets of discontinued operations are stated at their expected net realizable values and have been separately classified in the accompanying balance sheets at April 30, 2001 and 2002 and consist of the following:

	April 30,	
	2001	2002
Current assets	$ 8,407	$ 243
Non-current assets	18,949	2,204
Total assets	$ 27,356	$ 2,447

Current liabilities	$ 9,690	$ 828
Non-current liabilities	6,132	0
Total liabilities	$ 15,822	$ 828
Net assets of discontinued operations	$ 11,534	$ 1,619

A summary of the operating results of the discontinued operations is as follows:

	Fiscal Year	
	2000	2001
Revenues	$ 23,129	$ 48,607
(Loss) income before income taxes	3,355	(24,229)
(Benefit) provision for income taxes	1,471	(8,781)
(Loss) income from discontinued operations, net of income taxes	$ 1,884	$ (15,448)

The Company has included approximately $13,957 and $27,921 of intercompany sales of recyclables from the commercial recycling business to the brokerage business in loss on discontinued operations for the fiscal years 2000, and 2001, respectively. Intercompany sales of recyclables from the commercial recycling business to the brokerage business amounted to $13,259 for the year ended April 30, 2002.

Net Assets Held for Sale:

The Company had identified for sale certain other businesses which were classified as net assets held for sale as of April 30, 2001. These included its Timber Energy business and its one remaining plastics recycling facility.

On May 17, 2001, the plastics recycling business was sold for approximately $998 in total consideration. The consideration consisted of $406 in cash and $592 in notes.

On July 31, 2001, the Timber Energy business was sold for approximately $15,000 in total consideration. The consideration comprised the buyer's assumption of debt, reimbursement of restricted cash funds, and a working capital adjustment, resulting in $10,691 cash.

Consolidated net assets held for sale primarily consisted of cash, accounts receivable, inventories, property, plant and equipment, trade payables and bonds payable. At April 30 2001, assets and liabilities of the assets held for sale consisted of the following:

	April 30, 2001
Current assets	$ 4,361
Non-current assets	12,508
Total assets	$ 16,869
Current liabilities	$ 4,165
Non-current liabilities	4,663
Total liabilities	$ 8,828
Net assets held for sale	$ 8,041

Net assets held for sale was $0 at April 30, 2002.

Other Divestitures:

A portion of the Company's 50% interest in New Heights was sold in September 2001 for consideration of $250. The Company retained an interest of 9.95% in the tire assets of New Heights, as well as financial obligations related solely to the New Heights power plant. In addition, the Company has an interest in certain notes granted by New Heights collectively valued at approximately $9,000, payment of which is contingent upon certain events. The Company will record the contingent consideration when the contingency is removed. The Company is accounting for its retained investment under the equity method.

In October, 2001, the Company sold its Multitrade division for consideration of $6,893. The transaction resulted in a gain of $4,156 which is included in other income.

In July, 2001, the Company sold its S&S Commercial division for consideration of $887. The transaction resulted in a gain of $692 which is included in other income.

Extraordinary Item:

During fiscal year 2000, the Company paid off its existing revolving credit facility with a bank and incurred an extraordinary loss of $631 (net of tax benefit of $448), resulting from the write-off of related debt acquisition costs.

15. EARNINGS PER SHARE

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

	Fiscal Year		
	2000	2001	2002
Numerator:			
Net income (loss) from continuing operations	$ 11,190	$ (82,241)	$ 11,827
Less: preferred dividends	—	(1,970)	(3,010)
Net income (loss) available to common stockholders	$ 11,190	$ (84,211)	$ 8,817
Denominator:			
Number of shares outstanding, end of period:			
Class A common stock	22,215	22,198	22,667
Class B common stock	988	988	988
Effect of weighted average shares outstanding during period	(4,472)	3	(159)
Weighted average number of common shares used in basic EPS	18,731	23,189	23,496
Impact of potentially dilutive securities:			
Dilutive effect of options, warrants and contingent stock	541	—	673
Weighted average number of common shares used in diluted EPS	19,272	23,189	24,169

For the fiscal years 2000, 2001 and 2002, 2,033, 5,389 and 6,653, respectively, of common stock equivalents related to options, convertible debt, 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 as the Company had reported a net loss.

16. RELATED PARTY TRANSACTIONS

(a) Services

During fiscal years 2000, 2001 and 2002, the Company retained the services of a related party, a company wholly owned by two of the Company's major stockholders and members of the Board of Directors (one of whom is also an officer), as a contractor in developing or closing certain landfills owned by the Company. Total purchased services charged to operations or capitalized to landfills for

the fiscal years 2000, 2001 and 2002 were $5,338, $3,780 and $2,559, respectively, of which $23 and $0 were outstanding and included in accounts payable at April 30, 2001 and 2002, respectively.

(b) Leases

On August 1, 1993, the Company entered into two leases for operating facilities with a partnership in which two of the Company's major stockholders and members of the Board of Directors (one of whom is also an officer) are the general partners. The leases are classified as capital leases in the accompanying consolidated balance sheets. The leases call for monthly payments of approximately $18 and expire in April 2003. Total interest and amortization expense charged to operations for fiscal years 2000, 2001 and 2002 under these agreements was $179, $236 and $204, respectively.

(c) Post-closure Landfill

The Company has agreed to pay the cost of post-closure on a landfill owned by certain principal shareholders. The Company paid the cost of

closing this landfill in 1992, and the post-closure maintenance obligations are expected to last until 2012. In the fiscal years 2000, 2001 and 2002, the Company paid $5, $7 and $6 respectively, pursuant to this agreement. As of April 30, 2001 and 2002, the Company has accrued $89 and $83 respectively, for costs associated with its post-closure obligations.

(d) Transfer Station Lease

In June 1994, the Company entered into a transfer station lease for a term of 10 years. The transfer station is owned by a current member of the Company's Board of Directors, who became a director upon the execution of the lease. Under the terms of the lease the Company agreed to pay monthly rent for the first five years at a rate of five dollars per ton of waste disposed of at the transfer station, with a minimum rent of $7 per month. Since June 1999, the monthly rent was lowered to a rate of two dollars per ton of waste disposed, with a minimum rent of $3 per month. Total lease payments for the fiscal years 2000, 2001 and 2002 were $54, $55 and $64, respectively.

(e) Employee Loans

As of April 30, 2001 and 2002, the Company has recourse loans to officers and employees outstanding in the amount of $1,953 and $1,105, respectively. The interest on these notes is payable upon demand by the company. The notes have no fixed repayment terms. Interest is at the Wall Street Journal Prime Rate (4.75% at April 30, 2002). Notes from officers consisted of $1,866 and $1,016 at April 30, 2001 and 2002, respectively, with the remainder being from employees of the Company.

(f) The Company sells recycled paper products to its equity method investee, GreenFiber. Revenue from sales to GreenFiber since the inception of the joint venture in July 2001 amounted to $2,513 and $2,303 for fiscal years 2001 and 2002, respectively.

17. 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 and brokerage 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. Ancillary operations, mainly residue recycling, major customer accounts and earnings from equity method investees, are included in Other.

	Eastern Region	Central Region	Western Region	FCR Recycling	Other	Eliminations	Total
Year Ended April 30, 2000							
Outside revenues	$ 84,353	$ 97,807	$ 60,671	$ 46,034	$ 26,148	$ —	$ 315,013
Inter-segment revenues	13,999	32,657	12,776	9,242	4,978	(73,652)	—
Net income (loss) from continuing operations before discontinued operations, extraordinary item and cumulative effect of change in accounting principle	1,259	14,793	5,227	3,190	(13,279)	—	11,190
Depreciation & amortization	11,692	13,992	7,847	1,228	3,584	—	38,343
Merger-related costs	1,101	—	389	—	—	—	1,490
Interest expense (net)	4,315	3,491	3,116	1,569	3,182	—	15,673
Capital expenditures	18,092	15,806	17,422	9,169	8,086	—	68,575
Total assets	377,724	127,749	112,237	91,870	150,890	—	860,470
Year Ended April 30, 2001							
Outside revenues	$ 158,754	$ 99,305	$ 66,473	$ 108,903	$ 46,381	$ —	$ 479,816
Inter-segment revenues	38,267	40,498	14,995	18,463	1,273	(113,496)	—
Net income (loss) from continuing operations before discontinued operations, extraordinary item and cumulative effect of change in accounting principle	(3,876)	3,706	4,152	(49,780)	(36,443)	—	(82,241)
Depreciation & amortization	20,349	14,330	9,855	3,955	4,394	—	52,883
Impairment charge	1,948	7,765	49	49,857	—	—	59,619
Interest expense (net)	10,346	3,564	4,321	6,923	13,493	—	38,647
Capital expenditures	25,843	20,545	16,445	7,750	(9,065)	—	61,518
Total assets	283,967	126,617	112,882	80,984	81,843	—	686,293

Year Ended April 30, 2002							
Outside revenues	$ 148,726	$ 95,305	$ 65,628	$ 93,703	$ 17,459	$ —	$ 420,821
Inter-segment revenues	30,494	45,171	14,626	6,402	58	(96,751)	—

Net income (loss) from continuing operations before discontinued operations, extraordinary item and cumulative effect of change in accounting principle	1,944	18,744	1,125	(8,501)	(1,485)	—	11,827
Depreciation & amortization	20,825	13,073	10,192	4,105	2,501	—	50,696
Interest expense (net)	8,708	3,096	7,434	10,044	1,289	—	30,571
Capital expenditures	15,850	11,856	6,490	2,573	905	—	37,674
Total assets	265,388	115,140	104,479	69,788	66,246	—	621,041

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following is a summary of certain items in the Consolidated Statements of Operations by quarter for fiscal years 2001 and 2002.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2001				
Revenues	$ 141,080	$ 126,448	$ 112,705	$ 99,583
Operating (loss) income	14,056	14,135	10,788	(67,944)
(Loss) income from continuing operations before income taxes, discontinued operations, extraordinary item and cumulative effect of change in accounting principle	3,630	3,101	(13,419)	(88,284)
Net (loss) income available to common stockholders	3,319	364	(13,620)	(93,568)
Basic net (loss) income per common share	0.14	0.02	(0.58)	(4.04)
Diluted net (loss) income per common share	0.14	0.01	(0.58)	(4.04)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2002				
Revenues	$ 112,341	$ 109,785	$ 101,189	$ 97,506
Operating income	11,517	12,441	8,228	9,566
Income from continuing operations before income taxes, discontinued operations, extraordinary item and cumulative effect of change in accounting principle	4,574	9,261	883	2,996
Net (loss) income available to common stockholders	1,474	3,789	(732)	(60)
Basic net (loss) income per common share	0.06	0.16	(0.03)	—
Diluted net (loss) income per common share	0.06	0.16	(0.03)	—

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The information required with respect to changes in the Company's accountants was previously reported in the Current Report on Form 8-K of the Company filed on May 22, 2002 and in the Current Report on Form 8-K of the Company filed on June 18, 2002, and is incorporated by reference into this Annual Report on Form 10-K.

PART III

Items 10, 11, 12 and 13 of Part III (except for information required with respect to executive officers of the Company which is set forth under "Executive Officers and Other Key Employees of the Company" in Item 1 of Part I of this Annual Report on Form 10-K and with respect to equity compensation plan information which is set forth under "Equity Compensation Plan Information" below) have been omitted from this Annual Report on Form 10-K, since the Company expects to file with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, a definitive proxy statement. The information required by Items 10, 11, 12 and 13 of this Annual Report on Form 10-K, which will appear in the definitive proxy statement, is incorporated by reference into Part III of this Annual Report on Form 10-K.

Equity Compensation Plan Information

The following table shows information about the securities authorized for issuance under the Company's equity compensation plans as of April 30, 2002:

	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options and warrants (1)	Weighted-average exercise price of outstanding options and warrants	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (2)

Equity compensation plans approved by security holders	3,921,866	$	13.36	2,546,727(3)
Equity compensation plans not approved by security holders	264,000	$	2.00	—
Total	4,185,866	$	12.64	2,546,727(3)

(1) This table excludes an aggregate of 123,992 shares issuable upon exercise of outstanding options assumed by the Company in connection with its acquisition of KTI, Inc. The weighted average exercise price of the excluded options is $23.18.

(2) In addition to being available for future issuance upon exercise of options that may be granted after April 30, 2002, 2,007,534 shares under the Company's Amended and Restated 1997 Stock Incentive Plan, of the 2,546,727 reflected in column (c), may instead be issued in the form of restricted stock or other equity-based awards.

(3) Includes 533,193 shares issuable under the Company's 1997 Employee Stock Purchase Plan, of which up to 50,000 are issuable in connection with the current offering period, which ended on June 30, 2002.

A description of the material terms of the equity compensation plans not approved by the Company's security holders is included in Note 10 "Stockholders' Equity" to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Consolidated Financial Statements included under Item 8:

Report of Independent Public Accountants
Consolidated Balance Sheets as of April 30, 2001 and 2002
Consolidated Statements of Operations for the fiscal years 2000, 2001 and 2002.
Consolidated Statements of Redeemable Convertible Preferred Stock, and Stockholders' Equity for the fiscal years 2000, 2001 and 2002.
Consolidated Statements of Cash Flows for the fiscal years 2000, 2001 and 2002.
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

(a)(3) Exhibits:
The Exhibits that are filed as part of this Annual Report on Form 10-K or that are incorporated by reference herein are set forth in the Exhibit Index hereto.

(b) Reports on Form 8-K

During the quarter ended April 30, 2002 the Company filed no reports on Form 8-K. On May 22, 2002 and on June 14, 2002, the Company filed reports on Form 8-K under Item 4 thereof, relating to a change in the Company's accountants. On July 3, 2002, the Company filed a report on Form 8-K under Item 5 thereof, announcing: (i) its intention to sell $175.0 million of senior subordinated notes due 2012; (ii) its expectation of obtaining a new credit facility; and (iii) its financial results for the fourth quarter and the 2002 fiscal year and guidance on its expected performance for its 2003 fiscal year.

(c) The Exhibits that are filed as part of this Annual Report on Form 10-K or that are incorporated by reference herein are set forth in the Exhibit Index hereto.

SIGNATURES

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

CASELLA WASTE SYSTEMS, INC.

By: /s/ JOHN W. CASELLA

John W. Casella
Chairman and Chief Executive Officer

Date: July 11, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ JOHN W. CASELLA John W. Casella	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	July 11, 2002
/s/ JAMES W. BOHLIG James W. Bohlig	President and Chief Operating Officer, Director	July 11, 2002
/s/ RICHARD A. NORRIS Richard A. Norris	Senior Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)	July 11, 2002
/s/ DOUGLAS R. CASELLA Douglas R. Casella	Director	July 11, 2002
/s/ JOHN F. CHAPPLE III John F. Chapple III	Director	July 11, 2002
/s/ GREGORY B. PETERS Gregory B. Peters	Director	July 11, 2002
/s/ GEORGE J. MITCHELL George J. Mitchell	Director	July 11, 2002
/s/ WILBUR L. ROSS, JR. Wilbur L. Ross, Jr.	Director	July 11, 2002
/s/ D. RANDOLPH PEELER D. Randolph Peeler	Director	July 11, 2002

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated as of January 12, 1999 and as amended by Amendments No. 1, 2 and 3 thereto, among Casella Waste Systems, Inc. ("Casella"), KTI, Inc. ("KTI") and Rutland Acquisition Sub, Inc. (incorporated herein by reference to Annex A to the registration statement on Form S-4 as filed November 12, 1999 (file no. 333-90913)).
3.1	Amended and Restated Certificate of Incorporation of Casella (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form S-8 of Casella as filed November 18, 1998 (file no. 333-67487)).
3.3	Second Amended and Restated By-Laws of Casella (incorporated herein by reference to Exhibit 3.1 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
4.1	Form of stock certificate of Casella Class A common stock (incorporated herein by reference to Exhibit 4 to Amendment No. 2 to the registration statement on Form S-1 of Casella as filed October 9, 1997 (file no. 333-33135)).

4.2	Certificate of Designation creating Series A Convertible Preferred Stock (incorporated herein by reference to Exhibit 4.1 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
10.1	1993 Incentive Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.2	1994 Nonstatutory Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.3	1996 Stock Option Plan (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.4	1997 Non-Employee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.5 to Amendment No. 1 to the registration statement on Form S-1 of Casella as filed September 24, 1997 (file no. 333-33135)).
10.5	Amended and Restated 1997 Stock Incentive Plan (incorporated herein by reference to the Definitive Proxy Statement on Schedule 14A of Casella as filed September 21, 1998).
10.6	1995 Registration Rights Agreement between Casella and the stockholders who are a party thereto, dated as of December 22, 1995 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.7	Warrant to Purchase Common Stock of Casella granted to John W. Casella, dated as of July 26, 1993 (incorporated herein by reference to Exhibit 10.11 to Amendment No. 1 to the registration statement on Form S-1 of Casella as filed September 24, 1997 (file no. 333-33135)).
10.8	Warrant to Purchase Common Stock of Casella granted to Douglas R. Casella, dated as of July 26, 1993 (incorporated herein by reference to Exhibit 10.12 to Amendment No. 1 to the registration statement on Form S-1 of Casella as filed September 24, 1997 (file no. 333-33135)).
10.9	Amended and Restated Revolving Credit and Term Loan Agreement between the Registrant and BankBoston, dated as of January 12, 1998 (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form S-1 of Casella as filed June 3, 1998 (file no. 333-55879)).

10.10	Lease Agreement, as Amended, between Casella Associates and Casella Waste Management, Inc., dated December 9, 1994 (Rutland lease) (incorporated herein by reference to Exhibit 10.17 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.11	Lease Agreement, as Amended, between Casella Associates and Casella Waste Management, Inc., dated December 9, 1994 (Montpelier lease) (incorporated herein by reference to Exhibit 10.18 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.13	Lease, Operations and Maintenance Agreement between CV Landfill, Inc. and the Registrant dated June 30, 1994 (incorporated herein by reference to Exhibit 10.20 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.14	Restated Operation and Management Agreement by and between Clinton County (N.Y.) and the Registrant dated September 9, 1996 (incorporated herein by reference to Exhibit 10.21 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.15	Labor Utilization Agreement by and between Clinton County (N.Y.) and the Registrant dated August 7, 1996 (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.16	Lease and Option Agreement by and between Waste U.S.A., Inc. and New England Waste Services of Vermont, Inc., dated December 14, 1995 (incorporated herein by reference to Exhibit 10.23 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
10.17	Amendment No. 2 to Lease Agreement, by and between Casella Associates and Casella Waste Management, Inc., dated as of November 20, 1997 (Rutland lease). (incorporated herein by reference to Exhibit 10.25 to the registration statement on Form S-1 of Casella as filed on June 25, 1998 (file no. 333-57745)).
10.18	Amendment No. 1 to Stock Option Agreement, dated as of May 12, 1999, by and between KTI, Inc. and the Registrant (incorporated herein by reference to the current report on Form 8-K of Casella as filed May 13, 1999 (file no. 000-23211)).
10.19	Power Purchase Agreement between Maine Energy Recovery Company and Central Maine Power Company dated January 12, 1984, as amended (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
10.20	Host Municipalities' Waste Handling Agreement among Biddeford-Saco Solid Waste Committee, City of Biddeford, City of Saco and Maine Energy Recovery Company dated June 7, 1991 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
10.21	Form of Maine Energy Recovery Company Waste Handling Agreement (Town of North Berwick) dated June 7, 1991 and Schedule of Substantially Identical Waste Disposal Agreements (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
10.22	Third Amendment to Power Purchase Agreement between Maine Energy Recovery Company, L.P. and Central Maine Power Company dated November 6, 1995. (incorporated herein by reference to Exhibit 10.38 to the registration statement on Form S-4 as filed November 12, 1999 (file no. 333-90913)).
10.23	Non-Exclusive License to Use Technology between KTI and Oakhurst Technology, Inc. dated December 29, 1998 (incorporated herein by reference to Exhibit 4.5 to the current report on Form 8-K of KTI as filed January 15, 1999 (file no. 000-25490)).

10.24	Management Compensation Agreement between Casella Waste Systems, Inc. and John W. Casella dated December 8, 1999 (incorporated herein by reference to Exhibit 10.43 to the annual report on Form 10-K of Casella as filed August 4, 2000 (file no. 000-23211)).
10.25	Management Compensation Agreement between Casella Waste Systems, Inc. and James W. Bohlig dated December 8, 1999 (incorporated herein by reference to Exhibit 10.44 to the annual report on Form 10-K of Casella as filed August 4, 2000 (file no. 000-23211)).
10.26	Management Compensation Agreement between Casella Waste Systems, Inc. and Jerry S. Cifor dated December 8, 1999 (incorporated herein by reference to Exhibit 10.45 to the annual report on Form 10-K of Casella as filed August 4, 2000 (file no. 000-23211)).
10.27	Management Compensation Agreement between Casella Waste Systems, Inc. and Martin J. Sergi dated December 8, 1999 (incorporated herein by reference to Exhibit 10.46 to the annual report on Form 10-K of Casella as filed August 4, 2000 (file no. 000-23211)).
10.28	Management Compensation Agreement between Casella Waste Systems, Inc. and Ross Pirasteh dated December 8, 1999 (incorporated herein by reference to Exhibit 10.47 to the annual report on Form 10-K of Casella as filed August 4, 2000 (file no. 000-23211)).
10.29	Preferred Stock Purchase Agreement, dated as of June 28, 2000, by and among the Company and the Purchasers identified therein (incorporated herein by reference to Exhibit 10.1 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
10.30	Registration Rights Agreement, dated as of August 11, 2000, by and among the Company and the Purchasers identified therein (incorporated herein by reference to Exhibit 10.2 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
10.31	First Amendment to Amended and Restated Revolving Credit and Term Loan Agreement, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.3 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
10.32	Second Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.4 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
10.33	Third Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.5 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
10.34	Fourth Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.6 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
10.35	Fifth Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated February 22, 2001, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.54 to the annual report on Form 10-K of Casella for the year ended April 30, 2001 (file no. 000-23211)).
10.36	Sixth Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated June 4, 2001, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.55 to the annual report on Form 10-K of Casella for the year ended April 30, 2001 (file no. 000-23211)).
10.37	KTI, Inc. 1994 Long-Term Incentive Award Plan (incorporated herein by reference to Exhibit (d)(3) to the Schedule TO of Casella as filed July 2, 2001 (file no. 000-23211)).
10.38	KTI, Inc. Non-Plan Stock Option Terms and Conditions (incorporated herein by reference to Exhibit (d)(4) to the Schedule TO of Casella as filed July 2, 2001 (file no. 000-23211)).

10.39	Management Compensation Agreement between Casella Waste Systems, Inc. and Charles E. Leonard dated June 18, 2001.
10.40	Management Compensation Agreement between Casella Waste Systems, Inc. and Richard Norris dated July 20, 2001.
10.41	US GreenFiber LLC Limited Liability Company Agreement, dated June 26, 2000, between U.S. Fiber, Inc. and Greenstone Industries, Inc.
10.42	Purchase Agreement, dated August 17, 2001, by and among Crumb Rubber Investors Co., LLC, Casella Waste Systems, Inc. and KTI Environmental Group, Inc.
10.43	Purchase Agreement, dated August 17, 2001, by and among New Heights Holding Corporation, KTI, Inc., KTI Operations, Inc. and Casella Waste Systems, Inc.
10.44	Form of Non-Plan Non-Statutory Stock Option Agreement as issued by Casella Waste Systems, Inc. to certain individuals as of May 25, 1994.
21.1	Subsidiaries of Casella Waste Systems, Inc.
23.1	Consent of PricewaterhouseCoopers LLP.

After reasonable efforts, the Company has not been able to obtain the consent of Arthur Andersen LLP to the incorporation by reference of their report in this Form 10-K and the Company has dispensed with the requirement under Section 7 of the Securities Act to file their consent in reliance on Rule 437(a) promulgated under the Securities Act. Because Arthur Andersen LLP has not consented to the incorporation by reference of their report in this Form 10-K, you will not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen LLP incorporated by reference or any omissions to state a material fact required to be stated therein.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

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

Our audit of the consolidated financial statements referred to in our report dated June 29, 2002 appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule as of and for the year ended April 30, 2002 listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The financial statement schedule of the Company as of and for the years ended April 30, 2001 and 2000 was audited by other independent accountants whose report dated July 19, 2001 stated that the schedule presented fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
June 29, 2002

FINANCIAL STATEMENT SCHEDULES

Schedule II
Valuation Accounts

Allowance for Doubtful Accounts

(in thousands)

	April 30,		
	2000	2001	2002
Balance at beginning of period	$ 1,430	$ 5,371	$ 4,904
Additions—Charged to expense	1,790	3,105	(930)
Acquisition related	2,894	—	—
Deductions—Bad debts written off, net of recoveries	(743)	(3,572)	(3,188)
Balance at end of period	$ 5,371	$ 4,904	$ 786

Restructuring

(in thousands)

	April 30,		
	2000	2001	2002
Balance at beginning of period	$ —	$ —	$ 4,151
Additions—Charged to expense	—	4,151	(438)
Deductions—Amounts paid	—	—	(3,676)
Balance at end of period	$ —	$ 4,151	$ 37

EXHIBIT 10.39

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of June 18, 2001 (the "Agreement"), is made by and between Casella Waste Systems, Inc., a Delaware corporation (the "Company"), and Charles E. Leonard, a resident of Calabasas, California (the "Employee").

WHEREAS, the Company is in the business of solid waste services and related businesses; and

WHEREAS, the Company and the Employee are mutually desirous that the Company employ the Employee, and the Employee accept employment, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, the Company and the Employee hereby agree as follows:

1. DUTIES.

1.1 During the Agreement Term (as defined below), the Employee shall be the Senior Vice President, Solid Waste Operations (or such other and comparable titles and positions as shall be given the Employee by the Board of Directors (the "Board") of the Company) and shall faithfully perform for the Company the duties of said office. The Employee shall have such corporate power and authority as are necessary to perform the duties of such office and any other office(s) that are so assigned to him. The Employee shall report directly to the Chief Operating Officer of the Company. The Employee shall devote substantially all of his business time and effort to the performance of his duties hereunder, shall use his best efforts to advance the best interests of the Company and shall not engage in outside business activities which materially interfere with the performance of his duties hereunder; PROVIDED, HOWEVER, that, subject to Section 6 below, nothing in this Agreement shall preclude the Employee from devoting reasonable periods required for participating in his family business ventures or in other professional, educational, philanthropic, public interest, charitable, social or community activities.

1.2 The duties to be performed by the Employee hereunder shall be performed primarily in Rutland, Vermont subject to reasonable travel requirements on behalf of the Company.

2. TERM. The Company hereby employs the Employee, and the Employee hereby accepts such employment, for an initial term commencing as of the date hereof and ending on the third anniversary of such date, unless sooner terminated in accordance with the provisions of Section 4 (said initial three year term, unless sooner terminated in accordance with the provisions of Section 4, being hereinafter referred to as the "Initial Term"). The term of this Agreement shall be automatically extended for an additional year at the expiration of the Initial Term or any succeeding term, unless written notice of non extension is provided by either party to the other party 180 days prior to the expiration of the Initial Term or the succeeding term, as the case may be (said Initial Term and any succeeding terms, being hereinafter referred to as the "Agreement Term").

3. COMPENSATION.

3.1 BASE SALARY. During the Agreement Term and subject to the next sentence of this Section 3.1, the Employee shall be compensated at the annual rate of $240,000 ("Base Salary"), payable on a bi-weekly basis in accordance with the Company's standard payroll procedures. The Base Salary will be subject to annual reviews in accordance with Company policy. Such reviews shall form the basis for any increase in Base Salary. During the Initial Term hereof, in no event shall the Base Salary be less than $240,000.

3.2 INCENTIVE COMPENSATION. In addition to the Base Salary, Employee shall be issued 150,000 options for Class A Common Stock at Fair Market Value per share on the date of this Agreement subject to all conditions of the then-existing Company Incentive Stock Option Plan, with one-third of such options vesting immediately, one third after year one and the remaining one

third after year two. Thereafter, on an annual basis, subject to annual reviews in accordance with Company policy, the Employee shall be eligible to receive a bonus ("Bonus") consisting of (i) a cash bonus of up to 50% of Employee's Base Salary, (ii) stock options of the Company or (iii) a combination of both cash and stock options in an amount to be determined prior to the conclusion of each fiscal year of the Company during the Agreement Term in the sole discretion of the Compensation Committee of the Board (the "Compensation Committee").

3.3 EXPENSES. Upon submission of appropriate invoices or vouchers, the Company shall pay or reimburse the Employee for all reasonable expenses actually incurred or paid by him during the Agreement Term in the performance of his duties hereunder.

3.4 PARTICIPATION IN BENEFIT PLANS. The Employee shall be entitled to immediately participate in any health benefit or other employee benefit plans available to the Company's senior executives as in effect from time to time, including, without limitation, any qualified or non-qualified pension, profit sharing and savings plans, any death and disability benefit plans, any medical, dental, health and welfare plans and any stock purchase programs, on terms and conditions at least as favorable as provided to other senior executives, to the extent that he may be eligible to do so under the applicable provisions of any such plan. Following the termination of the Employee hereunder or the expiration of any Severance Benefits (as defined in I Section 4.4.1), the Employee and his eligible dependents, for a period not to exceed one year if Employee is entitled to one times Base Salary under Section 4.4.1(e) herein, or two years if entitles to two times base Salary thereunder, shall be entitled (at the Employee's sole expense) to continue participating in the Company's group medical, dental, disability and life insurance coverages (to the extent the Company's plans entitle the Employee and his dependents to be so covered), with the Employee's cost to be determined on a basis consistent with the method of determining employee payments under the the health care continuation requirements of the Consolidated Omnibus Reconciliation Act of 1985 ("COBRA").

3.5 VACATION. The Employee shall be entitled to four weeks of annual vacation and shall be subject to the Company's standard vacation policy applicable to someone of his position and seniority. Unused vacation shall not be carried over into any subsequent year during the Agreement Term. The Company shall have no obligation to pay the Employee for any unused vacation.

3.6 FRINGE BENEFITS AND PERQUISITES. The Employee shall be reimbursed for actual relocation expenses incurred not to exceed $55,000; reimbursement of any relocation expenses owed by Employee to his existing employer; temporary living and commuting expenses for a period not to exceed 6 months; a monthly auto allowance of up to $650.00 per month; a gas card related to the use of said automobile; reimbursement for

insurance, licensing and repair costs related to said automobile; as well as any fringe benefits and perquisites that are generally made available to senior executives of the Company from time to time and that are approved by the Compensation Committee.

4. TERMINATION. The Employee's employment hereunder may be terminated only upon the expiration of the Agreement Term of this Agreement pursuant to Section 2 above or under the following circumstances:

4.1 DEATH. The Employee's employment hereunder shall terminate automatically upon his death, in which event the Company shall pay to the Employee's written designee or, if he has no written designee, to his spouse or, if he leaves no spouse and has no written designee, to his estate, (i) Severance and Acceleration Payment (as such terms are defined in Section 4.4.1 below) immediately upon death, and (ii) all reasonable expenses actually incurred or paid by the Employee in the performance of his duties hereunder prior to the date of death.

4.2 DISABILITY. The Company may terminate the Employee's employment hereunder if (i) as a result of the Employee's incapacity due to physical or mental illness, the Employee shall have been absent from his duties hereunder on a full-time basis for an aggregate of 180 consecutive or non-consecutive business days in any 12 consecutive-month period and (ii) within 10 days after written notice of termination hereunder is given by the Company, the Employee shall not have returned to the performance of his duties hereunder on a full-time basis. The determination of incapacity or disability under the preceding sentence shall be made in good faith by the Company based upon

information supplied by a physician selected by the Company or its insurers and reasonably acceptable to the Employee or his legal representative. During any period that the Employee fails to perform his duties hereunder as a result of incapacity due to physical or mental illness (the "Disability Period"), the Employee shall continue to receive his full Base Salary hereunder until his employment is terminated pursuant to this Section 4.2, provided that amounts payable to the Employee shall be reduced by the sum of the amounts, if any, paid to the Employee during the Disability Period under any disability benefit plans of the Company. If the Employee is terminated pursuant to this Section 4.2 the Company shall pay to the Employee (or his legal representative) (i) Severance and Acceleration Payment (as such terms are defined in Section 4.4.1 below), and (ii) all reasonable expenses actually incurred or " paid by the Employee in the performance of his duties hereunder prior to the date of termination due to disability.

4.3 TERMINATION BY THE COMPANY.

4.3.1 The Company (i) shall have "cause" to terminate the Employee's employment hereunder upon the Employee (A) being convicted of a crime involving the Company (other than pursuant to actions taken at the direction or with the approval of the Board), (B) found by reasonable determination of the Company, made in good faith, to have engaged in (1) willful misconduct which has a material adverse effect on the Company, (2) willful or gross neglect which has a material adverse effect on the Company, (3) fraud, (4) misappropriation or (5) embezzlement in the performance of his duties hereunder or (C) having breached in any material respect the material terms and provisions of this Agreement and failed to cure such breach within 15 days following written notice from the Company specifying such breach and (ii) may terminate the Employee's employment on written notice given to the Employee at any time following the occurrence of any of the events described in clauses (i)(A) and (i)(B) above and on written notice given to the Employee at any time not less than 60 days following the occurrence of any of the events described in clause (i)(C) above. In the event the Employee's employment is terminated by the Company for "cause", the Employee shall be entitled to continue to receive Base Salary accrued but unpaid and expenses incurred but not repaid to the Employee, in each case only until the effective date of such termination.

4.3.2 In the event the Employee's employment is terminated by the Company other than for "cause", the Employee shall be entitled to (i) Severance and Acceleration Payment immediately upon termination, (ii) Severance Benefits (as such capitalized terms are defined in Section 4.4 below), and (iii) in the event such termination occurs within the Initial Term, the accelerated vesting at the time of termination of any stock options issued by the Company to the Employee.

4.4 TERMINATION BY EMPLOYEE.

4.4.1 DEFINITIONS. For purposes of this Section 4.4, the following terms shall have the respective meanings set forth below:

(a) "AFFILIATE" means, with respect to the Company, any entity directly or indirectly controlled, controlling or under common control with the Company.

(b) "ACCELERATION PAYMENT" means an amount in cash equal to the value of (i) any Base Salary accrued but unpaid prior to the date of termination, (ii) Bonus accrued but unpaid prior to the date of termination and (iii) any vacation accrued but unused prior to the date of termination.

(c) "CHANGE OF CONTROL" means: (i) a person, corporation, entity or group acquires, directly or indirectly, the beneficial ownership of 40% or more of the issued and outstanding stock of the Company in a single transaction or series of transactions, (ii) the Company is a party to a merger, consolidation or similar transaction and following such transaction 40% or more of the issued and outstanding securities of said party is beneficially owned by a person, corporation, entity or group other than the Company or an Affiliate of the Company, (iii) the Company sells or transfers all or substantially all of its assets to any other persons or persons other than an Affiliate of the Company, (iv) the shareholders of the Company approve a plan or proposal for the liquidation or dissolution of the Company or (v) during any two-year period, individuals who comprise a majority of the Board at the beginning of such two-year period do not comprise a majority of the Board at the end of such two-year period (such Board composition being referred to as a "Continuing Majority").

(d) "GOOD REASON" means: the occurrence of a Change of Control, accompanied by, or followed within the twelve-month period after a Change in Control by: the assignment to the Employee of any duties inconsistent with his status as Senior Vice President, Solid Waste Operations or which require travel significantly more time-consuming than that required at commencement of this Agreement or, a material adverse alteration in the nature or status of his responsibilities from those provided herein or the transfer of a significant portion of such responsibilities to one or more other persons, or a material diminution in the Employee's compensation.

(e) "SEVERANCE" means (i) during the first two years of the Initial term, two times the sum of the highest Base Salary that was paid to the Employee at any time prior to termination by the Employee for Good Reason or prior to when the Employee's employment is terminated by the Company other than for "cause," plus, in the event such termination occurs within the first year of the Initial Term, the amount of Base Salary for that year that is unaccrued and unpaid; or (ii) during the last year of the Initial Term and any successive terms thereafter, one times the highest Base Salary that was paid to the Employee at any time prior to termination by the Employee for Good Reason or prior to when the Employee's employment is terminated by the Company other than for "cause".

(f) "SEVERANCE BENEFITS" means the benefits contemplated by Section 3.4 of this Agreement.

4.4.2 At the election of the Employee for Good Reason, the Employee may terminate his employment immediately upon written notice to the Company; PROVIDED, HOWEVER, that Employee must make such election to terminate his employment for Good Reason within 90 days of the occurrence of such event that qualifies as Good Reason under Section 4.4.1(d) of this Agreement. If during the Agreement Term the Employee's employment is terminated by the Employee for Good Reason, the Employee shall be entitled to receive from the Company (i) Severance and the Acceleration Payment immediately upon termination, (ii) Severance Benefits and (iii) a cash payment in an amount equal to the amount of any excise tax imposed on Employee under Section 4999 of the Internal Revenue Code of 1986, as amended ("SECTION 4999"), increased by the additional federal and state income taxes on such amount, such that, after payment of this additional cash payment, the Employee's Severance, Acceleration Payment and Severance Benefits after federal and state income taxes are equal to the amount that the Employee would have received but for the imposition of the excise tax under Section 4999.

4.4.3 Upon 90 days' prior written notice, the Employee may terminate his employment with the Company other than for Good Reason. If the Employee voluntarily terminates his employment with the Company other than for Good Reason, no further payment shall be due the Employee pursuant to Section 3 above (other than payments for accrued and unpaid Base Salary and expenses incurred but not repaid to the Employee, in each case prior to such termination).

4.5 Effect of Termination on Certain Obligations. No termination of the employment of the Employee, whether voluntary or involuntary, shall terminate, affect or impair any of the obligations or rights of the parties set forth in Sections 4, 5, 6, 7 and 8 of this Agreement, all of which obligations and rights shall survive any termination of employment of the Employee hereunder.

5. COVENANT NOT TO DISCLOSE CONFIDENTIAL INFORMATION. The Employee acknowledges that during the course of his affiliation with the Company he has or will have access to and knowledge of certain information and data which the Company considers confidential and the release of such information or data to unauthorized persons would be extremely detrimental to the Company. As a consequence, the Employee hereby agrees and acknowledges that he owes a duty to the Company not to disclose, and agrees that without the prior written consent of the Company, at any time, either during or after his employment with the Company, he will not communicate, publish or disclose, to any person anywhere, or use, any Confidential Information (as hereinafter defined), except as may be necessary or appropriate to conduct his duties hereunder, provided the Employee is acting in good faith and in the best interest of the Company. The Employee will use his best efforts at all times to hold in confidence and to safeguard any Confidential Information from falling into the hands of any unauthorized person and, in particular, will not permit any Confidential Information to be read, duplicated or copied. The Employee will return to the Company all Confidential Information in the Employee's possession or under the Employee's control when the duties of the Employee no longer require the Employee's possession thereof, or whenever the Company shall so request, and in any event

will promptly return all such Confidential Information if the Employee's relationship with the Company is terminated for any or no reason and will not retain any copies thereof. For purposes hereof, the term "Confidential Information" shall mean any information or data used by or belonging or relating to the Company that is not known generally to the industry in which the Company is or may be engaged, including without limitation, any and all trade secrets, proprietary data and

information relating to the Company's business and products, price list, customer lists, processes, procedures or standards, know-how, manuals, business strategies, records, drawings, specifications, designs, financial information, whether or not reduced to writing, or information or data which the Company advises the Employee should be treated as confidential information.

6. COVENANT NOT TO COMPETE. The Employee acknowledges that he, at the expense of the Company, has been and will be specially trained in the business of the Company, has established and will continue to establish favorable relations with the customers, clients and accounts of the Company and will have access to trade secrets of the Company. Therefore, in consideration of such training and relations and to further protect trade secrets, directly or indirectly, of the Company, the Employee agrees that during the term of his employment by the Company and for a period of two (2) years from and after the voluntary or involuntary termination of such employment for any or no reason, he will not, directly or indirectly, without the express written consent of the Company:

(a) own or have any interest in or act as an officer, director, partner, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist in, any business located in or doing business in the United States of America or Canada in any area within 300 miles of any facility of the Company during the term of the Employee's employment by the Company which is engaged, directly or indirectly, in (i) the solid waste processing business, (ii) the utilization of recyclable materials business or (iii) any other business the Company is engaged in or proposes to engage in on the date this Agreement is terminated (the businesses described in clauses (a)(i), (ii) and (iii) are collectively referred to as the "COMPETITIVE BUSINESSES"); PROVIDED, HOWEVER, that notwithstanding the above, the Employee may own, directly or indirectly, solely as an investment, securities of any such person which are traded on any national securities exchange or NASDAQ if the Employee (A) is not a controlling person of, or a member of a group which controls, such person and (B) does not, directly or indirectly, own 5% or more of any class of securities of such person;

(b) solicit clients, customers (who are or were customers of the Company within the twelve (12) months prior to termination) or accounts of the Company for, on behalf of or otherwise related to any such Competitive Businesses or any products related thereto; or

(c) solicit, employ or in any manner influence or encourage any person who is or shall be in the employ or service of the Company to leave such employ or service.

Notwithstanding the foregoing, the terms of this covenant not to compete shall be enforceable against employee only to the extent that during Employee's employment the Company continues to pay Employee compensation equal to the salary level set forth in Section 3.1 of this Agreement and after termination of Employee's employment the Company continues to pay Employee any and all termination payments and benefits as required under Section 4 of this Agreement. Furthermore, if any court determines that the covenant not to compete, or any part thereof, is unenforceable because of the duration of such provision or the geographic area or scope covered thereby, such court shall have the power to reduce the duration, area or scope of such provisions and, in its reduced form, such provision shall then be enforceable and shall be enforced.

7. SPECIFIC PERFORMANCE. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing covenants and assurance by the Employee contained in

Sections 5 or 6 hereof, and that the Company's remedies at law for any such

breach or threatened breach will be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall be entitled to an injunction, including a mandatory injunction, to be issued by any court of competent jurisdiction ordering compliance with this Agreement or enjoining and restraining the Employee, and each and every person, firm or company acting in concert or participation with him, from the continuation of such breach.

8. POTENTIAL UNENFORCEABILITY OF ANY PROVISION. The Employee acknowledges and agrees that he has had an opportunity to seek advice of counsel in connection with this Agreement. If a final judicial determination is made that any provision of this Agreement is an unenforceable restriction against the Employee, the provisions hereof shall be rendered void only to the extent that such judicial determination finds such provisions unenforceable, and such unenforceable provisions shall automatically be reconstituted and became a part of this Agreement, effective as of the date first written above, to the maximum extent in favor of the Company that is lawfully enforceable. A judicial determination that any provision of this Agreement is unenforceable shall in no instance render the entire Agreement unenforceable, but rather the Agreement will continue in full force and effect absent any unenforceable provision to the maximum extent permitted by law.

9. NOTICE. Any notice or other communication hereunder shall be in writing and shall be mailed or delivered to the respective parties hereto as follows:

(a) If to the Company:

Casella Waste Systems, Inc.
25 Greens Hill Lane
Rutland, VT 05702
Attention: President and Chief Executive Officer

(b) If to the Employee:

Charles Leonard
Senior V.P., Solid Waste Operations
25 Greens Hill Lane
Rutland, VT 05702

The addresses of either party hereto above may be changed by written notice to the other party.

10. AMENDMENT; WAIVER. This Agreement may be amended, modified, superseded, cancelled, renewed or extended and the terms of covenants hereof may be waived, only by written instrument executed by the party against whom such modification or waiver is sought to be enforced. The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in anyone or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant in this Agreement.

11. BENEFIT AND BINDING EFFECT. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company, but shall be personal to and not assignable by the Employee. The obligations of the Company I hereunder are personal to the Employee or where applicable to his spouse or estate, and shall be continued only so long as the Employee shall be personally discharging his duties hereunder. The Company may assign its rights, together with its I obligations, to any corporation which is a direct or indirect wholly-owned subsidiary of the Company; PROVIDED, HOWEVER, that the Company shall not be released from it's obligations hereunder without the prior written consent of the Employee, which consent shall not be unreasonably withheld.

12. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF VERMONT REGARDLESS OF THE LAWS THAT MIGHT BE APPLICABLE UNDER PRINCIPLES OF CONFLICTS OF LAW.

13. COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original but all such counterparts together shall constitute one and the same instrument. Each counterpart may consist of two copies hereof each signed by one of the parties hereto.

14. HEADINGS. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

15. ENTIRE AGREEMENT. This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and preliminary agreements. No subsequent modifications may be made to this Agreement except by signed writing of the parties.

16. AGREEMENT TO ARBITRATE

The undersigned parties agree that any disputes that may arise between them (including but not limited to any controversies or claims arising out of or relating to this Agreement or any alleged breach thereof, and any dispute over the interpretation or scope of this arbitration clause) shall be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. No party shall be entitled to punitive or treble damages.

ACKNOWLEDGMENT OF ARBITRATION PURSUANT TO 12 V.S.A. Section 5651 et seq. THE PARTIES HERETO ACKNOWLEDGE THAT THIS DOCUMENT CONTAINS AN AGREEMENT TO ARBITRATE. AFTER SIGNING THIS DOCUMENT EACH PARTY UNDERSTANDS THAT HE/SHE/IT WILL NOT BE ABLE TO BRING A LAWSUIT CONCERNING ANY DISPUTE THAT MAY ARISE WHICH IS COVERED BY THIS ARBITRATION AGREEMENT EXCEPT AS PROVIDED IN THIS PARAGRAPH OR UNLESS IT INVOLVES A QUESTION OF CONSTITUTIONAL LAW OR CIVIL RIGHTS. INSTEAD EACH PARTY HAS AGREED TO SUBMIT ANY SUCH DISPUTE TO AN IMPARTIAL ARBITRATOR.

IN WITNESS WHEREOF, all parties have set their hand and seal to this Agreement and Acknowledgement of Arbitration pursuant to 12 V.S.A. Section 5651 et seq. as of the dates written below:

CHARLES E. LEONARD

Witness: /s/ Amy L. Colutti

/s/ Charles E. Leonard

Date: 6/12/01

Date: 6/18/01

CASELLA WASTE SYSTEMS, INC.

By: /s/ James W. Bohlig

Name: James W. Bohlig

Date: 6/12/2001

EXHIBIT 10.40

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of July 20, 2001 (the "Agreement"), is made by and between Casella Waste Systems, Inc., a Delaware corporation (the "Company"), and Richard Norris, a resident of Rutland, Vermont (the "Employee").

WHEREAS, the Company is in the business of solid waste services and related businesses; and

WHEREAS, the Company and the Employee are mutually desirous that the Company employ the Employee, and the Employee accept employment, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, the Company and the Employee hereby agree as follows:

1. DUTIES.

1.1 During the Agreement Term (as defined below), the Employee shall be the Senior Vice President, Chief Financial Officer (or such other and comparable titles and positions as shall be given the Employee by the Company) and shall faithfully perform for the Company the duties of said office. The Employee shall have such corporate power and authority as are necessary to perform the duties of such office and any other office(s) that are so assigned to him. The Employee shall report directly to the Chief Executive Officer of the Company. The Employee shall devote substantially all of his business time and effort to the performance of his duties hereunder, shall use his best efforts to advance the best interests of the Company and shall not engage in outside business activities which materially interfere with the performance of his duties hereunder; PROVIDED, HOWEVER, that, subject to Section 6 below, nothing in this Agreement shall preclude the Employee from devoting reasonable periods required for participating in his family business ventures or in other professional, educational, philanthropic, public interest, charitable, social or community activities.

1.2 The duties to be performed by the Employee hereunder shall be performed primarily in Rutland, Vermont subject to reasonable travel requirements on behalf of the Company.

2. TERM. The Company hereby employs the Employee, and the Employee hereby accepts such employment, for an initial term commencing as of the date hereof and ending on the third anniversary of such date, unless sooner terminated in accordance with the provisions of Section 4 (said initial three year term, unless sooner terminated in accordance with the provisions of Section 4, being hereinafter referred to as the "Initial Term"). The term of this Agreement shall be automatically extended for an additional year at the expiration of the Initial Term or any succeeding term, unless terminated pursuant to the terms of Section 4 of this Agreement (said Initial Term and any succeeding terms, being hereinafter referred to as the "Agreement Term").

3. COMPENSATION.

3.1 BASE SALARY. During the Agreement Term and subject to the next sentence of this Section 3.1, the Employee shall be compensated at the annual rate of $230,000 ("Base Salary"), payable on a bi-weekly basis in accordance with the Company's standard payroll procedures. The Base Salary will be subject to annual reviews

in accordance with Company policy. Such reviews shall form the basis for any increase in Base Salary. During the Initial Term hereof, in no event shall the Base Salary be less than $230,000.

3.2 INCENTIVE COMPENSATION. In addition to the Base Salary, on an annual basis, subject to annual reviews in accordance with Company policy, the Employee shall be eligible to receive a bonus ("Bonus") consisting of (i) a cash bonus of up to 50% of Employee's Base Salary, (ii) stock options of the Company or (iii) a combination of both cash and stock options in an amount to be determined prior to the conclusion of each fiscal year of the Company during the Agreement Term

in the sole discretion of the Compensation Committee of the Board (the "Compensation Committee").

3.3 EXPENSES. Upon submission of appropriate invoices or vouchers, the Company shall pay or reimburse the Employee for all reasonable expenses actually incurred or paid by him during the Agreement Term in the performance of his duties hereunder.

3.4 PARTICIPATION IN BENEFIT PLANS. The Employee shall be entitled to immediately participate in any health benefit or other employee benefit plans available to the Company's senior executives as in effect from time to time, including, without limitation, any qualified or non-qualified pension, profit sharing and savings plans, any death and disability benefit plans, any medical, dental, health and welfare plans and any stock purchase programs, on terms and conditions at least as favorable as provided to other senior executives, to the extent that he may be eligible to do so under the applicable provisions of any such plan. Following the termination of the Employee hereunder or the expiration of any Severance Benefits (as defined in I Section 4.4.1), the Employee and his eligible dependents, for a period not to exceed one year if Employee is entitled to one times Base Salary under Section 4.4.1(e) herein, or two years if entitled to two times base Salary thereafter, shall be entitled (at the Employee's sole expense) to continue participating in the Company's group medical, dental, disability and life insurance coverages (to the extent the Company's plans entitle the Employee and his dependents to be so covered), with the Employee's cost to be determined on a basis consistent with the method of determining employee payments under the health care continuation requirements of the Consolidated Omnibus Reconciliation Act of 1985 ("COBRA"). After such period, to the extent authorized by law, Employee shall be entitled to COBRA benefits at his own costs.

3.5 VACATION. The Employee shall be entitled to four weeks of annual vacation and shall be subject to the Company's standard vacation policy applicable to someone of his position and seniority. Unused vacation shall not be carried over into any subsequent year during the Agreement Term. The Company shall have no obligation to pay the Employee for any unused vacation.

3.6 FRINGE BENEFITS AND PERQUISITES. The Employee shall be entitled to a monthly auto allowance of up to $650.00 per month; a gas card related to the use of said automobile; reimbursement for insurance, licensing and repair costs related to said automobile; as well as any fringe benefits and perquisites that are generally made available to senior executives of the Company from time to time and that are approved by the Compensation Committee.

4. TERMINATION. The Employee's employment hereunder may be terminated only under the following circumstances:

4.1 DEATH. The Employee's employment hereunder shall terminate automatically upon his death, in which event the Company shall pay to the Employee's written designee or, if he has no written designee, to his spouse

or, if he leaves no spouse and has no written designee, to his estate, (i) Severance and Acceleration Payment (as such terms are defined in Section 4.4.1 below) immediately upon death, and (ii) all reasonable expenses actually incurred or paid by the Employee in the performance of his duties hereunder prior to the date of death.

4.2 DISABILITY. The Company may terminate the Employee's employment hereunder if (i) as a result of the Employee's incapacity due to physical or mental illness, the Employee shall have been absent from his duties hereunder on a full-time basis for an aggregate of 180 consecutive or non-consecutive business days in any 12 consecutive-month period and (ii) within 10 days after written notice of termination hereunder is given by the Company, the Employee shall not have returned to the performance of his duties hereunder on a full-time basis. The determination of incapacity or disability under the preceding sentence shall be made in good faith by the Company based upon information supplied by a physician selected by the Company or its insurers and reasonably acceptable to the Employee or his legal representative. During any period that the Employee fails to perform his duties hereunder as a result of incapacity due to physical or mental illness (the "Disability Period"), the Employee shall continue to receive his full Base Salary hereunder until his employment is terminated pursuant to this Section 4.2, provided that amounts payable to the Employee shall be reduced by the sum of the amounts, if any, paid

to the Employee during the Disability Period under any disability benefit plans of the Company. If the Employee is terminated pursuant to this Section 4.2 the Company shall pay to the Employee (or his legal representative) (i) Severance and Acceleration Payment (as such terms are defined in Section 4.4.1 below), and (ii) all reasonable expenses actually incurred or " paid by the Employee in the performance of his duties hereunder prior to the date of termination due to disability.

4.3 TERMINATION BY THE COMPANY.

4.3.1 The Company (i) shall have "cause" to terminate the Employee's employment hereunder upon the Employee (A) being convicted of a crime involving the Company (other than pursuant to actions taken at the direction or with the approval of the Board), (B) found by reasonable determination of the Company, made in good faith, to have engaged in (1) willful misconduct which has a material adverse effect on the Company, (2) willful or gross neglect which has a material adverse effect on the Company, (3) fraud, (4) misappropriation or (5) embezzlement in the performance of his duties hereunder or (C) having breached in any material respect the material terms and provisions of this Agreement and failed to cure such breach within 15 days following written notice from the Company specifying such breach and (ii) may terminate the Employee's employment on written notice given to the Employee at any time following the occurrence of any of the events described in clauses (i)(A) and (i)(B) above and on written notice given to the Employee at any time not less than 60 days following the occurrence of any of the events described in clause (i)(C) above. In the event the Employee's employment is terminated by the Company for "cause", the Employee shall be entitled to continue to receive Base Salary accrued but unpaid and expenses incurred but not repaid to the Employee, in each case only until the effective date of such termination.

4.3.2 In the event the Employee's employment is terminated by the Company other than for "cause", the Employee shall be entitled to (i) Severance and Acceleration Payment immediately upon termination, (ii) Severance Benefits (as such capitalized terms are defined in Section 4.4 below), and (iii) the accelerated vesting at the time of termination of any stock options issued by the Company to the Employee.

4.4 TERMINATION BY EMPLOYEE.

4.4.1 DEFINITIONS. For purposes of this Section 4.4, the following terms shall have the respective meanings set forth below:

(a) "AFFILIATE" means, with respect to the Company, any entity directly or indirectly controlled, controlling or under common control with the Company.

(b) "ACCELERATION PAYMENT" means an amount in cash equal to the value of (i) any Base Salary accrued but unpaid prior to the date of termination, (ii) Bonus accrued but unpaid prior to the date of termination and (iii) any vacation accrued but unused prior to the date of termination.

(c) "CHANGE OF CONTROL" means: (i) a person, corporation, entity or group acquires, directly or indirectly, the beneficial ownership of 40% or more of the issued and outstanding stock of the Company in a single transaction or series of transactions, (ii) the Company is a party to a merger, consolidation or similar transaction and following such transaction 40% or more of the issued and outstanding securities of said party is beneficially owned by a person, corporation, entity or group other than the Company or an Affiliate of the Company, (iii) the Company sells or transfers all or substantially all of its assets to any other persons or persons other than an Affiliate of the Company, (iv) the shareholders of the Company approve a plan or proposal for the liquidation or dissolution of the Company or (v) during any two-year period, individuals who comprise a majority of the Board at the beginning of such two-year period do not comprise a majority of the Board at the end of such two-year period (such Board composition being referred to as a "Continuing Majority").

(d) "GOOD REASON" means: the occurrence of a Change of Control, accompanied by, or followed within the twelve-month period after a Change in Control by: the assignment to the Employee of any duties inconsistent with his status as Senior Vice President, Chief Financial Officer or which require travel significantly more time-consuming than that required at commencement of this Agreement or, a material adverse alteration in the nature or status of his

responsibilities from those provided herein or the transfer of a significant portion of such responsibilities to one or more other persons, or a material diminution in the Employee's compensation.

(e) "SEVERANCE" means (i) during the first two years of the Initial term, two times the sum of the highest Base Salary that was paid to the Employee at any time prior to termination by the Employee for Good Reason or prior to when the Employee's employment is terminated by the Company other than for "cause", or (ii) during the last year of the Initial term and any successive terms thereafter, one times the highest Base Salary that was paid to the Employee at any time prior to termination by the Employee for Good Reason or prior to when the Employee's employment is terminated by the Company other than for "cause"; and the higher of (A) the most recent Bonus paid to the Employee prior to termination by the Employee for Good Reason or prior to when the Employee's employment is terminated by the Company other than for "cause" or (B) 50% of the Employee's Base Salary immediately prior to such termination.

(f) "SEVERANCE BENEFITS" means the benefits contemplated by Section 3.4 of this Agreement.

4.4.2 At the election of the Employee for Good Reason, the Employee may terminate his employment immediately upon written notice to the Company; PROVIDED, HOWEVER, that Employee must make such election to terminate his employment for Good Reason within 90 days of the occurrence of such event that qualifies as

Good Reason under Section 4.4.1(d) of this Agreement. If during the Agreement Term the Employee's employment is terminated by the Employee for Good Reason, the Employee shall be entitled to receive from the Company (i) Severance and the Acceleration Payment immediately upon termination, (ii) Severance Benefits and (iii) a cash payment in an amount equal to the amount of any excise tax imposed on Employee under Section 4999 of the Internal Revenue Code of 1986, as amended ("SECTION 4999"), increased by the additional federal and state income taxes on such amount, such that, after payment of this additional cash payment, the Employee's Severance, Acceleration Payment and Severance Benefits after federal and state income taxes are equal to the amount that the Employee would have received but for the imposition of the excise tax under Section 4999.

4.4.3 Upon 90 days' prior written notice, the Employee may terminate his employment with the Company other than for Good Reason. If the Employee voluntarily terminates his employment with the Company other than for Good Reason, no further payment shall be due the Employee pursuant to Section 3 above (other than payments for accrued and unpaid Base Salary and expenses incurred but not repaid to the Employee, in each case prior to such termination).

4.5 Effect of Termination on Certain Obligations. No termination of the employment of the Employee, whether voluntary or involuntary, shall terminate, affect or impair any of the obligations or rights of the parties set forth in Sections 4, 5, 6, 7 and 8 of this Agreement, all of which obligations and rights shall survive any termination of employment of the Employee hereunder.

5. COVENANT NOT TO DISCLOSE CONFIDENTIAL INFORMATION. The Employee acknowledges that during the course of his affiliation with the Company he has or will have access to and knowledge of certain information and data which the Company considers confidential and the release of such information or data to unauthorized persons would be extremely detrimental to the Company. As a consequence, the Employee hereby agrees and acknowledges that he owes a duty to the Company not to disclose, and agrees that without the prior written consent of the Company, at any time, either during or after his employment with the Company, he will not communicate, publish or disclose, to any person anywhere, or use, any Confidential Information (as hereinafter defined), except as may be necessary or appropriate to conduct his duties hereunder, provided the Employee is acting in good faith and in the best interest of the Company. The Employee will use his best efforts at all times to hold in confidence and to safeguard any Confidential Information from falling into the hands of any unauthorized person and, in particular, will not permit any Confidential Information to be read, duplicated or copied. The Employee will return to the Company all Confidential Information in the Employee's possession or under the Employee's control when the duties of the Employee no longer require the Employee's possession thereof, or whenever the Company shall so request, and in any event will promptly return all such Confidential Information if the Employee's relationship with the Company is terminated for any or no reason and will not

retain any copies thereof. For purposes hereof, the term "Confidential Information" shall mean any information or data used by or belonging or relating to the Company that is not known generally to the industry in which the Company is or may be engaged, including without limitation, any and all trade secrets, proprietary data and information relating to the Company's business and products, price list, customer lists, processes, procedures or standards, know-how, manuals, business strategies, records, drawings, specifications, designs, financial information, whether or not reduced to writing, or information or data which the Company advises the Employee should be treated as confidential information.

6. COVENANT NOT TO COMPETE. The Employee acknowledges that he, at the expense of the Company, has been and will be specially trained in the business of the Company, has established and will continue to establish

favorable relations with the customers, clients and accounts of the Company and will have access to trade secrets of the Company. Therefore, in consideration of such training and relations and to further protect trade secrets, directly or indirectly, of the Company, the Employee agrees that during the term of his employment by the Company and for a period of two (2) years from and after the voluntary or involuntary termination of such employment for any or no reason, he will not, directly or indirectly, without the express written consent of the Company:

(a) own or have any interest in or act as an officer, director, partner, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist in, any business located in or doing business in the United States of America or Canada in any area within 300 miles of any solid waste facility of the Company during the term of the Employee's employment by the Company which is engaged, directly or indirectly, in (i) the solid waste processing business, (ii) the utilization of recyclable materials business or (iii) any other business the Company is engaged in or proposes to engage in on the date this Agreement is terminated (the businesses described in clauses (a)(i), (ii) and (iii) are collectively referred to as the "COMPETITIVE BUSINESSES"); PROVIDED, HOWEVER, that notwithstanding the above, the Employee may own, directly or indirectly, solely as an investment, securities of any such person which are traded on any national securities exchange or NASDAQ if the Employee (A) is not a controlling person of, or a member of a group which controls, such person and (B) does not, directly or indirectly, own 5% or more of any class of securities of such person;

(b) solicit clients, customers (who are or were customers of the Company within the twelve (12) months prior to termination) or accounts of the Company for, on behalf of or otherwise related to any such Competitive Businesses or any products related thereto; or

(c) solicit, employ or in any manner influence or encourage any person who is or shall be in the employ or service of the Company to leave such employ or service.

Notwithstanding the foregoing, the terms of this covenant not to compete shall be enforceable against employee only to the extent that during Employee's employment the Company continues to pay Employee compensation equal to the salary level set forth in Section 3.1 of this Agreement and after termination of Employee's employment the Company continues to pay Employee any and all termination payments and benefits as required under Section 4 of this Agreement. Furthermore, if any court determines that the covenant not to compete, or any part thereof, is unenforceable because of the duration of such provision or the geographic area or scope covered thereby, such court shall have the power to reduce the duration, area or scope of such provisions and, in its reduced form, such provision shall then be enforceable and shall be enforced.

7. SPECIFIC PERFORMANCE. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing covenants and assurance by the Employee contained in Sections 5 or 6 hereof, and that the Company's remedies at law for any such breach or threatened breach will be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall be entitled to an injunction, including a mandatory injunction, to be issued by any court of competent jurisdiction ordering compliance with this Agreement or

enjoining and restraining the Employee, and each and every person, firm or company acting in concert or participation with him, from the continuation of such breach.

8. POTENTIAL UNENFORCEABILITY OF ANY PROVISION. The Employee acknowledges and agrees that he has had an opportunity to seek advice of counsel in connection with this Agreement. If a final judicial determination is made that any provision of this Agreement is an unenforceable restriction against the Employee, the provisions hereof shall be rendered void only to the extent that such judicial determination finds such provisions unenforceable, and such unenforceable provisions shall automatically be reconstituted and became a part of this Agreement, effective as of the date first written above, to the maximum extent in favor of the Company that is lawfully enforceable. A judicial determination that any provision of this Agreement is unenforceable shall in no instance render the entire Agreement unenforceable, but rather the Agreement will continue in full force and effect absent any unenforceable provision to the maximum extent permitted by law.

9. NOTICE. Any notice or other communication hereunder shall be in writing and shall be mailed or delivered to the respective parties hereto as follows:

(a) If to the Company:

Casella Waste Systems, Inc.
25 Greens Hill Lane
Rutland, VT 05702
Attention: Chairman and Chief Executive Officer

(b) If to the Employee:

Richard Norris
Senior V.P., Chief Financial Officer
25 Greens Hill Lane
Rutland, VT 05702

The addresses of either party hereto above may be changed by written notice to the other party.

10. AMENDMENT; WAIVER. This Agreement may be amended, modified, superseded, cancelled, renewed or extended and the terms of covenants hereof may be waived, only by written instrument executed by the party against whom such modification or waiver is sought to be enforced. The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in anyone or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant in this Agreement.

11. BENEFIT AND BINDING EFFECT. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company, but shall be personal to and not assignable by the Employee. The obligations of the Company hereunder are personal to the Employee or where applicable to his spouse or estate, and shall be continued only so long as the Employee shall be personally discharging his duties hereunder. The Company may assign its rights, together with its obligations, to any corporation which is a direct or indirect wholly-owned subsidiary of the Company; PROVIDED, HOWEVER, that the Company shall not be released from it's obligations hereunder without the prior written consent of the Employee, which consent shall not be unreasonably withheld.

12. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF VERMONT REGARDLESS OF THE LAWS THAT MIGHT BE APPLICABLE UNDER PRINCIPLES OF CONFLICTS OF LAW.

13. COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original but all such counterparts together shall constitute one and the same instrument. Each counterpart may consist of two copies hereof each signed by one of the parties hereto.

14. HEADINGS. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

15. ENTIRE AGREEMENT. This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and preliminary agreements. No subsequent modifications may be made to this Agreement except by signed writing of the parties.

16. AGREEMENT TO ARBITRATE

The undersigned parties agree that any disputes that may arise between them (including but not limited to any controversies or claims arising out of or relating to this Agreement or any alleged breach thereof, and any dispute over the interpretation or scope of this arbitration clause) shall be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. No party shall be entitled to punitive or treble damages.

ACKNOWLEDGMENT OF ARBITRATION PURSUANT TO 12 V.S.A. Section 5651 et seq. THE PARTIES HERETO ACKNOWLEDGE THAT THIS DOCUMENT CONTAINS AN AGREEMENT TO ARBITRATE. AFTER SIGNING THIS DOCUMENT EACH PARTY UNDERSTANDS THAT HE/SHE/IT WILL NOT BE ABLE TO BRING A LAWSUIT CONCERNING ANY DISPUTE THAT MAY ARISE WHICH IS COVERED BY THIS ARBITRATION AGREEMENT EXCEPT AS PROVIDED IN THIS PARAGRAPH OR UNLESS IT INVOLVES A QUESTION OF CONSTITUTIONAL LAW OR CIVIL RIGHTS. INSTEAD EACH PARTY HAS AGREED TO SUBMIT ANY SUCH DISPUTE TO AN IMPARTIAL ARBITRATOR.

IN WITNESS WHEREOF, all parties have set their hand and seal to this Agreement and Acknowledgement of Arbitration pursuant to 12 V.S.A. Section 5651 et seq. as of the dates written below:

RICHARD NORRIS

Witness: /s/ Priscilla A. Hughes

/s/ Richard Norris

Date: 8/21/01

Date: 8/21/01

CASELLA WASTE SYSTEMS, INC.

By: /s/ John W. Casella

Name: John W. Casella

Date: 8/21/01

EXHIBIT 10.41

LIMITED LIABILITY COMPANY AGREEMENT

OF

US GREENFIBER LLC,

A DELAWARE LIMITED LIABILITY COMPANY

TABLE OF CONTENTS

US GREENFIBER LLC

LIMITED LIABILITY COMPANY AGREEMENT

THIS LIMITED LIABILITY COMPANY AGREEMENT of US GreenFiber LLC, a Delaware limited liability company (the "LLC"), dated as of the 26th day of June, 2000, by and between the Members (as defined below).

ARTICLE I

DEFINITIONS

The following capitalized terms used in this Agreement shall have the respective meanings ascribed to them below:

"AAA" has the meaning given it in Section 11.05(a).

"ACT" means the Delaware Limited Liability Company Act, in effect at the time of the initial filing of the Certificate with the office of the Secretary of State of the State of Delaware, and as thereafter amended from time to time.

"ADJUSTED CAPITAL ACCOUNT" means, for each Member, such Member's Capital Account balance increased by such Member's Share of "minimum gain" and of "partner nonrecourse debt minimum gain" (as determined pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5), respectively).

"AFFILIATE" shall mean, with respect to any specified Person, (i) any Person that directly or indirectly controls, is controlled by, or is under common control with such specified Person, (ii) any Person that directly or indirectly controls 50% or more of the outstanding equity securities of the specified Person or of which the specified Person is directly or indirectly the owner of 50% or more of any class of equity securities, (iii) any Person that is an officer of, director of, member of, partner in, or trustee of, or serves in a similar capacity with respect to, the specified Person or of which the specified Person is an officer, director, partner, member or trustee, or with respect to which the specified Person serves in a similar capacity, or (iv) any Person that is a member of the immediate family of the specified Person; provided, however, that, for the purposes of this Agreement or any Ancillary Document, the LLC shall not be deemed to be an Affiliate of any Member.

"AGREEMENT" means this Operating Agreement as it may be amended, supplemented, or restated from time to time.

"ANCILLARY DOCUMENTS" means the U.S. Fiber Assignment Documentation, the GreenStone Assignment Documentation, and any other agreements, documents or

instruments executed and delivered in connection herewith or therewith.

"APPOINTING AUTHORITY" has the meaning given it in Section 11.05(b).

"APPROVED BUDGET" means the budget approved by the Board of Managers pursuant to Section 6.02 below.

"BANKRUPTCY" means the occurrence of any of the following events:

(i) A Member or the LLC makes an assignment for the benefit of creditors;

(ii) A Member or the LLC files a voluntary petition in bankruptcy;

(iii) A Member or the LLC is adjudged a bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceeding;

(iv) A Member or the LLC files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation;

(v) A Member or the LLC files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature;

(vi) A Member or the LLC seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Member or the LLC or of all or any substantial part of the Member's or the LLC's properties; or

(vii) 120 days elapse after the commencement of any proceeding against a Member or the LLC seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation, if the proceeding has not been dismissed, or if within 90 days after the appointment without its consent or acquiescence of a trustee, receiver or liquidator of the Member or the LLC or of all or any substantial part of the Member's or the LLC's properties, the appointment is not vacated or stayed, or within 90 days after the expiration of any such stay, the appointment is not vacated.

"BOARD OF MANAGERS" means the board of managers of the LLC as more fully described in Section 6.01(d) below.

"BUSINESS" means the business of the LLC as described in Section 2.04 below.

"BUSINESS DAY" means any day on which banking institutions in the State of North Carolina are required or permitted by law to be open for business, other than a Saturday or a Sunday.

"CAPITAL ACCOUNT" means a separate account maintained for each Member and adjusted in accordance with Treasury Regulations under Section 704 of the Code. To the extent consistent with such Treasury Regulations, the adjustments to such accounts shall include the following:

(i) There shall be credited to each Member's Capital Account the amount of any cash actually contributed by such Member to the capital of the LLC, the fair market value of any property contributed by such Member to the capital of the LLC, the amount of liabilities of the LLC assumed by the Member or to which property distributed to the Member was subject

and such Member's share of the Net Profits of the LLC and of any items in the nature of income or gain separately allocated to the Members; and there shall be charged against each Member's Capital Account the amount of all cash distributions to such Member, the fair market value of any property distributed to such Member by the LLC, the amount of liabilities of the Member assumed by the LLC or to which property contributed by the Member to the LLC was subject and such Member's share of the Net Losses of the LLC and of any items in the nature of losses or deductions separately allocated to the Members.

(ii) If the LLC at any time distributes any of its assets in-kind

to any Member, the Capital Account of each Member shall be adjusted to account for that Member's allocable share of the Net Profits, Net Losses or items thereof that would have been realized by the LLC had it sold the assets that were distributed at their respective fair market values (taking Code Section 7701(g) into account) immediately prior to their distribution.

(iii) If elected by the LLC at any time specified in Treasury Regulation Section 1.704-1(b)(2)(ii)(F), the Capital Account balance of each Member shall be adjusted to the extent provided under such Treasury Regulation to reflect the Member's allocable share (as determined under Article V) of the Net Profits or Net Losses that would be realized by the LLC if it sold all of its property at its fair market value (taking Code Section 7701(g) into account) on the day of the adjustment.

(iv) In the event any interest in the LLC is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

"CAPITAL CONTRIBUTION" means any contribution by a Member to the capital of the LLC.

"CAPITAL TRANSACTION" means a sale or other disposition of all or a portion of the LLC's property in a single transaction or in a series of related transactions, other than such a sale or disposition in the ordinary course of the LLC's business, and any refinancing.

"CARRYING VALUE" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes; PROVIDED, HOWEVER, that (i) the initial Carrying Value of any asset contributed to the LLC shall be adjusted to equal its gross fair market value at the time of its contribution and (ii) the Carrying Values of all assets held by the LLC shall be adjusted to equal their respective gross fair market values (taking Code Section 7701(g) into account) upon an adjustment to the Capital Accounts of the Members described in paragraph (iii) of the definition of "Capital Account." The Carrying Value of any asset whose Carrying Value was adjusted pursuant to the preceding sentence thereafter shall be adjusted in accordance with the provisions of Treasury Regulation Section 1.704-1(b)(2)(iv)(g).

"CERTIFICATE" means the certificate of formation of the LLC filed under and pursuant to the Act with the office of the Secretary of State of the State of Delaware, as it may, from time to time, be amended in accordance with the Act.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time.

"CONSENT" means, subject to the provisions of Section 3.06(c), the mutual written consent of the Members.

"DEFAULT RATE" means a rate per annum equal to the lesser of (a) 8% plus the Interest Rate, and (b) the maximum rate permitted by applicable law.

"DELINQUENT MEMBER" has the meaning given it in Section 3.06(a).

"DISPUTE" has the meaning given it in Section 11.05(a).

"DISTRIBUTABLE CASH" means, with respect to any fiscal period, the excess of all cash receipts of the LLC from any source whatsoever, including normal operations, sales of assets, proceeds of borrowings, capital contributions of the Members, proceeds from a Capital Transaction, and any and all other sources over the sum of the following amounts:

(i) cash disbursements for advertising and promotion expenses, salaries, employee benefits (including profit-sharing, bonus and similar plans), fringe benefits, accounting and bookkeeping services and equipment, commodity costs, costs of inventory, costs of sales of assets, utilities, rental payments with respect to equipment or real property, management fees and expenses, insurance, real estate taxes, legal expenses, costs of repairs and maintenance, and any and all other items which are customarily considered to be "operating expenses";

(ii) payments of interest, principal and premium and points and other costs of borrowing under any indebtedness of the LLC, including without

limitation any mortgages or deeds of trust encumbering the real property or other assets owned or leased by the LLC;

(iii) payments made to purchase inventory or capital assets, and for capital construction, rehabilitation, acquisitions, alterations and improvements;

(iv) payments to employees or former employees of the LLC in connection with any phantom equity or similar bonus plan; and

(v) amounts set aside as reserves for working capital, contingent liabilities, replacements or for any of the expenditures described in clauses (i), (ii), (iii) and (iv) above which are deemed by the Board of Managers to be necessary to meet the current and anticipated future needs of the LLC.

"ENTITY" means any corporation, limited liability company, limited or general partnership, trust, estate, unincorporated association, governmental agency, bureau, department or other body, or any other organization or entity.

"FUNDING NOTICE" has the meaning given it in Section 3.05(a).

"GAAP" means United States generally accepted accounting principles consistently applied.

"GREENSTONE" means GreenStone Industries, Inc., a Delaware corporation.

"GREENSTONE ASSIGNMENT DOCUMENTATION" means the instruments of assignment made by GreenStone to the LLC as of the date hereof, as listed hereto on EXHIBIT 1.

"INTEREST RATE" means a rate per annum equal to the lesser of (a) 2% plus the rate per annum publicly announced by Bank of America in Charlotte, North Carolina as its prime commercial rate, and (b) the maximum rate permitted by applicable law.

"INVESTED CAPITAL" means, at any point in time, for any Member, the excess of (i) the aggregate amount of the capital contributed to the LLC by such Member over (ii) the aggregate amount distributed (or deemed distributed) to such Member pursuant to Section 4.01(b) or 4.02(c).

"LENDING MEMBER" has the meaning given it in Section 3.06(a).

"LIQUIDATOR" has the meaning given it in Section 10.03.

"LLC" has the meaning given it in the introductory paragraph hereof.

"LLC ACCOUNT" means a financial institution account established by or on behalf of the LLC and identified on SCHEDULE B.

"MEMBER" means any Person executing this Agreement as of the date of this Agreement as a member or hereafter admitted to the LLC as a member as provided in this Agreement, but such term does not include any Person which has ceased to be a member of the LLC.

"MEMBERSHIP INTEREST" means all of a Member's interest in the LLC, including the rights to receive allocations and distributions, to designate officers and managers of the LLC, to vote, and to consent or approve any matter, and any other rights of a Member as specified in this Agreement or the Act.

"NET PROFITS" AND "NET LOSSES" mean the taxable income or loss, as the case may be, for a period as determined in accordance with Code Section 703(a) computed with the following adjustments:

(i) Items of gain, loss, and deduction shall be computed based upon the Carrying Values of the LLC's assets (in accordance with Treasury Regulation Sections 1.704-1(b)(2)(iv)(g) and 1.704-3(d)) rather than upon the assets' adjusted bases for federal income tax purposes;

(ii) Any tax-exempt income received by the LLC shall be included as an item of gross income;

(iii) The amount of any adjustments to the Carrying Values of any assets of the LLC pursuant to Code Section 743 shall not be taken into account;

(iv) Any expenditure of the LLC described in Code Section 705(a)(2)(B) (including any expenditures treated as being described in Code Section 705(a)(2)(B) pursuant to Treasury Regulations under Code Section 704(b)) shall be treated as a deductible expense;

(v) The amount of items of income, gain, loss or deduction specially allocated to any Members pursuant to Section 5.02 shall not be included in the computation; and

(vi) The amount of any items of Net Profits or Net Losses deemed realized pursuant to paragraphs (ii) and (iii) of the definition of "Capital Account" shall be included in the computation.

"PERCENTAGE INTEREST" means, with respect to each Member, the percentage set forth opposite such Member's name on SCHEDULE A.

"PERSON" means any individual or Entity.

"PRESIDENT" means the person occupying the office of the President (as provided in Section 6.01(e)(ii) of the LLC at any time or from time to time.

"PRIORITY RETURN" means, at any point in time, for any Member, that amount which, when considered together with all amounts previously distributed (or deemed distributed) to such Member pursuant to Section 4.01(a) or 4.02(b), will result in such Member having received a 10% annual return, compounded annually, on such Member's weighted average Invested Capital.

"THIRD PARTY COSTS" means reasonable out-of-pocket costs and expenses incurred by the relevant Person and its Affiliates (other than travel and related expenses incurred by employees of such Person and its Affiliates) that have been or will be paid to Persons who are not Affiliates of such Person.

"TRANSFER" and any grammatical variation thereof means any sale, exchange, redemption, assignment, conveyance, license, sublicense, encumbrance, hypothecation, gift, pledge, grant of a security interest, or other transfer, disposition or alienation in any way (whether voluntarily, involuntarily or by operation of law), including any assignment or distribution resulting from merger, consolidation or other business combination, death, incompetency, Bankruptcy, liquidation or dissolution; provided, however, that "Transfer" shall not include (i) a bona fide pledge by a Member of its interest in the LLC to one or more financial institutions in connection with a credit facility obtained by the Member, as part of a general pledge of the Member's assets, or (ii) a transfer of a Member's interest to a directly or indirectly wholly-owned subsidiary of such Member.

"U.S. FIBER" means U.S. Fiber, Inc., a North Carolina corporation.

"U.S. FIBER ASSIGNMENT DOCUMENTATION" means the instruments of assignment made by U.S. Fiber to the LLC as of the date hereof, as listed hereto on EXHIBIT 2.

ARTICLE II

GENERAL

2.01 NAME OF THE LIMITED LIABILITY COMPANY. The name of the LLC is "US GreenFiber LLC". The name of the LLC may be changed at any time or from time to time by Consent of the Members.

2.02 OFFICE OF THE LIMITED LIABILITY COMPANY; AGENT FOR SERVICE OF PROCESS. The address of the principal office of the LLC is:

809 W. Hill Street
Charlotte, N.C. 28208

and the name and address of the resident agent for service of process on the LLC in the State of Delaware for purposes of Section 18-104 of the Act is:

Corporation Trust Center

1209 Orange Street
Wilmington, DE

The Board of Managers may cause the LLC to establish places of business of the LLC within and without the State of Delaware, as and when required by the LLC's business and in furtherance of its purposes set forth in Section 2.04 hereof, and may appoint agents for service of process in all jurisdictions in which the LLC shall conduct business. The President may cause the LLC to change from time to time its resident agent for service of process, or the location of its principal office or of its office in the State of Delaware where the LLC maintains its records as required by the Act; provided, however, that the President shall cause the LLC to promptly notify all Members in writing of any such change.

2.03 ORGANIZATION. The President shall cause to be filed such certificates and documents as may be necessary or appropriate to comply with the Act and any applicable requirements for the operation of a limited liability company in accordance with the laws of the State of Delaware and any other jurisdictions in which the LLC shall conduct business, and shall continue to do so for so long as the LLC conducts business therein.

2.04 PURPOSES. The purposes of the LLC are to engage in the cellulose fibers business, including the manufacturing, marketing and selling of insulation, mulch and other cellulose-based products, and to engage in any and all lawful activities directly or indirectly related to or incidental to the foregoing (the "Business"). The LLC may also, as appropriate, consider the use of alternative fibers.

2.05 MEMBERS.

(a) The initial Members of the LLC are identified on SCHEDULE A. Additional Members may be admitted to the LLC pursuant to and in accordance with Article VIII hereof, or otherwise with the prior Consent of the Members. In connection with any such admission, this Agreement (including SCHEDULE A) shall be amended to reflect each additional Member, its

Capital Contribution, if any, its Percentage Interest, any other rights and obligations of such additional Member, and any other changes desired by the Members to be made in connection with the admission of such additional Member.

(b) No Member shall have any right to resign, withdraw or retire from the LLC except as may be otherwise expressly provided herein (including upon a Transfer of all of such Member's Membership Interest in accordance with the provisions of Article VIII, or by operation of the provisions of Article IX), and any attempt by a Member to do so shall be of no force or effect and null and void AB INITIO. The Members expressly agree that, if a Member resigns, withdraws or retires from the LLC in violation of the foregoing covenant, such Member (i) shall be immediately liable to the LLC for the full amount of all Capital Contributions required to be made by such Member hereunder excluding all Capital Contributions previously made by such Member (notwithstanding the fact that such Member may not otherwise be obligated hereunder to make all or a portion of such Capital Contributions until a later date), and (ii) shall be liable to the LLC for damages to the full extent permitted by the Act.

(c) No Member may be expelled or required to resign, withdraw or retire from the LLC (except upon a Transfer of all of such Member's Membership Interest in accordance with the provisions of Article VIII, or by operation of the provisions of Article IX).

2.06 TERM. The LLC commenced upon the effectiveness of the Certificate and shall have a perpetual existence, unless and until it is dissolved and terminated in accordance with Article X.

2.07 LIABILITY OF MEMBERS. The liability of each Member for the losses, debts and obligations of the LLC shall be limited to such Member's Capital Contributions actually made or actually then due to the LLC by such Member pursuant to the terms hereof; provided, however, that under applicable law, a Member may under certain circumstances be liable to the LLC to the extent of previous distributions made to such Member in the event that the LLC does not have sufficient assets to discharge its liabilities. Without limiting the foregoing, (i) no Member, in its capacity as a Member, shall have any liability or obligation to restore any negative balance in its Capital Account, and (ii)

the failure of the LLC to observe any formalities or requirements relating to exercise of its powers or management of its business or affairs under this Agreement or the Act shall not be grounds for imposing personal liability on any Member for liabilities of the LLC.

ARTICLE III

CAPITAL CONTRIBUTIONS; ADDITIONAL FINANCING

3.01 CAPITAL ACCOUNTS. For each Member (and each permitted assignee), the LLC shall establish and maintain a separate Capital Account.

3.02 INITIAL CAPITAL CONTRIBUTIONS; ASSUMPTION OF LIABILITIES. The Members agree as follows:

(a) On or before the Closing (as defined in Section 3.02(f) below), U.S. Fiber shall contribute to the capital of the LLC all of its assets, properties, claims, rights and interests of U.S. Fiber which exist on the Closing Date, of every kind and nature and description, whether tangible or intangible, real, personal or mixed, to the extent such assets are used by U.S. Fiber exclusively in the cellulose fibers business, including without limitation the assets set forth in EXHIBIT 3-A attached hereto (the "U.S. Fiber Assets"). The U.S. Fiber Assets shall be free and clear of all liens, claims and security interests, subject only to the U.S. Fiber Assumed Liabilities.

(b) At the Closing, the LLC shall assume and agree to perform, pay and discharge the liabilities of U.S. Fiber described on EXHIBIT 3-B attached hereto (the "U.S. Fiber Assumed Liabilities").

(c) On or before the Closing, GreenStone shall contribute to the capital of the LLC all of its assets, properties, claims, rights and interests of GreenStone which exist on the Closing Date, of every kind and nature and description, whether tangible or intangible, real, personal or mixed, to the extent such assets are used by GreenStone exclusively in the cellulose fibers business, including without limitation the assets set forth in EXHIBIT 4-A attached hereto (the "GreenStone Assets"). The GreenStone Assets shall be free and clear of all liens, claims and security interests, subject only to the GreenStone Assumed Liabilities.

(d) At the Closing, the LLC shall assume and agree to perform, pay and discharge the liabilities of GreenStone described on EXHIBIT 4-B attached hereto (the "GreenStone Assumed Liabilities").

(e) At the Closing, each of U.S. Fiber and GreenStone shall contribute $2,500,000 in cash to the capital of the LLC by wire transfer of immediately available funds.

(f) The obligation of a Member to consummate the transactions described in this Section 3.02 (the "Closing") shall be subject to the satisfaction or waiver of the following conditions. The Closing shall occur at a time and place which is mutually acceptable to the Members within 10 business days following the satisfaction or waiver of all such conditions. In the event that the Closing does not take place within 120 days after the date of this Agreement, then at the written election of either Member this Agreement shall be void and of no further force or effect, and neither party shall have any liability to the other.

(i) CONTINUED TRUTH OF REPRESENTATIONS AND WARRANTIES OF THE OTHER MEMBER; COMPLIANCE WITH COVENANTS AND OBLIGATIONS. The representations and warranties of the other

Member set forth in this Agreement shall be true on and as of the Closing as though such representations and warranties were made on and as of such date, except for any changes permitted by the terms hereof or consented to in writing by the Member. The other Member shall have performed and complied with all terms, conditions, covenants, obligations, agreements and restrictions required by this Agreement to be performed or complied with by it prior to or at the Closing.

(ii) CORPORATE PROCEEDINGS. All corporate and other proceedings required to be taken on the part of such Member and the other Member to authorize or carry out this Agreement and to convey, assign, transfer and deliver the Assets to be transferred by it shall have been taken.

(iii) GOVERNMENTAL APPROVALS. All governmental agencies, departments, bureaus, commissions and similar bodies, the consent, authorization or approval of which is necessary under any applicable law, rule, order or regulation for the consummation by the Members of the transactions contemplated by this Agreement shall have consented to, authorized, permitted or approved such transactions.

(iv) CONSENTS OF LENDERS, LESSORS AND OTHER THIRD PARTIES. All Members shall have received all requisite consents and approvals of all lenders, lessors and other third parties whose consent or approval is required in order for the Members to consummate the transactions contemplated by this Agreement.

(v) ADVERSE PROCEEDINGS. No action or proceeding by or before any court or other governmental body shall have been instituted or threatened by any governmental body or person whatsoever which shall seek to restrain, prohibit or invalidate the transactions contemplated by this Agreement or which might affect the right of the LLC to own or use the U.S. Fiber Assets or the GreenStone Assets after the Closing.

(vi) CLOSING DELIVERIES. The Member and the LLC shall have received at or prior to the Closing from the other Member:

(A) the other Member's Assignment Documentation;

(B) such certificates of the other Member's officers and such other documents evidencing satisfaction of the conditions specified in this Section 3.02(f) as the Buyer shall reasonably request;

(C) certificates of the Secretary of the other Member attesting to the incumbency of the other Member's officers, respectively, and the authenticity of the resolutions authorizing the transactions contemplated by the Agreement;

(D) a title policy or policies (together, the "Title Policy") from one or more title companies reasonably acceptable to the LLC (the "Title Insurer"), in form and substance reasonably satisfactory to the LLC covering the real estate being transferred by the other Member;

(E) such affidavits and indemnities executed by the other Member as the Title Insurer may reasonably require in order to omit from the Title Policy all exceptions for (i) judgments, bankruptcies or other returns against persons or entities whose names are the same as or similar to the other Member; (ii) parties in possession; (iii) mechanics' liens; and (iv) hazardous waste (if applicable). It shall be the obligation of the other Member to obtain the Title Policy and the cost of the Title Policy shall be borne by the other Member; and

(F) such other documents, instruments or certificates as the Member may reasonably request.

(g) At any time and from time to time after the Closing, at GreenStone's request and without further consideration, U.S. Fiber promptly shall execute and deliver such instruments of sale, transfer, conveyance, assignment and confirmation, and take such other action, as GreenStone may reasonably request to more effectively transfer, convey and assign to the LLC, and to confirm the LLC's title to, all of the U.S. Fiber Assets, to put the LLC in actual possession and operating control thereof, to assist the LLC in exercising all rights with respect thereto and to carry out the purpose and intent of this Agreement. At any time and from time to time after the Closing, at U.S. Fiber's request and without further consideration, GreenStone promptly shall execute and deliver such instruments of sale, transfer, conveyance, assignment and confirmation, and take such other action, as U.S. Fiber may reasonably request to more effectively transfer, convey and assign to the LLC, and to confirm the LLC's title to, all of the GreenStone Assets, to put the LLC in actual possession and operating control thereof, to assist the LLC in exercising all rights with respect thereto and to carry out the purpose and intent of this Agreement.

3.03 REPRESENTATIONS AND WARRANTIES. Each Member hereby represents and warrants to the other Member, as of the date hereof, that:

(a) such Member is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and is duly qualified and in good standing as a foreign corporation in each jurisdiction where the nature of its business requires such qualification;

(b) such Member has full corporate power and authority to enter into this Agreement and each Ancillary Document to which such Member is a party and to perform its obligations hereunder and thereunder;

(c) the execution, delivery and performance of this Agreement and each Ancillary Document to which such Member is a party have been duly authorized by all necessary corporate action on the part of such Member;

(d) this Agreement and each Ancillary Document to which such Member is a party have been duly executed and delivered by such Member;

(e) the authorization, execution, delivery and performance by such Member of this Agreement and each Ancillary Document to which such Member is a party do not conflict with any other agreement or arrangement to which such Member is a party or by which it is bound;

(f) this Agreement and each Ancillary Document to which such Member is a party constitute the valid, binding and enforceable agreements of such Member; and

(g) each of the representations and warranties set forth on EXHIBIT 5 attached hereto is true and correct on the date hereof.

3.04 INDEMNIFICATION FOR BREACHES OF REPRESENTATIONS AND WARRANTIES, ETC. Each of the Members hereby agrees to indemnify the other Member as and to the extent set forth in EXHIBIT 6 attached hereto.

3.05 SUBSEQUENT CAPITAL CONTRIBUTIONS.

(a) In the event of a Funding Shortfall (as defined below), the President may, by notice given to each Member (a "Funding Notice"), request the Members to make additional Capital Contributions to the LLC. Each Member shall, not later than five Business Days after the date of the relevant Funding Notice (or, if a later date is specified for the making of the relevant Capital Contributions in such Funding Notice, not later than such date), contribute to the LLC its Percentage Interest of the aggregate amount of Capital Contributions requested by such Funding Notice, in cash by wire transfer of immediately available funds to the account specified in such Funding Notice unless otherwise set forth in such Funding Notice. For purposes hereof, a "Funding Shortfall" means the amount by which the sum of the cash then held by the LLC and the cash anticipated in the Approved Budget to be generated by the LLC over the next succeeding six-month period is less than the cash anticipated in the Approved Budget to be used by the LLC over such period and otherwise reasonably required by the LLC to pay expenditures actually incurred.

(b) Notwithstanding anything to the contrary herein, the provisions of this Section 3.05 are not intended to, and shall not, be interpreted, construed or implied to create any rights in favor of any third party.

3.06 FAILURE TO CONTRIBUTE.

(a) If a Member does not timely contribute all or any portion of a Capital Contribution required to be made by such Member pursuant to Section 3.02 or Section 3.05(a), the President shall cause the LLC to exercise, on notice to such Member (the "Delinquent Member"), one or more of the following remedies:

(i) taking such action (including arbitration and enforcement proceedings) as the President may deem appropriate to obtain payment by the Delinquent Member of the portion of the Delinquent Member's Capital Contribution that is in default, together with interest thereon at the Default Rate from the date that the Capital Contribution was due until the date that it is made, all at the cost and expense of the Delinquent Member;

(ii) at the request of the other Member (the "Lending Member"), permitting the Lending Member to advance the portion of the Delinquent Member's Capital Contribution that is in default, with the following results:

(A) the sum advanced shall constitute a loan from the Lending Member to the Delinquent Member and a Capital Contribution of that sum to the LLC by the Delinquent Member pursuant to the applicable provisions of this Agreement,

(B) the principal balance of such loan and all accrued unpaid interest thereon shall be due and payable in full on the fifth Business Day after written demand therefor by the Lending Member to the Delinquent Member,

(C) the amount loaned shall bear interest at the Default Rate from the date on which the advance is deemed made until the date that the loan, together with all interest accrued thereon, is repaid to the Lending Member,

(D) all distributions from the LLC that otherwise would be made to the Delinquent Member (whether before or after dissolution of the LLC) instead shall be paid to the Lending Member until the loan and all interest accrued thereon have been paid in full to the Lending Member (with payments being applied first to accrued and unpaid interest and then to principal),

(E) the payment of the loan and interest accrued thereon shall be secured by a security interest in the Delinquent Member's Membership Interest, as more fully set forth in Section 3.06(b), and

(F) the Lending Member shall have the right, in addition to the other rights and remedies granted to it pursuant to this Agreement or available to it at law or in equity, to take any action (including court proceedings) that the Lending Member may deem appropriate to obtain payment by the Delinquent Member of the loan and all accrued and unpaid interest thereon, at the cost and expense of the Delinquent Member;

(iii) exercising the rights of a secured party under the Uniform Commercial Code of the State of Delaware, as more fully set forth in Section 3.06(b); or

(iv) exercising any other rights and remedies available at law or in equity.

(b) Each Member grants to the LLC, and to each Lending Member with respect to any loans made by the Lending Member to such Member as a Delinquent Member pursuant to Section 3.06(a)(ii), as security, equally and ratably, for the payment of all Capital Contributions that such Member has agreed to make and the payment of all loans and interest accrued thereon made by the Lending Member to such Member as a Delinquent Member pursuant to Section 3.06(a)(ii), a security interest in and a general lien on its Membership Interest and the proceeds thereof, all under the Uniform Commercial Code of the State of Delaware. On any default in the payment of a Capital Contribution or in the payment of such a loan or interest accrued thereon, the LLC or the Lending Member, as applicable, shall be entitled to all the rights and remedies of a secured party under the Uniform Commercial Code of the State of Delaware with respect to the security interest granted in this Section 3.06(b). Each Member shall execute and deliver to the LLC and the other Member all financing statements and other instruments that the President or the Lending Member, as applicable, may request to effectuate and carry out the preceding provisions of this Section 3.06(b). At the option of the President or the Lending Member, this Agreement or a carbon, photographic, or other copy hereof may serve as a financing statement.

(c) In addition to the remedies which may be exercised by the LLC as set forth in Section 3.06(a), if a Member becomes, and for so long as such Member remains, a Delinquent Member, such Delinquent Member may not initiate the procedures contemplated by Article IX. For the purposes of this Section 3.06(c), if the LLC exercises the remedies set forth in Section 3.06(a)(ii) and the Lending Member advances the portion of the Delinquent Member's Capital Contribution that is in default as set forth therein, the Delinquent Member shall not cease to be such until the loan to the Delinquent Member arising by reason of such advance, together with interest accrued thereon, is repaid in

full to the Lending Member.

3.07 NO OTHER CONTRIBUTIONS; NO WITHDRAWAL OF OR INTEREST ON CAPITAL. Except as otherwise provided in this Article III, no Member shall be obligated or permitted to contribute any additional capital to the LLC. No interest shall accrue on any Capital Contributions, and no Member shall have the right to withdraw or to be repaid any Capital Contribution made by it or to receive any other payment in respect of its Membership Interest, including as a result of the withdrawal or resignation of such Member from the LLC (whether in violation of Section 2.05(b) or otherwise), except as specifically provided in this Agreement.

3.08 THIRD PARTY LOANS. In the event that the LLC requires additional funds to carry out its purposes, to conduct its business and affairs, or to meet its obligations, or to make any expenditure authorized by this Agreement, the LLC may borrow funds from such Persons, and on such terms and conditions, as may be approved by the President or, to the extent such approval is required by the provisions of Section 6.01(b), by the Board of Managers.

ARTICLE IV

DISTRIBUTIONS

4.01 DISTRIBUTION OF DISTRIBUTABLE CASH. Distributable Cash, other than Distributable Cash arising from Capital Transactions or constituting net proceeds upon liquidation of the LLC, shall be distributed to the Members, at such times and in such amounts as the Board of Managers may approve (it being acknowledged that the Board of Managers will be instructed that it is the desire of the Members that Distributable Cash be distributed rather than retained by the LLC for extended periods), as follows:

(a) First, to the Members, in proportion to their respective amounts of Priority Return, until the Priority Return of each Member has been reduced to zero;

(b) Second, to the Members, in proportion to their respective amounts of Invested Capital, until the Invested Capital of each Member has been reduced to zero; and

(c) The balance, if any, to the Members in accordance with their Percentage Interests.

4.02 DISTRIBUTIONS OF DISTRIBUTABLE CASH FROM CAPITAL TRANSACTIONS AND NET PROCEEDS UPON LIQUIDATION. Distributable Cash arising from Capital Transactions or constituting net proceeds upon liquidation of the LLC, shall be distributed to the Members as follows:

(a) First, to all Members with positive Adjusted Capital Account balances (after such balances have been adjusted to reflect all debits and credits required by applicable Treasury Regulations under Section 704(b) of the Code for all events through and including the Capital Transaction or the distribution in liquidation of the LLC, as the case may be) in proportion to and to the extent of such positive balances;

(b) Second, to the Members, in proportion to their respective amounts of Priority Return, until the Priority Return of each Member has been reduced to zero;

(c) Third, to the Members, in proportion to their respective amounts of Invested Capital, until the Invested Capital of each Member has been reduced to zero; and

(d) The balance, if any, to the Members in accordance with their Percentage Interests.

Amounts distributed pursuant to paragraph (a) above shall be considered to have been distributed pursuant to paragraphs (b) through (e) (as applicable) to the extent that they would have been distributed pursuant to paragraphs (b) through (e) had paragraph (a) not been contained in this Agreement.

4.03 DISTRIBUTIONS UPON TRANSFER OR ADMISSION. In the event that a Member acquires an interest in the LLC either by transfer from another Member or by

acquisition from the LLC, an equal portion of the Distributable Cash (other than Distributable Cash from a Capital Transaction) of the LLC for the year in which such acquisition occurs shall be allocated to each day of such year, and such Distributable Cash so allocated to the portion of the year prior to the date of the acquisition of the interest in the LLC by the Member shall be distributed among the Members without giving effect to such acquisition, and such Distributable Cash so allocated to the portion of the year from and after the date of the acquisition of such interest shall be distributed among the Members by giving effect to such acquisition. Distributable Cash from a Capital Transaction or upon the liquidation of the LLC shall be distributed to the Members based upon the actual ownership of interests in the LLC on the date of the event giving rise to such Distributable Cash.

4.04 CERTAIN PAYMENTS TO THE INTERNAL REVENUE SERVICE TREATED AS DISTRIBUTIONS.

(a) For purposes of this Section 4.04, the Board of Managers may assume that any Member who fails to provide to the Board of Managers or the Treasurer satisfactory evidence of its tax status for United States federal income tax purposes is a foreign person taxable as a corporation.

(b) Notwithstanding anything to the contrary herein, to the extent that the LLC is required, or elects, pursuant to applicable law, either (i) to pay tax (including estimated tax) on a Member's allocable share of LLC items of income or gain, whether or not distributed, or (ii) to withhold and pay over to the tax authorities any portion of a distribution otherwise distributable to a Member, the Board of Managers or Treasurer may pay over such tax or such withheld amount to the tax authorities, and such amount shall be treated as a distribution to such Member at the time it is paid to the tax authorities.

4.05 DISTRIBUTION OF ASSETS IN KIND. No Member shall have the right to require any distribution of any assets of the LLC in kind. If any assets of the LLC are distributed in kind, such assets shall be distributed on the basis of their fair market value as determined by the Board of Managers. Any Member entitled to any interest in such assets shall, unless otherwise determined by the Board of Managers, receive separate assets of the LLC and not an interest as a tenant-in-common with other Members so entitled in any asset being distributed.

ARTICLE V

ALLOCATION OF NET PROFITS AND NET LOSSES

5.01 BASIC ALLOCATIONS.

(a) Except as provided in Sections 5.02 below (which shall be applied first), Net Profits of the LLC for any relevant period shall be allocated as follows:

(i) First, to any Members having negative Adjusted Capital Account balances, in proportion to and to the extent of such negative balances; and

(ii) The balance, if any, to the Members in such proportions and in such amounts as would result in the Adjusted Capital Account balance of each Member equaling, as nearly as possible, such Member's share of the then LLC Capital determined by calculating the amount the Member would receive if an amount equal to the LLC Capital were distributed to the Members in accordance with the provisions of Section 4.02 hereof, other than clause (a) thereof.

(b) Except as provided in Sections 5.02 below (which shall be applied first), Net Losses of the LLC for any relevant period shall be allocated among the Members as follows:

(i) First, to each Member with a positive Adjusted Capital Account balance, in the amount of such positive balance; provided, however, that if the amount of Net Losses to be allocated is less than the sum of the Adjusted Capital Account balances of all Members having positive Adjusted Capital Account balances, then the Net Losses shall be allocated to the Members in such proportions and in such amounts as would result in the Adjusted Capital Account balance of each Member equaling, as nearly as possible, such Member's share of the then LLC Capital determined as set forth in Section 5.01(a) above; and

(ii) The balance, if any, to the Members in accordance with their Percentage Interests.

(c) If the amount of Net Profits allocable to the Members pursuant to Section 5.01(a)(ii) or the amount of Net Losses allocable to them pursuant to Section 5.01(b)(i) is insufficient to allow the Adjusted Capital Account balance of each Member to equal such Member's share of the LLC Capital, such Net Profits or Net Losses shall be allocated among the Members in such a manner as to decrease the differences between the Members' respective Adjusted Capital Account balances and their respective shares of the LLC Capital in proportion to such differences.

(d) Allocations of Net Profits and Net Losses provided for in this Section 5.01 shall generally be made as of the end of the fiscal year of the LLC; PROVIDED, HOWEVER, that allocations of items of Net Profits and Net Losses described in clause (vi) of the definition of "Net Profits" and "Net Losses" shall be made at the time deemed realized as described in the definition of "Capital Account."

5.02 REGULATORY ALLOCATIONS. Notwithstanding the provisions of Section 5.01 above, the following allocations of Net Profits, Net Losses and items thereof shall be made in the following order of priority:

(a) Items of income or gain (computed with the adjustments contained in paragraphs (i), (ii) and (iii) of the definition of "Net Profits and Net Losses") for any taxable period shall be allocated to the Members in the manner and to the minimum extent required by the "minimum gain chargeback" provisions of Treasury Regulation Section 1.704-2(f) and Treasury Regulation Section 1.704-2(i)(4).

(b) All "nonrecourse deductions" (as defined in Treasury Regulation Section 1.704-2(b)(1)) of the LLC for any year shall be allocated to the Members in accordance with their respective Percentage Interests; provided, however, that nonrecourse deductions attributable to "partner nonrecourse debt" (as defined in Treasury Regulation Section 1.704-2(b)(4)) shall be allocated to the Members in accordance with the provisions of Treasury Regulation Section 1.704-2(i)(1).

(c) Items of income or gain (computed with the adjustments contained in paragraphs (i), (ii) and (iii) of the definition of "Net Profits and Net Losses") for any taxable period shall be allocated to the Members in the manner and to the extent required by the "qualified income offset" provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(D).

(d) In no event shall Net Losses of the LLC be allocated to a Member if such allocation would cause or increase a negative balance in such Member's Adjusted Capital Account (determined for purposes of this Section 5.02(d) only, by increasing the Member's Adjusted Capital Account balance by the amount the Member is obligated to restore to the LLC pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(c).

(e) Except as otherwise provided herein or as required by Code Section 704, for tax purposes, all items of income, gain, loss, deduction or credit shall be allocated to the Members in the same manner as are Net Profits and Net Losses; provided, however, that if the Carrying Value of any property of the LLC differs from its adjusted basis for tax purposes, then items of income, gain, loss, deduction or credit related to such property for tax purposes shall be allocated among the Members so as to take account of the variation between the adjusted basis of the property for tax purposes and its Carrying Value in the manner provided for under Code Section 704(c).

5.03 ALLOCATIONS UPON TRANSFER OR ADMISSION. In the event that a Member acquires an interest in the LLC either by Transfer from another Member or by acquisition from the LLC, the LLC shall close its books as of the date of the acquisition and (i) Net Profits and Net Losses and items thereof computed for the portion of the year ending on the date of the acquisition shall be

allocated among the Members without regard to such acquisition, and (ii) Net Profits and Net Losses and items thereof computed for the portion of the year commencing on the day following the date of the acquisition shall be allocated among the Members taking into account such acquisition. For purposes of

determining the date on which the acquisition occurs, the LLC may make use of any convention allowable under Section 706(d) of the Code.

ARTICLE VI

MANAGEMENT

6.01 MANAGEMENT OF THE LLC.

(a) BOARD OF MANAGERS. The business and affairs of the LLC shall be managed by or under the direction of a Board of Managers, who may exercise all of the powers of the LLC (including, without limitation, as set forth in Section 6.01(b), but subject to the provisions of Section 6.01(c) except as otherwise provided by law or this Agreement). All management and other responsibilities not specifically reserved to the Members in this Agreement shall be vested in the Board of Managers, and the Members shall have no voting rights except as specifically provided in this Agreement or required by non-waivable provisions of applicable law. In the event of a vacancy on the Board of Managers, the remaining Managers, except as otherwise provided by law, may exercise the powers of the full Board until the vacancy is filled.

(b) ACTIONS REQUIRING THE APPROVAL OF THE BOARD OF MANAGERS. Without limiting the foregoing Section 6.01(a), the LLC shall not, without the approval of the Board of Managers, engage in or undertake any of the following actions or activities:

(i) granting any wage or salary increases to any officer of the LLC or entering into any employment agreements or severance arrangements with any officer or other employee of the LLC;

(ii) causing or permitting the LLC to sell or otherwise dispose of or acquire any real estate;

(iii) causing or permitting the LLC to make, or permitting to exist, any pledge, mortgage or otherwise encumbrance on any assets of the LLC, other than arising solely out of capital or operating leases for the purchase or use of equipment (provided that the aggregate fair market value or book value of any equipment so purchased or used pursuant to such leases does not exceed $100,000);

(iv) causing or permitting the LLC to make any capital expenditure, or to acquire any businesses (whether by assets acquisition, merger or otherwise), except as set forth in the Approved Budget in which such expenditure or acquisition is to be made, or incurring any other obligations, or making any other expenditures, in any period in excess of the Approved Budget for such period;

(v) causing or permitting the LLC to enter into any contract or agreement with a term in excess of three years or involving payments by or to the LLC in excess of $1,000,000

over the term of such contract or agreement (taking into account any permitted renewals or extensions thereof);

(vi) except as set forth in clause (i) above, causing or permitting the LLC to incur any indebtedness for borrowed money, or to guarantee any obligation of any other person or entity;

(vii) providing loans to any third party, or guarantees or otherwise extend credit to or for any other party;

(viii) making any election under the Internal Revenue Code of 1986, as amended, with respect to the tax position of the LLC, unless such power has been previously delegated by the Board of Managers to the LLC;

(ix) appointing, removing or otherwise changing any officer of the LLC;

(x) engaging in any business other than as set forth in Section 2.04;

(xi) subject to the last sentence of this Section 6.01(b), causing

or permitting the LLC to initiate any litigation, or to enter into any settlement agreement in connection with any litigation or regulatory proceeding involving the payment by the LLC of $100,000 or more pursuant to such settlement, or to enter into any settlement agreement brought by any governmental authority against the LLC under OSHA or environmental laws;

(xii) causing or permitting the LLC to cancel, amend or restate, or relinquish any material rights under, any contract or agreement of the kind described in clause (v) above to which the LLC is a party;

(xiii) causing or permitting the LLC to enter into or engage in any transaction, contract, agreement or arrangement with a Member, Manager, officer of the LLC, or an Affiliate of any of the foregoing (provided, however, that any actions with respect to the enforcement of any such transaction, contract, agreement or arrangement shall be in the sole discretion and control of the members of the Board of Managers not affiliated with the Member which is, or whose representative is a Manager or officer which is, party to any such transaction, contract, agreement or arrangement);

(xiv) causing or permitting the LLC to enter into or engage in any transaction, contract, agreement or arrangement that (A) is unrelated to the LLC's purposes (as set forth in Section 2.04), (B) otherwise contravenes the Certificate or this Agreement, (C) would make it impossible to carry on the ordinary business of the LLC, or (D) is not apparently for the carrying on of the business of the LLC in the usual way; and

(xv) causing or permitting the LLC to become Bankrupt or to commence liquidation (but this provision shall not be construed to require any Member to ensure the profitability or solvency of the LLC).

Notwithstanding any other provision of this Agreement, each Member shall have the right to take any action on behalf of the LLC as may be reasonably deemed necessary by such Member to enforce the obligations of the other Member to the LLC.

(c) ACTIONS REQUIRING THE CONSENT OF THE MEMBERS. The LLC shall not, without the Consent of the Members, engage in or undertake any of the following actions or activities:

(i) causing or permitting the LLC (A) to be a party to a merger, consolidation, share exchange, interest exchange or other transaction authorized by or subject to the provisions of Section 18-209 of the Act, or (B) to convert into any other type of entity; or

(ii) admitting any person as a Member of the LLC, or purchasing or redeeming the interest of any Member, other than as expressly set forth in this Agreement.

(d) GOVERNANCE ISSUES REGARDING MANAGERS.

(i) The number of Managers who shall constitute the whole Board of Managers shall be four (4), two (2) of whom shall be designated by U.S. Fiber and two (2) of whom shall be designated by GreenStone. Managers need not be Members of the LLC.

(ii) Each Manager shall hold office until his death, resignation or removal in accordance with the provisions hereof.

(iii) Any Manager may resign by delivering his written resignation to (A) the President or any other officer of the LLC designated by the Board of Managers to receive such resignations, and (B) each Member. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

(iv) Any Manager may be removed at any time, with or without cause, by the Member which had designated such person as Manager as set forth in Section 6.01(d)(i), by delivering written notice of such removal to (A) the President or any other officer of the LLC designated by the Board of Managers to receive such notices, and (B) each other Member. Such removal shall be effective upon the giving of the notice specified in the preceding sentence to each person or entity entitled thereto, unless such notice is specified to be effective at some other time or upon the happening of some other event.

(v) Any vacancy on the Board of Managers resulting from the death, resignation or removal of any Manager shall be filled, as promptly as practicable, by the Member which had designated the Manager whose position has become vacant, by designating a replacement Manager in a written notice given to (A) the President or any other officer designated by the Board of Managers to receive such notices, and (B) each other Member. Such designation of a replacement Manager shall be effective upon the giving of the notice specified in the preceding sentence to each person or entity entitled thereto, unless such notice is specified to be effective at some other time or upon the happening of some other event.

(vi) Regular meetings of the Board of Managers may be held without notice at such time and place as shall be determined from time to time by the Board of Managers; provided that any Manager who is absent when such a determination is made shall be given

notice of the determination. Special meetings of the Board of Managers may be held at any time and place designated in a call by the President or any Manager. Notice of any special meeting of Managers shall be given to each Manager by the officer or the Manager calling the meeting. Notice shall be duly given to each Manager (A) by giving notice to such Manager in person or by telephone at least 48 hours in advance of the meeting, (B) by sending a telegram, telex or facsimile transmission, or delivering written notice by hand, to his last known business or home address at least 48 hours in advance of the meeting, or (C) by mailing written notice to his last known business or home address at least five days in advance of the meeting. A notice or waiver of notice of a meeting of the Board of Managers need not specify the purposes of the meeting.

(vii) At any meeting of the Board of Managers, the vote of a majority of all Managers then in office (whether or not present at the relevant meeting) shall be sufficient to take any action, unless a different vote is specified by law or this Agreement.

(viii) Managers or any members of any committee designated by the Managers may participate in a meeting of the Board of Managers or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation by such means shall constitute presence in person at such meeting. Any action required or permitted to be taken at any meeting of the Board of Managers or of any committee of the Board of Managers may be taken without a meeting, if the members of the Board or committee, as the case may be, who would be empowered to take the relevant action at a duly convened meeting of the Board or committee, as the case may be, consent to the action in writing, and the written consents are filed with the minutes of proceedings of the Board or committee.

(ix) The Board of Managers may, by resolution, designate one or more committees, each committee to consist of one or more of the Managers of the LLC. Any such committee, to the extent provided in the resolution of the Board of Managers and subject to the provisions of the Act, shall have and may exercise all the powers and authority of the Board of Managers in the management of the business and affairs of the LLC. Each such committee shall keep minutes and make such reports as the Board of Managers may from time to time request. Except as the Board of Managers may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the Managers or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in this Agreement for the Board of Managers.

(x) Managers shall not be paid for their services as such.

(e) OFFICERS.

(i) The officers of the LLC shall consist of (A) the President, (B) a Vice President of Sales, (C) a Vice President of Manufacturing, (D) a Chief Financial Officer and such other officers with such other titles as the Board of Managers may determine; provided, however, that, if the Board of Managers so determine to establish any such other officer position with a title customarily used in corporations organized and existing under the Delaware General Corporation Law, such officer shall, to the maximum extent possible, have the duties and responsibilities associated with such officer position in such corporations.

(ii) The President shall be the Chief Executive Officer of the LLC and have general charge and supervision of the business and affairs of the LLC. Mr. Dennis Barrineau shall serve as the initial President of the LLC. The President shall be appointed by the Board of Managers.

(iii) No officer need be a Member or a Manager. Any two or more offices may be held by the same individual. All officers other than the President shall be appointed by the President of the LLC, subject to the approval of the Board of Managers.

(iv) Except as otherwise provided by law or by this Agreement, each officer shall hold office until his death, resignation or removal, unless a different term is specified in the action of the Board of Managers designating such officer. Any officer may resign by delivering his written resignation to the President, any Manager, or each Member. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event. Any officer, including the President, may be removed at any time, with or without cause, by action of the Board of Managers.

(v) Except as the Board of Managers may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the LLC.

(vi) Any vacancy occurring for any reason in the offices set forth in clauses (A) through (D) of paragraph (i) above shall be filled by the Board of Managers as promptly as practicable. The Board of Managers may, in their mutual discretion, fill any vacancy occurring in any other office for any reason or leave such vacancy unfilled for such period as they may determine.

6.02 APPROVED BUDGET. Not later than 30 days prior to the beginning of any fiscal year during the term of this Agreement, the President of the LLC shall submit to the Board of Managers an annual budget, which shall include in reasonable detail a listing of anticipated revenues and expenses, including an operating plan, a capital expenditure plan and an itemization of any other anticipated expenditures of the LLC for such fiscal year. Such budget shall also show such anticipated revenues and expenses for each fiscal quarter of such fiscal year. Such budget will be submitted to the Board of Managers and, once approved by the Board of Managers shall constitute the "Approved Budget" of the LLC for such fiscal year and each fiscal quarter therein. In the event that the Board of Managers fails to approve the budget submitted by the President of the LLC prior to the beginning of the fiscal period covered by such budget, the "Approved Budget" for such period shall, until a new budget is approved, be deemed to be equal to the corresponding period of the most recent Approved Budget (the "Prior Budget"), plus an additional amount which the LLC shall be deemed authorized to spend in such period until a budget is approved equal to 5% of the expenditures on a line item basis as set forth for the corresponding period in the most recent Approved Budget.

6.03 CONTRACTS WITH MEMBERS, ETC.. The LLC may engage in business with, or enter into one or more agreements, leases, contracts or other arrangements for the furnishing to or by the LLC

of goods, services or space with, any Member, Manager, officer or employee of the LLC, or an Affiliate of any of the foregoing, and may pay compensation in connection with such business, goods, services or space, provided in each case that the relevant agreement, lease, contract or other arrangement or transaction is, to the extent required under Section 6.01, approved by the Board of Managers in accordance with the provisions of such Section 6.01.

6.04 BINDING THE LLC. Except as the President may generally or in any particular case or cases otherwise authorize, and subject to the other provisions of this Agreement, all deeds, leases, contracts, bonds, notes, checks, drafts or other obligations made, accepted or endorsed by the LLC shall be signed by the President or such other officer or officers of the LLC as the President may designate.

6.05 INDEMNIFICATION AND EXCULPATION.

(a) No Manager or officer shall have any liability to the LLC or to any Member for any loss suffered by the LLC which arises out of any action or inaction of such Manager or officer if such Manager or officer determined in good faith that such course of conduct was in the best interests of the LLC and such course of conduct did not constitute gross negligence, willful misconduct or a breach of this Agreement by such Manager or officer.

(b) The Members' respective obligations to each other and to the LLC under this Agreement are limited to the express obligations expressly described in this Agreement, which obligations the Members shall carry out with ordinary prudence and in a manner characteristic of business persons in similar circumstances. Each Member and Manager may, with respect to any vote, consent or approval that it, he is entitled to grant pursuant to this Agreement, grant or withhold such vote, consent or approval in its, his or her sole and absolute discretion, with or without cause, and subject to such conditions as it, he shall deem appropriate. The Members acknowledge and agree that the relationship among them as members of the LLC as specified in this Agreement is, to the maximum extent permissible under the Act, contractual in nature and not fiduciary. Accordingly, pursuant to Section 18-1101 of the Act, the Members agree that to the maximum extent permissible under the Act, each Member's fiduciary and any other similar duties and obligations to the LLC or any other Member (if any) shall be eliminated (or, if complete elimination of such duties and obligations is deemed to be not permissible under the Act, then reduced to the maximum extent permissible) hereby.

(c) Each Manager and officer shall be indemnified by the LLC against any losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by him with respect to actions taken by such Manager or officer on behalf of the LLC, provided that no indemnification shall be provided for any person with respect to any matter as to which he shall have been adjudicated in any proceeding to have been grossly negligent or to have acted with willful misconduct or in breach of this Agreement, or in which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interest of the LLC. Without limiting the foregoing, the Board of Managers may elect (on a case by case basis) to permit such indemnification to include payment by the LLC of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, upon receipt of an undertaking by the person indemnified to repay such payment if he shall be adjudicated not to be entitled to indemnification under this

Section 6.04, which undertaking may be accepted without reference to the financial ability of such person to make repayment. Any indemnification to be provided hereunder may be provided although the person to be indemnified is no longer a Manager or officer.

(d) Any indemnity under this Section 6.05 shall be paid from, and only to the extent of, LLC assets, and no Member shall have any personal liability on account thereof in the absence of a separate written agreement to the contrary. The LLC shall not incur the cost of that portion of any insurance, other than public liability insurance, which insures any party against any liability as to which such party is herein prohibited from being indemnified.

6.06 NO SOLICITATION OR HIRING OF FORMER EMPLOYEES. Except as provided by law or with the Consent of the Members, during the period that a Member is a Member and for a period of two years after a Member ceases to be a Member, the Member shall not solicit any person who is then, or at any time within the six months preceding such date was, an employee of the LLC to terminate his employment with the LLC or to become an employee of the Member or hire any person.

6.07 NON-COMPETITION AGREEMENT.

(a) During the period that a Member is a Member and for a period of two years after a Member ceases to be a Member, such Member shall not (i) manufacture, market or sell any product which has the same or substantially the same form, function and primary application as any existing or proposed product manufactured by the LLC at any time while the Member was a Member or (ii) engage in any business competitive with the business of the LLC as conducted at any time while the Member was a Member, in the United States or Canada.

Notwithstanding the foregoing, (X) GreenStone shall not be deemed to be in violation of this Section by virtue of its "Engineered for Life(TM)" product line, provided that GreenStone does not manufacture any cellulose-based products and so long as any cellulose-based products sold by GreenStone are purchased from the LLC; and (Y) in the event that a Member (an "Acquiring Member") acquires any competitive business as a non-integral part of an acquisition made by the Acquiring Member, the Acquiring Member shall not be deemed to be in violation of this Section if (i) it promptly offers such competitive business to the LLC for purchase at a cash purchase price equal to five times the twelve-month trailing EBITDA of such business for the most recently completed twelve months, or, if less, the amount actually paid by the Acquiring Member for such business; and (ii) in the event that the other Member declines on behalf of the LLC to have the LLC purchase such business, it disposes of such business within 18 months of the date of acquisition thereof by the Acquiring Member.

(b) The parties hereto agree that the duration and geographic scope of the non-competition provision set forth in this Section 6.07 are reasonable. In the event that any court determines that the duration or the geographic scope, or both, are unreasonable and that such provision is to that extent unenforceable, the parties hereto agree that the provision shall remain in full force and effect for the greatest time period and in the greatest area that would not render it unenforceable. The parties intend that this non-competition provision shall be deemed to be a series of separate covenants, one for each and every county of each and every state of the United States of America and each and every political subdivision of each and every country outside the United States of America where this provision is intended to be effective. Each Member agrees

that damages are an inadequate remedy for any breach of this provision and that the LLC shall, whether or not it is pursuing any potential remedies at law, be entitled to equitable relief in the form of preliminary and permanent injunctions without bond or other security upon any actual or threatened breach of this non-competition provision.

(c) For purposes of Section 6.06 and this Section 6.07, "GreenStone" shall include all of GreenStone's Affiliates, and "U.S. Fiber" shall include all of U.S. Fiber's Affiliates.

6.08 OTHER ACTIVITIES. Subject to the compliance with their respective obligations hereunder and under any other agreements to which they are a party, each Member may engage in and possess interests in other business ventures and investment opportunities of every kind and description, independently or with others, including acting as stockholders, members and general or limited partners of corporations, partnerships or other limited liability companies. Subject to such compliance, neither the LLC nor the other Member, nor any Manager or officer of the LLC, shall have any rights in or to such ventures or opportunities or the income or profits therefrom.

ARTICLE VII

FISCAL MATTERS

7.01 BOOKS AND RECORDS. The President shall keep or cause another officer of the LLC or a designated third party to keep, at the principal office of the LLC or in such other location as the President may designate, complete and accurate books and records of the LLC, maintained in such form and manner as the President may determine, as well as any other documents and information required to be furnished to the Members under the Act, all of which shall be available for examination and copying by any Member, at its reasonable request and at its expense during ordinary business hours, to the extent provided by the Act.

7.02 FINANCIAL INFORMATION. The LLC shall prepare, or shall cause to be prepared, and shall provide to the Members, as soon as practicable after the end of each fiscal year of the LLC, and in any event on or before the 60th day thereafter, a balance sheet, an income statement and a statement of changes in Members' capital in the LLC for, or as of the end of, such year, certified by an internationally recognized firm of certified public accountants selected by the President with the Consent of the Members. Such financial statements shall be prepared in accordance with GAAP and shall be accompanied by a report of the certified public accountants certifying the statements and stating that (a) their examination was made in accordance with GAAP and, in their opinion, the financial statements fairly present the financial position, financial results of operations, and changes in Members' capital in accordance with GAAP, and (b) in

making the examination and reporting on the financial statements described above, nothing came to their attention that caused them to believe that (i) the income and revenues were not paid or credited in accordance with the financial and accounting provisions of this Agreement, (ii) the costs and expenses were not charged in accordance with the financial and accounting provisions of this Agreement, or (iii) either Member failed to comply in any material respect with the financial and accounting provisions of this Agreement, or if they are unable to make one or more of the statements set forth in clauses (i) through (iii) above, specifying in detail the reasons for such inability. The LLC also shall prepare and provide to the Members, as soon as practicable after the end of each fiscal quarter of the LLC, and in any event on or before the 30th day thereafter, a

balance sheet, an income statement and a statement of changes in Members' capital in the LLC for, or as of the end of, (x) such quarter and (y) the portion of the then current fiscal year of the LLC ending at the end of such quarter, in each case unaudited but certified as to accuracy and completeness by the chief financial officer of the LLC or, if no such officer is serving at the relevant time, by another appropriate officer of the LLC designated by the President. The LLC also shall prepare and provide to the Members (A) as soon as practicable after the end of each fiscal year of the LLC, and in any event on or before the 75th day thereafter, such information as may be required by the Members in order to file their respective federal, state and, to the extent applicable, local income tax returns, and (B) such other reports relating to the LLC's business and affairs as any Member may reasonably request. The LLC shall bear the cost of all reports specified in this Section 7.02.

7.03 BANK ACCOUNTS. The President shall (or shall authorize and direct one or more other officers of the LLC to) cause the LLC to open and maintain one or more accounts with one or more financial institutions as the President or such other officers may determine to be necessary or advisable. The President shall make such statements and determinations (including statements and determinations concerning withdrawal authority of officers and employees of the LLC) as may be necessary to implement the provisions of this Section 7.03, and each Member hereby unconditionally appoints the President as such Member's true and lawful attorney-in-fact (which appointment is irrevocable and is coupled with an interest) for the purpose of adopting, ratifying, executing and delivering such documents and instruments setting forth such Consents, resolutions and other agreements or decisions of the Members as the President may deem to be necessary or appropriate to implement the provisions of this Section 7.03. No funds belonging to any Person other than the LLC (whether or not a Member) shall in any way be deposited or kept in any such account of the LLC or otherwise be commingled with any funds of the LLC.

7.04 FISCAL YEAR. The fiscal year of the LLC shall end on December 31 of each year.

7.05 TAX MATTERS PARTNER. U.S. Fiber shall serve as the "tax matters partner" of the LLC. If at any time U.S. Fiber is not eligible under the Code to serve, or refuses to serve, as the "tax matters partner," GreenStone shall serve as the "tax matters partner." The "tax matters partner" is hereby authorized to and shall perform all duties of a "tax matters partner" under the Code and shall serve as "tax matters partner" until its resignation or until the designation of its successor, whichever occurs sooner. The "tax matters partner" shall be reimbursed by the LLC for all reasonable expenses actually incurred by the "tax matters partner" in connection with its performance of its duties as such, and the LLC shall indemnify and hold harmless the "tax matters partner," to the maximum extent permissible under the Act, from and against any and all losses, claims, liabilities, costs and expenses incurred by the "tax matters partner" in connection with its performance of its duties as such, except insofar as the same may have been incurred by reason of gross negligence or willful misconduct of such "tax matters partner."

7.06 INFORMATION. In addition to the other rights specifically set forth in this Agreement, each Member shall be entitled to all information to which such Member is entitled to have access pursuant to Section 18-305 of the Act, under the circumstances and subject to the conditions therein stated, and in compliance with such other conditions as may be reasonably established by the Board of Managers.

7.07 AUDITS. Each Member shall have the right to conduct, or cause to be conducted, from time to time, an audit of the books and records of the LLC. The Member conducting the audit shall bear the entire expense of the audit.

7.08 TAX AUDITS. Each Member shall have the right to review and approve (which approval shall not be unreasonably withheld) any proposed tax audit adjustment before it is accepted by the Tax Matters Partner.

7.09 CONFIDENTIALITY.

(a) Unless the Members acting by Consent determine otherwise, each Member shall hold in strict confidence any confidential information regarding the business of the LLC or of the other Member (or its Affiliates), and the LLC shall so hold in confidence any such information regarding any Member (or its Affiliates), whether such information is received from the LLC, the other Member or its Affiliates, or another Person; provided, however, that such restrictions shall not apply to (i) information that is or becomes available to the public generally without breach of this Section 7.09(a); (ii) disclosures required to be made by applicable laws and regulations, stock exchange requirements or requirements of the Nasdaq National Market or the National Association of Securities Dealers, Inc.; (iii) disclosures required to be made pursuant to a court or governmental order, subpoena or legal process; (iv) disclosures to officers, directors, employees or Affiliates of such Member (and the officers, directors and employees of such Affiliates), and to auditors, counsel, and other professional advisors to such Persons, or to the LLC or its officers, employees and professional advisors (provided, however, that all such Persons have been informed of the confidential nature of the information), or (v) disclosures in connection with any litigation or dispute among the Members, the LLC and the officers of the LLC; provided further that any disclosure pursuant to clause (ii), (iii) or (iv) of this sentence shall be made only subject to such procedures as the Person making such disclosure determines in good faith are reasonable and appropriate in the circumstances, taking into account the need to maintain the confidentiality of such information and the availability, if any, of procedures under laws, regulations, court or governmental orders, subpoenas, or other legal process. Each Member and the LLC shall notify each other Member and/or the LLC, as appropriate, immediately upon becoming aware of any court or governmental order, subpoena, or other legal process providing for the disclosure or production of information subject to the provisions of the immediately preceding sentence and, to the extent not prohibited by applicable law, immediately shall supply each other Member and/or the LLC, as appropriate, with a copy of any such court or governmental order, subpoena, or other legal process. In addition, each Member shall notify each other Member and/or the LLC, as appropriate, prior to disclosing or producing any information subject to the provisions of the two immediately preceding sentences and, to the extent not prohibited by applicable law, shall permit each other Member and/or the LLC, as appropriate, to seek a protective order protecting the confidentiality of such information. The rights and obligations of a Member pursuant to this Section 7.09(a) shall continue following the time it ceases to be a Member. Each Member acknowledges that disclosure of information in violation of the provisions of this Section 7.09(a) may cause irreparable injury to the LLC and the Members for which monetary damages are inadequate, difficult to compute, or both. Accordingly, each Member agrees that its and the LLC's obligations under this Section 7.09(a) may be enforced by specific performance and that breaches or prospective breaches of this Section 7.09(a) may be preliminarily and/or permanently enjoined. Notwithstanding the

foregoing, each Member acknowledges that the other Member may be required to file this Agreement and related documentation as an exhibit to its filings with the Securities and Exchange Commission and hereby consents to any such filing.

(b) Each officer and employee of the LLC shall be required by the LLC, in connection with the commencement of such Person's employment by, or service with, the LLC, to enter into a written agreement with the LLC (whether an employment agreement or otherwise) containing confidentiality, non-disclosure, non-use and non-competition provisions prepared by counsel to the LLC.

ARTICLE VIII

TRANSFERS OF INTERESTS

8.01 GENERAL RESTRICTIONS ON TRANSFER. No Member may Transfer all or any part

of its Membership Interest (including the interest of an assignee within the meaning of Section 18-702 of the Act) to any Person except (i) with the prior written approval of the other Member, the granting or denying of which approval shall be in such other Member's sole and absolute discretion, (ii) following the second anniversary of the Closing Date, pursuant to Sections 8.02 and 8.03 below, or (ii) by operation of the provisions of Article IX or pursuant to an exercise by the Lending Member or the LLC of the remedies granted them by the provisions of Sections 3.06(a)(ii)(E) or 3.06(a)(iii), respectively, and Section 3.06(b). Any Transfer in contravention of the foregoing sentence or any other provision of this Agreement shall be null and void and ineffective to transfer all or any part of any Membership Interest (including the interest of an assignee within the meaning of Section 18-702 of the Act), and shall not bind, or be recognized by, or on the books of, the LLC, and any transferee or assignee in such transaction shall not be or be treated as or deemed to be a Member (or an assignee) for any purpose. If any Member shall at any time attempt or purport to Transfer a Membership Interest, or any part thereof, in contravention of any of the provisions of this Agreement, then the other Member shall, in addition to all rights and remedies at law and equity, be entitled to a decree or order restraining and enjoining such transaction, and the offending Member shall not plead in defense thereto that there would be an adequate remedy at law, it being expressly hereby acknowledged and agreed that damages at law would be an inadequate remedy for a breach or threatened breach of the provisions of this Agreement concerning such transactions.

8.02 RIGHT OF FIRST REFUSAL.

(a) Notwithstanding the provisions of Section 8.01 above, in the event a Member desires to Transfer any portion of its Membership Interest, or any interest therein, following the second anniversary of the Closing Date, such Member (the "Selling Member") shall first deliver written notice of his desire to do so (the "Notice") to the LLC and to the other Member, in the manner prescribed in Section 11.01 of this Agreement. The Notice must specify: (i) the name and address of the party to which the Selling Member proposes to sell or otherwise dispose of the Membership Interest or an interest in the Membership Interest (the "Offeror"), (ii) the nature of the Membership Interest the Selling Member proposes to sell or otherwise dispose of (the "Offered Interest"), (iii) the consideration to be delivered to the Selling Member for the proposed

sale, transfer or disposition, and (iv) all other material terms and conditions of the proposed transaction.

(b) The LLC shall have the first option to purchase all or any part of the Offered Interest for the consideration and on the terms and conditions specified in the Notice. The Company must exercise such option, no later than 30 days after such Notice is deemed under Section 11.01 hereof to have been delivered to it, by written notice to the Selling Member.

(c) In the event the LLC does not exercise its option within such 30-day period with respect to all of the Offered Interest, the LLC shall, by the last day of such period, give written notice of that fact to the other Member (the "Purchaser Notice"). The Purchaser Notice shall specify the Offered Interest not purchased by the LLC (the "Remaining Interest").

(d) In the event the LLC duly exercises its option to purchase all or part of the Offered Interest, the closing of such purchase shall take place at the offices of the LLC on the later of (i) the date 20 days after the expiration of such 30-day period or (ii) the date that the other Member consummates its purchase of Remaining Interest under paragraph (g) below.

(e) To the extent that the consideration proposed to be paid by the Offeror for the Offered Interest consists of property other than cash or a promissory note, the consideration required to be paid by the LLC and/or the other Member exercising their options hereunder may consist of cash equal to the value of such property, as determined in good faith by agreement of the Selling Member and the LLC and/or the other Member acquiring such Offered Interest.

(f) Notwithstanding anything to the contrary herein, neither the LLC nor the other Member shall have any right to purchase any of the Offered Interest hereunder unless the Company and/or the other Member exercise their option or options to purchase all of the Offered Interest.

(g) Subject to Section 8.03, the other Member shall have an option,

exercisable for a period of three days from the date of delivery of the Purchaser Notice, to purchase the Remaining Interest for the consideration and on the terms and conditions reflected in the Notice. Such option shall be exercised by delivery by such Member of written notice to the Selling Member. Alternatively, the other Member may within the same three-day period, notify the Selling Member of its desire to participate in the sale of the Membership Interests on the terms set forth in the Notice, and the nature of the Membership Interest it wishes to sell.

(h) The closing of the purchase of the Remaining Interest shall take place at the offices of the LLC no later than 15 days after the date of the Purchaser Notice.

8.03 FAILURE TO FULLY EXERCISE OPTIONS; CO-SALE.

(a) If the LLC and the other Member do not exercise their options to purchase all of the Offered Interest within the periods described in this Agreement (the "Option Period"), then all options of the LLC and the other Member to purchase the Offered Interest, whether exercised or not, shall terminate, but the other Member shall be entitled to sell its Membership Interest in the transaction pursuant to this Section. The LLC shall promptly, on expiration of the Option Period, notify the Selling Member of the nature of the Membership Interest the other Member

wishes to sell. The Selling Member shall use reasonable efforts to interest the Offeror in purchasing, in addition to the Offered Interest, the Membership Interest the other Member wishes to sell. If the Offeror does not wish to purchase the entire Membership Interest made available by the Selling Member and the other Member, then each Member shall be entitled to sell a portion of the Membership Interest being sold to the Offeror, in the same proportion as the Percentage Interest of such Members; provided, however, that the price to be paid to each Member shall be in the proportion of the amount that would be distributed to the Members pursuant to Section 4.02 if all of the assets of the LLC were sold for the aggregate purchase price being paid by the Offeror and the proceeds thereof were distributed to the Members. The transaction contemplated by the Notice shall be consummated not later than 75 days after the expiration of the Option Period.

(b) If the other Member does not elect to sell the full Membership Interest which it is entitled to sell pursuant to the preceding paragraph, the Selling Member shall be entitled to sell to the Offeror, according to the terms set forth in the Notice, the Membership Interest which equals the difference between the Membership Interest desired to be purchased by the Offeror and the Membership Interest the other Member is entitled to sell pursuant to Section 8.3. If the Selling Member wishes to Transfer any such Membership Interest at a price which differs from that set forth in the Notice, upon terms different from those previously offered to the LLC and the other Member, or more than 60 days after the expiration of the Option Period, then, as a condition precedent to such transaction, such Membership Interest must first be offered to the LLC and the other Member on the same terms and conditions as given the Offeror, and in accordance with the procedures and time periods set forth above.

(c) The proceeds of any sale made by the Selling Member without compliance with the provisions of this Section 8 shall be deemed to be held in constructive trust in such amount as would have been due the other Member if the Selling Member had complied with this Agreement.

ARTICLE IX

OPTION TO SELL OTHER MEMBER'S INTEREST

9.01 OPTION TO SELL THE OTHER MEMBER'S INTEREST. Following the second anniversary of the Closing, either Member (the "Electing Member") shall have the right to elect to Transfer its Membership Interest to a person which is not an Affiliate of such Electing Member, subject to compliance with the provisions of Sections 8.02 and 8.03 above; provided, however, that in the event that (A) the Electing Member desires to sell its entire Membership Interest in the LLC, (B) the LLC and the other Member (the "Non-Electing Member") do not exercise their options to purchase all of the Offered Interest within the periods described in Section 8.02, and (C) the Non-Electing Member does not elect to sell all of its Membership Interest to the Offeror pursuant to Section 8.03, then the Electing Member shall have the right to require the Non-Electing Member to sell its

entire Membership Interest to the Offeror on the same terms as, and at the same time as, the Electing Member sells its interest to the Offeror; provided that the price to be paid to each Member shall be in the proportion of the amount that would be distributed to the Members pursuant to Section 4.02 if all of the assets of the LLC were sold for the aggregate

purchase price being paid by the Offeror and the proceeds thereof were distributed to the Members.

9.02 NOTIFICATION OF OFFERS. Each Member agrees to promptly notify the other Member of any bona fide offer it receives from a third party to purchase all or any portion of a Membership Interest in the LLC; provided, however, that no Member shall have any liability to the other Member for failing to so notify the other Member.

ARTICLE X

DISSOLUTION AND LIQUIDATION

10.01 EVENTS CAUSING DISSOLUTION. The LLC shall be dissolved and its affairs wound up upon:

(a) The sale or other disposition of all or substantially all of the assets of the LLC, or any merger, consolidation or other business combination or similar transaction as a result of which the LLC is not the surviving entity;

(b) Subject to the provisions of Section 10.02, the occurrence of any event which terminates the membership of a Member under the Act;

(c) The election to dissolve the LLC made by approval of the Board of Managers in accordance with Section 6.01(b)(xv); or

(d) The entry of a decree of judicial dissolution under Section 18-802 of the Act.

10.02 CONTINUATION OF THE LLC. Notwithstanding the occurrence of an event specified in Section 10.01(b), the LLC shall not be dissolved and its business and affairs shall not be discontinued or wound up, and the LLC shall remain in existence as a limited liability company under the laws of the State of Delaware, if the remaining Member elects, within 90 days after such occurrence, to continue the LLC and its business without dissolution or winding up; provided, however, that such remaining Member shall, automatically and with no further action being necessary on the part of any Person, be deemed to have so elected to continue the LLC and its business without dissolution or winding up unless such remaining Member expressly elects in writing, within such 90-day period, not to continue the LLC and its business.

10.03 PROCEDURES ON DISSOLUTION. Dissolution of the LLC shall be effective on the day on which occurs the event giving rise to the dissolution, but the LLC shall not terminate until the Certificate shall have been cancelled and the assets of the LLC shall have been distributed as provided herein. Notwithstanding the dissolution of the LLC, prior to the termination of the LLC, as aforesaid, the business of the LLC and the affairs of the Members, as such, shall continue to be governed by this Agreement. The President or a liquidator appointed by the President (or, if there be none, by the Consent of the Members) shall liquidate the assets of the LLC (the Person so charged with liquidating the assets of the LLC, the "Liquidator"), apply and distribute the proceeds thereof as contemplated by this Agreement and cause the cancellation of the Certificate.

10.04 DISTRIBUTIONS UPON LIQUIDATION. In each case except as may be required otherwise by provisions of the Act which may not be modified by a limited liability company's operating agreement:

(a) After payment of liabilities owing to creditors, the Liquidator shall set up such reserves as it deems reasonably necessary for any contingent or unforeseen liabilities or obligations of the LLC. Said reserves may be paid over by the Liquidator to a bank or another appropriate financial institution, to be held in escrow for the purpose of paying any such contingent or unforeseen

liabilities or obligations and, at the expiration of such period as the Liquidator may deem advisable, such reserves shall be distributed to the Members or their assigns in the manner set forth in paragraph (b) below.

(b) After paying such liabilities and providing for such reserves, the Liquidator shall cause the remaining net assets of the LLC to be distributed to and among the Members in the priority set forth in Section 4.02 above. In the event that any part of such net assets consists of notes or accounts receivable or other noncash assets, the Liquidator may take whatever steps he deems appropriate to convert such assets into cash or into any other form which would facilitate the distribution thereof. If any assets of the LLC are to be distributed in kind, such assets shall be distributed on the basis of their fair market value net of any liabilities.

10.05 SURVIVAL OF CERTAIN PROVISIONS. The provisions of Sections 3.04, 6.05, 6.06 and 6.07 shall survive for a period of 24 months after the date of cancellation of the Certificate upon liquidation and distribution of the assets of the LLC as set forth in Section 10.03.

ARTICLE XI

GENERAL PROVISIONS

11.01 NOTICES. Except to the extent specifically provided otherwise, any and all notices under this Agreement shall be deemed given (a) on the second Business Day after being sent by express mail, receipt confirmed telecopy, or an internationally recognized commercial overnight delivery service providing a receipt for delivery, or (b) on the date actually received, if sent by any other method. In order to be effective, all such notices shall be addressed, if to the LLC (or a specified officer thereof), at its office in the State of North Carolina where the LLC maintains its records as set forth in the Certificate, and if to a Member, at such Member's last address of record on the books of the LLC, and copies of such notices shall also be sent to the last address for the recipient which is known to the sender, if different from the address so specified.

11.02 WORD MEANINGS; SCHEDULES AND EXHIBITS. The words such as "herein," "hereto," "hereof," and "hereunder" refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires. The word "including" (and grammatical variations thereof) shall be construed to mean "including, without limitation" (and grammatical variations thereof), and shall not be interpreted so as to imply exclusivity or comprehensive listing, unless the context otherwise requires. The singular shall include the plural and the masculine gender shall include the feminine and neuter, and vice versa, unless the context otherwise requires. References to Articles, Sections, Schedules and Exhibits shall be construed as references to the Articles and Sections of, and the Schedules and Exhibits to, this

Agreement, in each case unless the context otherwise requires. All such Schedules and Exhibits shall be deemed to be, and constitute, an integral part hereof for all purposes.

11.03 BINDING PROVISIONS. Subject to the restrictions on Transfers set forth herein, the covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the parties hereto, their heirs, legal representatives, successors and assigns.

11.04 APPLICABLE LAW. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, including the Act, as interpreted by the courts of the State of Delaware, notwithstanding any rules regarding choice of law to the contrary.

11.05 ARBITRATION.

(a) The parties hereto agree that any and all legal disputes, controversies or claims arising out of or relating to the interpretation or enforcement of this Agreement or any Ancillary Document or any breach or termination of any thereof (each, a "Dispute") (other than any Dispute with respect to which this Agreement or the relevant Ancillary Document provides for temporary or preliminary injunctive or other similar provisional relief, which relief may be obtained without reference to this Section 11.05) shall be resolved by agreement among all parties to the relevant Dispute or, if notice is

given by any such party as provided below and the matter is not settled within 30 days thereafter, by reference to arbitration in accordance with the Commercial Arbitration Rules, as amended from time to time, of the American Arbitration Association (the "AAA") and the following provisions; provided, however, that the provisions of this Section 11.05 shall prevail in the event of any conflict with such Rules.

(b) The parties to the relevant Dispute shall jointly designate a single neutral and impartial arbitrator to resolve the Dispute; provided, however, that if such parties are unable to reach agreement with respect to the identity of the arbitrator within 30 days after the giving of notice by one party to such Dispute to each other party to such Dispute of the first party's desire to refer the matter in dispute to arbitration, then any party to such Dispute may petition the Chicago, Illinois office of the AAA (the "Appointing Authority") for appointment of such arbitrator, and all parties to the Dispute shall be bound by the selection of the Appointing Authority. If any Person appointed as arbitrator shall die, fail to act, resign, or otherwise become disqualified, a substitute arbitrator shall be appointed in the manner set forth above within 15 days after such death, failure to act, resignation or other disqualification. If such substitute appointment is not made within such 15-day period, any party to the Dispute may petition the Appointing Authority for appointment of such substitute arbitrator, and such appointment shall be binding on all parties to the Dispute. No matter how selected, the arbitrator shall have no prior or existing affiliation or relationship with any party to the relevant Dispute or its counsel, and shall sign an oath or affirmation of impartiality upon appointment.

(c) Any arbitration proceedings conducted pursuant to this Section 11.05 shall be held in Chicago, Illinois and shall be conducted in the English language.

(d) The parties to the Dispute may conduct such pre-hearing discovery through depositions and requests for the production and copying of documents by the other parties to the Dispute, in each case in accordance with such procedures, as the arbitrator may determine. The

arbitrator may consult with and engage disinterested third parties, including attorneys, accountants and other consultants, to advise him.

(e) The arbitrator, in deciding any Dispute, shall base his decision on the record and in accordance with this Agreement, any relevant Ancillary Documents and applicable law. In no event shall the arbitrator make any ruling, finding or award that does not conform to the terms and conditions of this Agreement and any relevant Ancillary Document, is not supported by the weight of the evidence, or is contrary to applicable law. The final arbitration award shall be a factually detailed, reasoned opinion stating the arbitrator's findings of fact and conclusions of law. Unless the arbitrator for good cause determines otherwise, the final arbitration award shall include attorneys' fees, costs and expenses of the prevailing party, including expert and non-expert witness fees and the prevailing party's share of the administrative fee and the arbitrator's fees and expenses, if any. The final arbitration award and any other written decisions and conclusions of the arbitrator with respect to the matters referred to him pursuant hereto shall be final and binding on all parties to the Dispute, and confirmation and enforcement thereof may be rendered thereon by any court having jurisdiction upon application of any such party.

11.06 COUNTERPARTS. This Agreement may be executed in several counterparts and as so executed shall constitute one agreement binding on all parties hereto, notwithstanding that all of the parties have not signed the same counterpart.

11.07 SEPARABILITY OF PROVISIONS. Each provision of this Agreement shall be considered separable. To the extent that any provision of this Agreement is prohibited or ineffective under the Act, this Agreement shall be considered amended to the smallest degree possible in order to make the Agreement effective under the Act (and, if the Act is subsequently amended or interpreted in such manner as to make effective any provision of this Agreement that was formerly rendered invalid, such provision shall automatically be considered to be valid from the effective date of such amendment or interpretation).

11.08 ARTICLE AND SECTION TITLES. Article and section titles are included herein for descriptive purposes only and shall not control or alter the meaning of this Agreement as set forth in the text.

11.09 AMENDMENTS. Except as otherwise specifically provided herein, this Agreement (including all Schedules and Exhibits) may be amended or modified only by a Consent executed by each Member.

11.10 THIRD PARTY BENEFICIARIES. The provisions of this Agreement, including Article III, are not intended to be for the benefit of any creditor (other than a Member who is a creditor) or other Person (other than a Member in its capacity as such) to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the LLC or any of the Members. Moreover, notwithstanding anything contained in this Agreement, including Article III, no such creditor or other Person shall obtain any rights under this Agreement or shall, by reason of this Agreement, make any claim in respect of any debt, liability or obligation (or otherwise) against the LLC or any Member.

11.11 CERTAIN ANCILLARY DOCUMENT MATTERS; ENTIRE AGREEMENT.

(a) At the Closing, each Member and the LLC shall execute each Ancillary Document to which such Member is a party. Except as otherwise expressly provided herein, in the event of any irreconcilable conflict between the provisions of any Ancillary Document and the provisions of this Agreement, the provisions of this Agreement shall be controlling.

(b) Any breach by any Member of, and any default by any Member under, any Ancillary Document to which such Member is a party shall be deemed and construed to be, for all purposes, a breach by such Member of, and a default by such Member under, this Agreement.

(c) This Agreement, together with the Ancillary Documents, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. The Members hereby agree that each Member and each officer of the LLC shall be entitled to rely on the provisions of this Agreement and the Ancillary Documents, and no Member or officer of the LLC shall be liable to the LLC or any other Member or officer for any action or refusal to act taken in good faith reliance on the terms of this Agreement or any Ancillary Document.

11.12 OFFSET. Whenever the LLC is to pay any sum to any Member, any amounts owed by such Member to the LLC may be deducted from such sum before payment.

11.13 WAIVER OF PARTITION. Each Member agrees that irreparable damage would be done to the LLC if any Member brought an action in court to dissolve the LLC. Accordingly, each Member agrees that it shall not, either directly or indirectly, take any action to require partition or appraisal of the LLC or of any of the assets or properties of the LLC, and notwithstanding any provisions of this Agreement to the contrary, each Member (and its successors and assigns) accepts the provisions of the Agreement as its sole entitlement on termination, dissolution and/or liquidation of the LLC and hereby irrevocably waives any and all right to maintain any action for partition or to compel any sale or other liquidation with respect to its interest, in or with respect to, any assets or properties of the LLC. Each Member agrees that it will not petition a court for the dissolution, termination or liquidation of the LLC.

IN WITNESS WHEREOF, the Members have executed this Agreement under seal as of the day and year first above written.

U.S. FIBER, INC.

By: /s/ James W. Bohlig

Name: James W. Bohlig

Title: SVP & Chief Operating Officer

GREENSTONE INDUSTRIES, INC.

By: /s/ Anita C. Kirchloff

Name: Anita C. Kirchloff

Title: Secretary

GUARANTY

The undersigned hereby guarantees the obligations of its subsidiary pursuant to the terms of this Agreement.

CASELLA WASTE SYSTEMS, INC.
For its subsidiary U.S. Fiber, Inc.

By: /s/ John W. Casella

Name: John W. Casella

Title: President and Chief Executive Officer

LOUISIANA-PACIFIC CORPORATION
For its subsidiary GreenStone Industries, Inc.

By: /s/ William L. Hebert

Name: William L. Hebert

Title: Director, Business Development

US GREENFIBER, LLC

SCHEDULE A TO LIMITED LIABILITY COMPANY AGREEMENT

June 26, 2000

MEMBERS

NAME AND BUSINESS ADDRESS OF MEMBER	PERCENTAGE INTEREST
U.S. FIBER, INC. 809-A W. Hill Street Charlotte, NC 28208	50%
GREENSTONE INDUSTRIES, INC. 111 S.W. Fifth Avenue Portland, OR 97204 Attn: Vice President and General Counsel	50%

EXHIBIT 1

LIST OF GREENSTONE ASSIGNMENT DOCUMENTATION

EXHIBIT 2

LIST OF U.S. FIBER ASSIGNMENT DOCUMENTATION

EXHIBIT 3-A

LIST OF ASSETS BEING ASSIGNED BY U.S. FIBER TO THE LLC

EXHIBIT 3-B

LIST OF LIABILITIES BEING ASSUMED BY THE LLC FROM U.S. FIBER

1. All obligations of U.S. Fiber continuing after the Closing under the leases, contracts and employee benefit plans set forth on the U.S. Fiber Disclosure Schedule which become due and payable after the Closing Date.

2. All of the liabilities and obligations of U.S. Fiber reflected on SCHEDULE 3-B hereto.

EXHIBIT 4-A

LIST OF ASSETS BEING ASSIGNED BY GREENSTONE TO THE LLC

EXHIBIT 4-B

LIST OF LIABILITIES BEING ASSUMED BY THE LLC FROM GREENSTONE

1. All obligations of GreenStone continuing after the Closing under the leases, contracts and employee benefit plans set forth on the GreenStone Disclosure Schedule which become due and payable after the Closing Date.

2. All of the liabilities and obligations of GreenStone reflected on SCHEDULE 4-B hereto.

EXHIBIT 5

REPRESENTATIONS AND WARRANTIES OF EACH OF THE MEMBERS

EXHIBIT 6

INDEMNIFICATION

(a) INDEMNIFICATION. Each Member each hereby indemnifies and holds harmless the LLC and the other Member against all claims, damages, losses, liabilities, costs and expenses (including, without limitation, settlement costs and any legal, accounting or other expenses for investigating or defending any actions or threatened actions) reasonably incurred by the LLC or the other Member in connection with each and all of the following:

(i) Any breach by the indemnifying party of any representation or warranty in this Agreement;

(ii) Any breach of any covenant, agreement or obligation of the indemnifying party contained in this Agreement, any Ancillary Agreement or any other agreement, instrument or document contemplated by this Agreement;

(iii) Any claims against, or liabilities or obligations of, the Member not specifically assumed by the LLC pursuant this Agreement; and

(iv) Any warranty claim or product liability claim relating to (i)

products manufactured or sold by the Member prior to the Closing or (ii) the Member's business or operation prior to the Closing Date.

(b) CLAIMS FOR INDEMNIFICATION. Whenever any claim shall arise for indemnification hereunder the party seeking indemnification (the "Indemnified Party"), shall promptly notify the party from whom indemnification is sought (the "Indemnifying Party") of the claim and, when known, the facts constituting the basis for such claim. In the event of any such claim for indemnification hereunder resulting from or in connection with any claim or legal proceedings by a third party, the notice to the Indemnifying Party shall specify, if known, the amount or an estimate of the amount of the liability arising therefrom. The Indemnified Party shall not settle or compromise any claim by a third party for which it is entitled to indemnification hereunder without the prior written consent of the Indemnifying Party, which shall not be unreasonably withheld, unless suit shall have been instituted against it and the Indemnifying Party shall not have taken control of such suit after notification thereof as provided in paragraph (c) of this EXHIBIT 6.

(c) DEFENSE BY INDEMNIFYING PARTY. In connection with any claim giving rise to indemnity hereunder resulting from or arising out of any claim or legal proceeding by a person who is not a party to this Agreement, the Indemnifying Party at its sole cost and expense may, upon written notice to the Indemnified Party, assume the defense of any such claim or legal proceeding if it acknowledges to the Indemnified Party in writing its obligations to indemnify the Indemnified Party with respect to all elements of such claim. The Indemnified Party shall be entitled to participate in (but not control) the defense of any such action, with its counsel and at its own expense. If the Indemnifying Party does not assume the defense of any such claim or litigation resulting therefrom within 30 days after the date such claim is made, (a) the

Indemnified Party may defend against such claim or litigation, in such manner as it may deem appropriate, including, but not limited to, settling such claim or litigation, after giving notice of the same to the Indemnifying Party, on such terms as the Indemnified Party may deem appropriate, and (b) the Indemnifying Party shall be entitled to participate in (but not control) the defense of such action, with its counsel and at its own expense. If the Indemnifying Party thereafter seeks to question the manner in which the Indemnified Party defended such third party claim or the amount or nature of any such settlement, the Indemnifying Party shall have the burden to prove by a preponderance of the evidence that the Indemnified Party did not defend or settle such third party claim in a commercially reasonable manner.

(d) PAYMENT OF INDEMNIFICATION OBLIGATION. Each Member hereby agrees that any claim against it for indemnification by the LLC or the other Member under this EXHIBIT 6 may, at the Indemnified Party's option, be set off against the LLC's obligation to make payments under the Agreement, and all distributions from the LLC that otherwise would be made to the Indemnifying Party (whether before or after dissolution of the LLC) instead shall be paid to the Indemnified Party until the indemnification obligations have been paid in full to the Indemnified Party. All indemnification by the Members hereunder (to the extent not satisfied in the manner specified in the preceding sentence) shall be effected by payment of cash or delivery of a cashier's or certified check in the amount of the indemnification liability and shall bear interest at the Default Rate to the extent not paid within 30 days after written notification thereof is delivered to the Indemnifying Party.

(e) SURVIVAL OF REPRESENTATIONS; CLAIMS FOR INDEMNIFICATION. All representations and warranties made by the parties herein or in any instrument or document furnished in connection herewith shall survive the Closing and any investigation at any time made by or on behalf of the parties hereto. All such representations and warranties shall expire on the second anniversary of the Closing, except for claims, if any, asserted in writing prior to such second anniversary, which shall survive until finally resolved and satisfied in full. All claims and actions for indemnity pursuant to this EXHIBIT 6 for breach of any representation or warranty shall be asserted or maintained in writing by a party hereto on or prior to the expiration of such two-year period. Notwithstanding anything to the contrary in this EXHIBIT 6, neither the LLC nor any Member shall be entitled to receive, and a Member shall not be obligated to pay, the first $250,000 in the aggregate of indemnity obligations otherwise payable by such Member pursuant to paragraph (a)(i) of this EXHIBIT 6.

U.S. FIBER DISCLOSURE SCHEDULE (EXCEPTIONS TO REPRESENTATIONS AND WARRANTIES)

GREENSTONE DISCLOSURE SCHEDULE (EXCEPTIONS TO REPRESENTATIONS AND WARRANTIES)

EXHIBIT 10.42

[EXECUTION FORM]

PURCHASE AGREEMENT

BY AND AMONG

CRUMB RUBBER INVESTORS CO., LLC

AS THE BUYER,

AND

CASELLA WASTE SYSTEMS INC.,

AND

KTI ENVIRONMENTAL GROUP, INC.,

AS THE SELLERS

DATED AS OF AUGUST 17, 2001

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT, dated as of August 17, 2001 (this "AGREEMENT"), is made by and among Crumb Rubber Investors Co., LLC, a Delaware limited liability company (the "BUYER"), Casella Waste Systems, Inc., a Delaware corporation ("CASELLA"), KTI Environmental Group, Inc., a New Jersey corporation ("KTI ENVIRONMENTAL GROUP"; together with Casella, the "SELLERS"). Unless otherwise defined herein or the context clearly requires otherwise, all capitalized terms herein shall have the meanings given to them in ARTICLE I of this Agreement.

R E C I T A L S

WHEREAS, Casella is the sole stockholder of Recovery Technologies Group, Inc., a Delaware corporation ("RTG");

WHEREAS, Casella and KTI Environmental Group hold all right, title and interest in, to and under the Purchased Debt (as defined below);

WHEREAS, the Controlled Purchased Companies (as defined below) are engaged in, among other activities, the business of collecting, processing and recycling automobile, truck and other vehicle tires (as operated by the Controlled Purchased Companies, the business of collecting, processing and recycling such tires is referred to as the "BUSINESS");

WHEREAS, the Buyer desires to purchase from the Sellers, and the Sellers desire to sell, assign and transfer to the Buyer, Sellers' right, title and interest in and to the Purchased Stock and Debt (as defined below);

WHEREAS, concurrently herewith, Casella, KTI Operations, Inc., a Delaware corporation ("KTI OPERATIONS"), KTI, Inc., a New Jersey corporation and wholly owned subsidiary of Casella ("KTI"), and New Heights Holding Corporation, a Delaware corporation and an Affiliate of the Buyer ("NEW HEIGHTS BUYER"), are entering into a Purchase Agreement, dated as of the date hereof (the "NEW HEIGHTS PURCHASE AGREEMENT"), with respect to the purchase and sale of certain assets including a certain limited liability company interest in New Heights Recovery and Power LLC, a Delaware limited liability company ("NEW HEIGHTS"); and

WHEREAS, it is a condition to the Sellers' and the Buyer's obligations hereunder that the transactions contemplated by the New Heights Purchase Agreement and this Agreement are consummated simultaneously.

A G R E E M E N T

NOW, THEREFORE, in consideration of the foregoing and the respective

representations, warranties, covenants and agreements hereinafter contained, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

For purposes of this Agreement, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

"ACCOUNTS RECEIVABLE" means all accounts receivable (including, without limitation, amounts due from customers whether recorded as accounts receivable or reductions in accounts payable) and related

deposits, security or collateral therefor, including recoverable customer deposits, of any of the Controlled Purchased Companies existing on the Closing Date.

"AFFILIATE" as to any Person means any other Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person, provided that any entity formed by AG Special Situation Corp. in connection with this Agreement shall be deemed to be an Affiliate of the Buyer. For purposes of this Agreement, on and after the Closing, neither the Sellers nor any of their Affiliates shall be considered to be an Affiliate of Holdco 1 Corp. or any of the Purchased Companies.

"ASSIGNMENT AGREEMENT" means the Assignment Agreement, to be dated as of the Closing Date, by and between the Sellers and the Buyer, providing for the transfer of the Purchased Stock and Debt from the Sellers to the Buyer, in the form of EXHIBIT A attached hereto.

"BASE PURCHASE PRICE" has the meaning set forth in Section 3.1 of this Agreement.

"BAYTOWN ACQUISITION COSTS" means the amounts set forth on SCHEDULE A attached hereto, together with such other amounts as may be advanced by Casella or any of its affiliates (other than any of the Purchased Companies) prior to the Closing Date with respect to the facility in Baytown, Texas or Atlanta, Georgia to be purchased from WRI pursuant to the Baytown Agreement, net of any amounts collected and retained by Casella or its affiliates on account of the accounts receivable relating to such facilities; provided, that any amounts included in the calculation of the Capital Expenditure Adjustment shall not be Baytown Acquisition Costs.

"BAYTOWN AGREEMENT" means all agreements (including drafts of unexecuted agreements), memoranda of understanding, letters of intent and other correspondence and instruments relating to the purchase or lease by Recovery Technologies Group of Baytown, Inc. of the facility in Baytown, Texas from WRI.

"BENEFIT PLANS" has the meaning set forth in Section 5.18(a) of this Agreement.

"BUSINESS" has the meaning set forth in the recitals to this Agreement.

"BUSINESS DAY" means any day except a Saturday, Sunday or other day on which commercial banking institutions in the State of New York or State of Vermont are authorized by law or executive order to close.

"BUSINESS EMPLOYEES" has the meaning set forth in Section 5.17(a) of this Agreement.

"BUYER" has the meaning set forth in the introductory paragraph of this Agreement.

"BUYER INDEMNITEES" has the meaning set forth in Section 12.1(a) of this Agreement.

"BUYER LIABILITY CAP" means an aggregate of US$4,000,000 with respect to (i) the amounts (if any) due and payable by the Buyer pursuant Article XII of this Agreement, and (ii) the amounts (if any) payable by New Heights Buyer pursuant Article XII of the New Heights Purchase Agreement.

"BUYER'S ACCOUNTANTS" means Ernst & Young LLP or such other independent accountants as may be selected by the Buyer.

"BUYER'S EVENT OF BREACH" has the meaning set forth in Section 12.2(a) of this Agreement.

"CANADIAN SUBSIDIARIES" means 1316991 Ontario Inc., RT Canada, Prairie Rubber Corporation and Atlantic Recycled Rubber Inc.

"CAPITAL EXPENDITURE" has the meaning defined by GAAP.

"CAPITAL EXPENDITURE ADJUSTMENT" means the aggregate amount of all of the Capital Expenditures that Casella has made by means of equity investments in or loans from Casella or any Affiliate of Casella (provided that such loans will constitute Seller Liabilities) to or on behalf of the Controlled Purchased Companies, as specified on SCHEDULE 3.3 to this Agreement.

"CERCLA" has the meaning set forth in Section 5.21(b) of this Agreement.

"CERCLIS" has the meaning set forth in Section 5.21(e) of this Agreement.

"CLAIMS" means, whether or not formally asserted, all demands, claims, actions or causes of action, assessments, suits, proceedings, disputes, investigations, Losses, damages, costs, expenses, liabilities, judgments, awards, fines, sanctions, penalties, charges, and/or amounts paid in settlement, including, without limitation, costs, fees and expenses of attorneys, court costs, experts, accountants, appraisers, consultants, witnesses, investigators and/or any other Persons employed or retained in connection with any of the foregoing.

"CLOSING" has the meaning set forth in Section 4.1 of this Agreement.

"CLOSING DATE" has the meaning set forth in Section 4.1 of this Agreement.

"CLOSURE BONDS" has the meaning set forth in Section 5.27 of this Agreement.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COLLECTIBLE" has the meaning set forth in Section 5.16 of this Agreement.

"CONFIDENTIAL INFORMATION" has the meaning set forth in Section 8.5(c) of this Agreement.

"CONTRACTS" has the meaning set forth in Section 5.15(a) of this Agreement.

"CONTROLLED PURCHASED COMPANIES" means all of the Purchased Companies other than RECI.

"EMPLOYEE POLICIES" has the meaning set forth in Section 5.17(i) of this Agreement.

"EMPLOYMENT AND LABOR AGREEMENTS" has the meaning set forth in Section 5.17(b) of this Agreement.

"ENVIRONMENT" has the meaning set forth in Section 5.21(g) of this Agreement.

"ENVIRONMENTAL CONDITION" means a condition of the soil, subsoil, surface waters, groundwater, stream sediments, air or other environmental media, including the presence or Release of a Hazardous Substance, at, under, or migrating from a property that, by virtue of Environmental Laws, (a) requires investigatory, corrective or remedial measures of any Seller, any of the Controlled Purchased Companies

or the Buyer, and/or (b) comprises a basis for claims against, demands of and/or liabilities of any Seller, any of the Controlled Purchased Companies or the

Buyer by any Person, including, without limitation, adjacent land owners. "Environmental Condition" shall include those conditions identified or discovered before or after the Closing Date resulting from any activity, inactivity or operations of any Seller or any of the Controlled Purchased Companies before the Closing Date.

"ENVIRONMENTAL LAWS" means all laws, regulations and other requirements of any Governmental Authority and any judicial or administrative interpretation thereof, any duties under the common law, any orders, decrees, judgments, agreements or recorded covenants, conditions, restrictions or easements in any way relating to the protection of the Environment, human health, public safety or welfare, or natural resources.

"EQUIPMENT AND MACHINERY" means (a) all the equipment, machinery, fixtures and improvements, tooling, spare parts, supplies, furniture, mobile equipment, tractors, trailers, and vehicles owned or leased by any of the Controlled Purchased Companies on the Closing Date, and all replacements for any of the foregoing, (b) any rights of any of the Controlled Purchased Companies or their respective Subsidiaries to the warranties (to the extent assignable) and licenses with respect to the aforesaid items, and (c) any related Claims, credits, rights of recovery and set-off with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATES" has the meaning set forth in Section 5.18(c) of this Agreement.

"EXCESS PAYMENT" has the meaning set forth in Section 12.1(b) of this Agreement.

"FILES AND RECORDS" means all files and records, whether in hard copy, magnetic or electronic format, of any of the Controlled Purchased Companies and their respective Subsidiaries relating to the Business, or the Business Employees (whether owned or held by the Controlled Purchased Companies, their respective Subsidiaries or the Sellers), including, without limitation, customer files, equipment maintenance records, warranty records for equipment, maintenance records and sales tax exemption certificates.

"FINANCIAL STATEMENTS" has the meaning set forth in Section 5.6 of this Agreement.

"FORMER REAL PROPERTY" has the meaning set forth in Section 5.21(a) of this Agreement.

"GAAP" means the generally accepted accounting principles for financial reporting in the United States.

"GOVERNMENTAL AUTHORITY" means any agency, department, court or any other administrative, legislative or regulatory authority of any foreign, Federal, state, provincial, local or municipal governmental body.

"GOVERNMENTAL AUTHORIZATIONS" has the meaning set forth in Section 5.12 of this Agreement.

"HAZARDOUS SUBSTANCE" means any pollutant, contaminant, hazardous substance, radioactive substance, toxic substance, hazardous waste, medical waste, radioactive waste, special waste, petroleum or petroleum-derived substance or waste, asbestos, polychlorinated biphenyls, or any hazardous or toxic constituent thereof, and includes, but is not limited to, any substance or material defined in or regulated under the Environmental Laws, or for which levels are prescribed by any Environmental Laws.

"HOLDCO 2 LLC" means NH Investors Co., LLC, a Delaware limited liability company.

"HOLDCO 2 LLC AGREEMENT" means the limited liability company operating agreement of Holdco 2 LLC.

"HOLDCO 1 CORP." means RTG Holding Corporation, a Delaware corporation.

"HOLDCO 1 INTEREST" means the equity interest in Holdco 1 Corp. to be

held by Casella and/or its Affiliates.

"HOLDCO 1 STOCKHOLDER AGREEMENT" means the Stockholders Agreement of Holdco 1 Corp. in the form of EXHIBIT B attached hereto.

"INSURANCE POLICIES" has the meaning set forth in Section 5.19 of this Agreement.

"INTELLECTUAL PROPERTY" has the meaning set forth in Section 5.22 of this Agreement.

"INTERCOMPANY DEBT" means the debt evidenced by (i) the promissory note of RT Canada payable to KTI Environmental Group, the outstanding principal amount of which as of the date hereof is US$2,293,142.15; (ii) the book entry intercompany debt owed by RT Canada to Casella, the outstanding principal amount of which as of the date hereof is US$2,896,754.00; and (iii) the U.S. intercompany debt of approximately US$4,810,103.85.

"ITA" has the meaning set forth in Section 5.8(b)(vi) of this Agreement.

"KTI" has the meaning set forth in the recitals hereto.

"KTI ENVIRONMENTAL GROUP" has the meaning set forth in the introductory paragraph hereto.

"KTI OPERATIONS" has the meaning set forth in the recitals hereto.

"LEASED REAL PROPERTY" has the meaning set forth in Section 5.20(c) of this Agreement.

"LEASES" has the meaning set forth in Section 5.20(c) of this Agreement.

"LICENSES AND PERMITS" has the meaning set forth in Section 5.12 of this Agreement.

"LIEN" means any lien, mortgage, deed of trust, security interest, charge, pledge, retention of title agreement, title defect, easement, encroachment, condition, reservation, restriction, covenant, right of way or other encumbrance affecting title.

"LOSSES" has the meaning set forth in Section 12.1(a) of this Agreement.

"NEW HEIGHTS" has the meaning set forth in the recitals hereto.

"NEW HEIGHTS BUSINESS" means the "Business" as defined in the New Heights Purchase Agreement.

"NEW HEIGHTS BUYER" has the meaning set forth in the recitals hereto.

"NEW HEIGHTS PURCHASE AGREEMENT" has the meaning set forth in the recitals hereto.

"NEW HEIGHTS PURCHASED COMPANIES" means the "Purchased Companies" as defined in the New Heights Purchase Agreement.

"NEW HEIGHTS PURCHASED EQUITY AND ASSETS" means the "Purchased Equity and Assets" as defined in the New Heights Purchase Agreement.

"NEW HEIGHTS SELLERS" means Casella, KTI and KTI Operations.

"NLRB" has the meaning set forth in Section 5.17(d) of this Agreement.

"ORGANIZATIONAL DOCUMENTS" means the certificate or articles of incorporation, memorandum or articles of association, certificate of formation, operating, partnership or limited liability company agreement, by-laws or similar organizational or governing documents or instruments, including all amendments thereto of a Person.

"OUTSIDE DATE" has the meaning set forth in Section 15.1 of this Agreement.

"OWNED REAL PROPERTY" has the meaning set forth in Section 5.20(a)(i) of

this Agreement.

"PARTY'S EVENT OF BREACH" has the meaning set forth in Section 12.4 of this Agreement.

"PARTY INDEMNITEE" has the meaning set forth in Section 12.4 of this Agreement.

"PERMITTED LIENS" means (i) Liens for Taxes not yet due and payable, (ii) Liens arising under worker's compensation, unemployment insurance, social security, retirement, and similar legislation and (iii) Liens identified in SCHEDULE B attached hereto.

"PERMITTED ENCUMBRANCES" has the meaning set forth in Section 5.20(a)(ii) of this Agreement.

"PERSON" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or any Governmental Authority.

"PRE-CLOSING TAX PERIOD" means any taxable period ending on or before the Closing Date and the portion ending as of the end of the Closing Date of any taxable period that includes, but does not end until after, the Closing Date.

"PURCHASE PRICE" has the meaning set forth in Section 3.1 of this Agreement.

"PURCHASED COMPANIES" means (i) RTG and all of its Subsidiaries, and (ii) RECI (but only to the extent of Casella's 10% indirect interest therein through its ownership of RT Canada).

"PURCHASED DEBT" means 80.1% of the Intercompany Debt.

"PURCHASED INTELLECTUAL PROPERTY" has the meaning set forth in Section 5.22 of this Agreement.

"PURCHASED STOCK" means 801 shares of the issued and outstanding shares of common stock of RTG, representing 80.1% of the issued and outstanding capital stock of RTG on a fully diluted basis as of the Closing Date.

"PURCHASED STOCK AND DEBT" means the Purchased Stock and the Purchased Debt.

"RECI" means RECI Industries de Reciclagen, SGPL, S.A., an entity formed under the laws of Portugal.

"RECONCILED DISTRIBUTIONS" means the actual, aggregate amount paid by Sellers on behalf of the Purchased Companies with respect to the payables and payroll expenses of the Purchased Companies for which Seller Distributions were made by the Purchased Companies.

"RELEASE" means the release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migrating into the indoor or outdoor environment of any Hazardous Substance.

"RIGHTS" has the meaning set forth in Section 5.3 of this Agreement.

"RT CANADA" means Recovery Technologies (Canada), Inc., a Canadian corporation.

"RTG" has the meaning set forth in the introductory paragraph hereto.

"SELLER CONFIDENTIAL INFORMATION" has the meaning set forth in Section 9.2 of this Agreement.

"SELLER DISTRIBUTIONS" means all payments and other distributions made by the Purchased Companies to Sellers from and after June 30, 2001 up to and including the Closing Date to reimburse Sellers for the payments made by Sellers in the ordinary course of business on behalf of the Purchased Companies with respect to the payables and employee payroll expenses of the Purchased Companies.

"SELLER GROUP" has the meaning set forth in Section 8.5(a) of this Agreement.

"SELLER INDEMNITEES" has the meaning set forth in Section 12.2(a) of this Agreement.

"SELLER LIABILITIES" shall mean all of the following liabilities, obligations or commitments:

(a) all of the liabilities of the Controlled Purchased Companies, whether known or unknown (including, without limitation, all contingent, unliquidated and all other Claims against the Purchased Companies) in existence as of, or arising prior to or on, the Closing (whether or not asserted on or prior to the Closing) other than (i) liabilities reflected on the June 30, 2001 balance sheet of the Controlled Purchased Companies, (ii) liabilities which have arisen since the date of the June 30, 2001 balance sheet of the Controlled Purchased Companies in the ordinary course of business consistent with past practices, (iii) contractual and other liabilities which are incurred in the ordinary course of business consistent with past practices, and not required by GAAP to be reflected on a balance sheet, or (iv) liabilities specifically disclosed in the exhibits and schedules to this Agreement (except the liabilities specified in subclauses (b) through (g) of this definition, all of which shall constitute Seller Liabilities);

(b) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities relating to any litigation or arbitrations against or involving the Controlled Purchased Companies in existence as of or arising prior to or on the Closing;

(c) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the Losses (which, for purposes hereof, shall include the costs of remediation of any violation of any Environmental Law or of an Environmental Condition) of the Controlled Purchased Companies arising from or in any way relating to any Environmental Condition, or any actual or alleged violation of Environmental Law (including the failure to have or obtain Permits and other Governmental

Authorizations required by any Environmental Law) existing, occurring or commencing prior to or on the Closing Date, or in connection with the transactions contemplated by this Agreement or otherwise necessary to conduct the Business as currently conducted by the Purchased Companies and the Sellers;

(d) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities for, relating to or in respect of:

(i) Taxes payable with respect to, or as a result of the sale and transfer (or deemed transfer) of the Purchased Stock and Debt pursuant to this Agreement, including, but not limited to, Transfer Taxes and other taxes, if any, resulting from the sale and transfer of the Purchased Stock and Debt;

(ii) Taxes of any of the Controlled Purchased Companies for any Pre-Closing Tax Period (including any Taxes resulting from the Closing);

(iii) Treasury Regulation Section 1.1502-6(a) or any comparable provision of state, provincial, local, or foreign law for Taxes of any of Sellers or any other Person affiliated at any time before the Closing with any of the Controlled Purchased Companies and any liability for Taxes of any Person by contract, agreement or otherwise arising prior to, or in respect of conditions existing as of, the Closing;

(iv) breaches by Sellers of the representations and warranties set forth in Section 5.8 and for breaches by Sellers of the covenants, obligations and agreements set forth in Article VIII; and

(v) all Losses relating to, or arising out of, warranty claims (including claims under implied warranties of merchantability and fitness for a particular purpose) against RT Canada with respect to the cryogenic crumb rubber processing plant constructed by RT Canada for RECI in Portugal;

(e) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities in respect of the employment or termination of current or former employees of the Controlled Purchased Companies, on or prior to the Closing (including, without limitation, any Claims, civil penalty or other cause of action by any current or former employee, governmental entity, or any other party against the Buyer with respect to violations of WARN), except for liabilities relating to accrued but unused vacation days and sick time with respect to employees who remain employed by the Controlled Purchased Companies after the Closing;

(f) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities and obligations with respect to the Owned Real Property or Leased Real Property arising or relating to any condition existing prior to the Closing, or with respect to the Former Real Property other than Permitted Encumbrances;

(g) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities with respect to Benefit Plans arising prior to the Closing Date; or

(h) whether or not disclosed in this Agreement or any of its exhibits or schedules, the amount by which Seller Distributions exceeds the Reconciled Distributions.

"SELLER LIABILITY CAP" means an aggregate of US$16,000,000 with respect to (i) the amounts (if any) due and payable by the Sellers pursuant Article XII of this Agreement, and (ii) the amounts (if any) payable by the New Heights Sellers pursuant Article XII of the New Heights Purchase Agreement.

"SELLER MATERIAL ADVERSE EFFECT" means any material adverse effect on the aggregate value of the Purchased Stock and Debt and the New Heights Purchased Equity and Assets; provided, however, that without limiting the foregoing, a reduction of five percent (5%) or more in the aggregate value of the Purchased Stock and Debt and the New Heights Purchased Equity and Assets shall constitute a "Seller Material Adverse Effect."

"SELLERS" has the meaning set forth in the introductory paragraph of this Agreement.

"SELLERS' ACCOUNTANTS" means such independent accountant selected by Casella.

"SELLERS' EVENT OF BREACH" has the meaning set forth in Section 12.1(a) of this Agreement.

"SELLERS' SENIOR MANAGEMENT" means John Casella, James Bohlig, Richard Norris and Mike Brennan.

"STOCK" with respect to any Person, means shares of capital stock or any other equity securities, and any other shares of stock issued or issuable therefor, all membership or partnership interests, or any options, warrants or other rights to acquire any of the above.

"STRADDLE PERIOD" means any taxable period that includes, but ends after, the Closing Date.

"SUBSIDIARY" means any Person with respect to which a specified Person (or a Subsidiary thereof) directly or indirectly owns a majority of the Stock or has the power to vote or direct the voting of sufficient securities to elect 50% or more of the members of the board of directors or similar governing body.

"TAXES" means any Federal, state, provincial, local, foreign, or other tax of any kind whatsoever (together with any interest, penalties, or additions imposed with respect thereto), including, without limitation, income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, service, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, intangible property, sales, use, transfer, recording, registration, value added, alternative or add-on minimum, estimated, rental, lease, ad valorem, or other tax.

"TAX RETURNS" means any return, report, information return or other

document filed or required to be filed with any governmental authority in connection with the determination, assessment, collection or administration of any Taxes.

"TRANSACTION EXPENSES" means the expenses incurred by the Sellers or Buyer and their respective Affiliates, as the case may be, in connection with this Agreement and the New Heights Purchase Agreement and the transactions contemplated hereby and thereby, including, without limitation, all reasonable legal fees (both U.S. and foreign), accounting fees, fees and expenses of consultants and travel and similar expenses.

"TRANSFER TAXES" means sales, use, transfer, transfer gains or similar Taxes.

"WARN" means the Worker Adjustment and Retraining Notification Act.

"WRI" means Waste Recovery, Inc.

ARTICLE II
PURCHASE AND SALE

SECTION 2.1 TRANSFER OF EQUITY AND ASSETS

(a) Subject to the terms and conditions set forth in this Agreement, the Sellers shall sell, convey, transfer, assign and deliver the Purchased Stock and Debt to the Buyer, and the Buyer shall purchase and accept the Purchased Stock and Debt from the Sellers, on the Closing Date.

(b) The sale, transfer, conveyance, assignment and delivery by the Sellers of the Purchased Stock and Debt shall be made free and clear of all Liens.

ARTICLE III
PURCHASE PRICE

SECTION 3.1 PURCHASE PRICE. Subject to the terms and conditions set forth in this Agreement, the aggregate purchase price to be paid to the Sellers for the Purchased Stock and Debt shall be an amount equal to (i) US$12,400,000 (the "BASE PURCHASE PRICE") PLUS (ii) the Baytown Acquisition Costs and (iii) the Capital Expenditure Adjustment, if any (the Base Purchase Price, as adjusted by the foregoing clauses (ii) and (iii), the "PURCHASE PRICE").

SECTION 3.2 PAYMENT OF PURCHASE PRICE. Subject to the terms and conditions set forth in this Agreement, the Buyer shall pay, at the Closing, the Purchase Price to the Sellers in cash by wire transfer in immediately available funds to an account or accounts designated by Casella (which account or accounts shall be designated not less than two (2) Business Days prior to the Closing Date).

SECTION 3.3 [INTENTIONALLY OMITTED]

SECTION 3.4 ALLOCATION OF PURCHASE PRICE. The Purchase Price shall be allocated for Tax and accounting purposes among the Purchased Stock and Debt and the covenants contained in Section 8.5 hereof, as provided in SCHEDULE 3.4. Such schedule shall also set forth the manner in which the Purchase Price and the Holdco 1 Interest are allocated among the acquired assets and covenants. The Buyer and the Sellers shall not, at any time prior to or following the Closing Date, take any position with respect to the allocation of the Purchase Price that is inconsistent with the final SCHEDULE 3.4 that is attached hereto.

ARTICLE IV
CLOSING

SECTION 4.1 CLOSING. The closing of the sale and purchase of the Purchased Stock and Debt contemplated hereby (the "CLOSING") shall take place at the offices of Hale and Dorr LLP, 60 State Street, Boston, MA 02109 at 10:00 a.m. on the later of (i) September 7, 2001 and (ii) the second Business Day following the sastisfaction or waiver by the party entitled to the benefit of such condition of each of the

conditions set forth in Articles XIII and XIV, or on such other date and place as shall be mutually agreed upon by Casella and the Buyer (the "CLOSING DATE").

SECTION 4.2 ITEMS TO BE DELIVERED BY THE SELLER AT THE CLOSING.

In addition to the other deliveries or actions required to be delivered or performed hereby, at the Closing, the Sellers shall deliver or cause to be delivered to the Buyer the following:

(a) the officer's certificate required by Section 14.1;

(b) evidence of all consents, waivers, novations, authorizations and approvals required by Section 14.3;

(c) the certificates or other instruments representing all of the Purchased Stock duly accompanied by stock powers assigned in blank;

(d) the certificates, notes or other instruments or documents representing all of the Purchased Debt;

(e) the Assignment Agreement, duly executed by the Sellers;

(f) a counterpart of the Holdco 1 Stockholder Agreement, duly executed by Casella or an Affiliate thereof;

(g) the resignation of each of the directors of each of the Controlled Purchased Companies;

(h) the corporate seal and all of the minute books and stock transfer books of each of the Controlled Purchased Companies;

(i) evidence reasonably satisfactory to the Buyer of the approval of the transactions contemplated hereby by the board of directors of each Seller;

(j) copies of the Organizational Documents of each of the Controlled Purchased Companies, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation;

(k) certificates from the Secretary of State or other appropriate official of the respective jurisdictions of incorporation or formation and the respective jurisdictions of qualification (as listed on SCHEDULE 5.1) to the effect that each of the Controlled Purchased Companies is in good standing and subsisting in such jurisdictions;

(l) an opinion of counsel to the Sellers, dated as of the Closing Date, in the form of EXHIBIT C attached hereto; and

(m) such other certificates, agreements, documents and other instruments and documents as are required to be delivered by the Sellers or any of the Purchased Companies pursuant to this Agreement at or prior to the Closing.

SECTION 4.3 Items to be Delivered by the Buyer at the Closing.

In addition to the other deliveries or actions required to be delivered or performed hereby, at the Closing, the Buyer shall deliver or cause to be delivered to the Sellers the following:

(a) the officer's certificate contemplated by Section 13.1;

(b) evidence of all consents, waivers, novations, authorizations and approvals required by Section 13.3;

(c) a counterpart of the Holdco 1 Stockholder Agreement, duly executed by the Buyer;

(d) stock certificates in the name of Casella evidencing 19.9% of each class of stock of Holdco 1 Corp., accompanied by (i) the Certificate of Incorporation of Holdco 1 Corp., certified by the Secretary of

State of the State of Delaware; (ii) the Bylaws of Holdco 1 Corp., as certified by the Secretary of the Buyer; and (iii) a certificate of good standing issued by the Secretary of State of the State of Delaware as to the legal existence and corporate good standing of Holdco 1 Corp. in Delaware;

(e) an opinion of the Buyer's counsel, dated as of the Closing Date, in the form of EXHIBIT D attached hereto;

(f) a wire transfer of immediately available funds in an amount equal to the Purchase Price to be paid on the Closing Date;

(g) the Assignment Agreement, duly executed by the Buyer; and

(h) such other certificates and other instruments and documents required to be delivered by the Buyer pursuant to this Agreement at or prior to the Closing.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

The Sellers, jointly and severally, hereby represent and warrant to the Buyer that the statements contained in this Article V are true and correct, except as set forth in the disclosure schedule provided by the Sellers to the Buyer on the date hereof (the "DISCLOSURE SCHEDULE").

SECTION 5.1 CORPORATE ORGANIZATION. Each Seller and each of the Controlled Purchased Companies is a corporation or limited liability company that is duly incorporated or organized, as applicable, validly existing and in good standing under the laws of the jurisdiction of its incorporation, continuance or organization, as applicable, and it has all requisite corporate or other power and authority to own its properties and assets and to conduct its business as now conducted. Each of the Controlled Purchased Companies is duly qualified to do business as a foreign corporation or limited liability company in good standing in every jurisdiction in which the character or location of the properties and other assets owned or leased by it or the nature of the business conducted by it makes such qualification necessary. Schedule 5.1 lists every jurisdiction in which (a) each of the Controlled Purchased Companies is incorporated or organized, as applicable, and (b) each of the Controlled Purchased Companies is qualified to do business.

SECTION 5.2 AUTHORIZATION AND VALIDITY OF AGREEMENTS. Each Seller has all requisite corporate or other power and authority to enter into, execute and deliver this Agreement and the other

agreements and instruments delivered by it pursuant to this Agreement and to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement by each Seller and the other agreements and instruments delivered by such Seller pursuant to this Agreement and the performance of its obligations hereunder and thereunder have been duly authorized by all necessary corporate or other action by its board of directors and no other corporate or other proceedings on its part are necessary to authorize such execution, delivery and performance. This Agreement and the other agreements and instruments delivered by such Seller pursuant to this Agreement have been duly executed and delivered by such Seller and constitutes its legal, valid and binding obligation, enforceable against it in accordance with their respective terms.

SECTION 5.3 CAPITALIZATION. SCHEDULE 5.3 sets forth the authorized Stock of each of the Controlled Purchased Companies and the owners of record of all of the issued and outstanding Stock of each of the Controlled Purchased Companies. The Controlled Purchased Companies are the record owners of all of the issued and outstanding Stock of each of their respective Subsidiaries other than Prairie Rubber Corporation, which is 92.53% owned by RT Canada, and Recovery Technologies Collection Services, LLC, which is 95% owned by RTG, and such ownership is free and clear of any Lien. RTG is the beneficial owner of all of the issued and outstanding capital stock of the Controlled Purchased Companies on a fully diluted basis (other than Recovery Technology Collection Services, LLC and Prairie Rubber Corporation, where RTG is the beneficial owner of a 95% and 92% equity interest therein, respectively,) and 10% of the outstanding capital stock of RECI on a fully diluted basis. Casella is the record and beneficial owner of, and has full power and authority to convey, the

Purchased Stock free and clear of any Lien, and, upon delivery of and payment for such Purchased Stock as herein provided, the Buyer will acquire good and valid title thereto, free and clear of any Lien. There is no other Stock outstanding and no other outstanding options, warrants, convertible or exchangeable securities, subscriptions, rights (including any preemptive, registration or anti-dilutive rights), stock appreciation rights, calls or commitments, agreements or understandings of any character whatsoever (collectively, "RIGHTS") requiring the issuance or sale of shares of any Stock of the Controlled Purchased Companies, and there are no contracts or other agreements by which any of the Controlled Purchased Companies may become bound to issue additional shares of Stock or any Rights. None of the Sellers nor any of the Controlled Purchased Companies is a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any Stock of any of the Controlled Purchased Companies.

SECTION 5.4 NO CONFLICT OR VIOLATION. The execution, delivery and performance by each Seller of this Agreement and the other agreements and instruments delivered by it pursuant to this Agreement do not and will not (a) violate or conflict with any provision of such Seller's or any of the Controlled Purchased Companies' Organization Documents or the Organization Documents of any Subsidiary of a Seller or any of the Purchased Companies, (b) violate any provision of law, or any order, judgment or decree of any Governmental Authority applicable to any Seller, (c) violate or conflict with, or result in a breach of or constitute (with due notice or lapse of time or both) a default under, or result in the termination of, or accelerate the performance required by, any contract, lease, loan agreement or other agreement or instrument to which any of the properties or assets of any of the Controlled Purchased Companies or any of the Purchased Stock or Purchased Debt is subject, (d) result in the creation or imposition of any Lien upon any of the Purchased Stock or Purchased Debt or (e) result in the cancellation, modification, revocation or suspension of any of the Licenses and Permits.

SECTION 5.5 CONSENTS AND APPROVALS. Except as set forth on SCHEDULE 5.5 to this Agreement, there are no consents, waivers, authorizations, filings with or approvals of any Governmental Authority or of any other Person that are required in connection with the (a) the execution and delivery by the Sellers of this Agreement and the other agreements and instruments required to consummate the transactions contemplated by this Agreement and (b) the performance by the Sellers of their respective

obligations hereunder and pursuant to the other agreements and instruments required to consummate the transactions contemplated by this Agreement, except for those consents, waivers, authorizations, filings and approvals, the absence of which would not have a material adverse effect on the Business, any Controlled Purchased Company, any of the Purchased Stock or Purchased Debt or the ability to consummate the transaction contemplated by this Agreement.

SECTION 5.6 FINANCIAL STATEMENTS. Attached as SCHEDULE 5.6 are true and complete copies of (i) the unaudited balance sheets for each of the Controlled Purchased Companies as at June 30, 2001, and (ii) the statements of income for the Controlled Purchased Companies for the year ended June 30, 2001; in each case, together with the notes and schedules thereto, as applicable. The financial statements described in this Section 5.6, including the notes and schedules thereto, are referred to herein collectively as the "FINANCIAL STATEMENTS." The Financial Statements (a) have been prepared in accordance with GAAP, consistently with the accounting practices previously employed by the Controlled Purchased Companies (except as indicated in the notes thereto), (b) present fairly the financial position, results of operations and cash flows of the Controlled Purchased Companies as of the dates thereof and for the periods then ended, (c) are complete, correct and in accordance with the books of account and records of the Controlled Purchased Companies, and (d) can be reconciled with the financial records maintained and the accounting methods applied by the Controlled Purchased Companies for Federal income tax purposes.

SECTION 5.7 ABSENCE OF CERTAIN CHANGES OR EVENTS.

(a) Since June 30, 2001, there has not been:

(i) any material adverse change in the business, operations, properties, condition (financial or other) or prospects of the Purchased Stock, Purchased Debt or any of the Controlled Purchased Companies, and no factor or condition exists and no event has occurred that would be likely

to result in any such change;

(ii) any material loss, damage, or other casualty to the Purchased Stock or the Controlled Purchased Companies, whether or not covered by insurance; or

(iii) any loss of the employment, services or benefits of any officer or key employee of any of the Controlled Purchased Companies.

(b) Since June 30, 2001, the Controlled Purchased Companies have operated their respective Business in the ordinary course of business consistent with past practices and have not:

(i) incurred or failed to pay or satisfy when due any material obligation or liability (whether accrued, contingent or otherwise) relating to the operations of the Business;

(ii) incurred or failed to discharge or satisfy any Lien that is not a Permitted Lien;

(iii) transferred any of their assets with a value in excess of US$10,000 other than in the ordinary course of business and consistent with past practices, or canceled any debts or Claims or waived any rights material to the Business or relating to the operations of the Business;

(iv) intentionally defaulted on any obligation, or unintentionally defaulted on any material obligation relating to the Business;

(v) entered into any transaction material to the Business, or amended or terminated any arrangement material to the Business or relating to the Business;

(vi) taken or omitted to take any other action, which would, had it been taken subsequent to the date hereof, constitute a breach of the provisions of Section 8.1; or

(vii) entered into any agreement or made any commitment to do any of the foregoing.

(c) Notwithstanding the foregoing or any other provision in this Agreement to the contrary, since June 30, 2001, none of the Sellers has caused or permitted the Purchased Companies to distribute or pay, or authorize the distribution or payment of, any cash or other assets or property to Sellers or any of their Affiliates, except with respect to (i) the payment of US$810,220, reduced by applicable withholding taxes, by RT Canada to Casella, KTI Environmental Group and Affiliates of Casella of accrued management fees and accrued interest on intercompany loans; provided, however, concurrently with the payment of such accrued management fees and interest, Casella shall make an intercompany loan to RT Canada of US$810,220; and (ii) Seller Distributions.

SECTION 5.8 TAX MATTERS.

(a) (i) All Tax Returns required to be filed by or on behalf of the Controlled Purchased Companies, either separately or as a member of an affiliated group, have been filed, and all such Tax Returns were correct and complete in all material respects. All Taxes of the Controlled Purchased Companies (whether or not shown to be due on any Tax Return) that were due (determined after taking into account all applicable extensions) have been paid. None of the Controlled Purchased Companies currently is the beneficiary of any extension of time within which to file any Tax Return. None of the Sellers nor any of the Controlled Purchased Companies has carried on business or performed any acts in a jurisdiction where Tax Returns were required to be, but were not, filed which activity would cause it to be subject to the taxing authority of such jurisdiction. No claim has been made by a taxing authority in a jurisdiction where any of the Sellers or the Controlled Purchased Companies does not file Tax Returns that any of the Sellers or the Controlled Purchased Companies is or may be subject to taxation by that jurisdiction.

(ii) The Controlled Purchased Companies have withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(iii) There is no material, unresolved dispute or claim concerning any liability for Tax in respect of any of the Controlled Purchased Companies either (A) claimed or proposed by any representative of any taxing authority or (B) as to which any of the Sellers or the Controlled Purchased Companies or the directors and officers of any of the Sellers or the Controlled Purchased Companies has knowledge. SCHEDULE 5.8 lists all Federal, state, local, and foreign income and franchise Tax returns filed with respect to each of the Controlled Purchased Companies for taxable periods ended after December 31, 1996, indicates any such Tax returns that have been audited by any taxing authority, identifying such authority, indicates those Tax returns that currently are the subject of audit by any taxing authority, identifying such authority, and indicates those Tax returns that remain open to future audit by any taxing authority. Casella has delivered, or has caused to be delivered, to the Buyer correct and complete copies of all income and franchise Tax returns, examination reports, and statements of deficiencies assessed against or agreed to by or on behalf of any of the Controlled Purchased Companies for taxable periods ending after December 31, 1996.

(iv) There are no outstanding agreements, waivers, or arrangements extending the statutory period of limitations applicable to any claim for, or the period for the collection or assessment of, Taxes due from or with respect to any of the Controlled Purchased Companies.

(v) None of the Controlled Purchased Companies has made any payments, is obligated to make any payments, nor is party to any agreement that could obligate them to make any payments that will not be deductible under Code Section 280G. None of the Controlled Purchased Companies is a party to, bound by, or subject to, any Tax sharing, Tax allocation, Tax indemnification, or similar agreement, other than (i) agreements for the benefit of one or more of the Controlled Purchased Companies made in connection with the acquisition transactions whereby the Controlled Purchased Companies were acquired by RTG or its Subsidiaries and (ii) agreements among only some or all of the Purchased Companies. None of the Controlled Purchased Companies (A) has been a member of an affiliated group filing a consolidated or combined Federal, state, local, or foreign income or franchise Tax return (other than a group the common parent of which was Casella) or (B) has any liability for the Taxes of any Person under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise. No closing agreement pursuant to Code Section 7121 or any similar provision of state, local, or foreign law has been entered into by or with respect to any of the Controlled Purchased Companies. None of the Controlled Purchased Companies has agreed to make any adjustment pursuant to Code Section 481(a) by reason of any change in any accounting method, and there is no application pending with any taxing authority requesting permission for any changes in any accounting method of any of the Controlled Purchased Companies. The Internal Revenue Service has not proposed any such adjustment or change in accounting method that has not been resolved.

(vi) None of the Sellers nor any of their respective Affiliates has made, with respect to any of the Controlled Purchased Companies, or any property held by any of the Controlled Purchased Companies, any consent under Section 341(f) of the Code. No property of any of the Controlled Purchased Companies is "tax exempt use property" within the meaning of Section 168(h) of the Code. None of the Controlled Purchased Companies is a party to any lease made pursuant to Section 168(f)(8) of the Internal Revenue Code of 1954, as amended. There are no Liens on the Purchased Stock, Purchased Debt or any of the Controlled Purchased Companies that arose in connection with any failure (or alleged failure) to pay any Tax.

(vii) SCHEDULE 5.8 sets forth the estimated basis of each of the Controlled Purchased Companies in their assets as of January 31, 2001.

(b) (i) With respect to the Canadian Subsidiaries, all installments or other payments on account of Taxes that relate to periods for which Tax Returns are not yet due have been paid on a timely basis. There are no arrangements providing for an extension of time with respect to the filing of, or assessment or reassessment of, any Tax Return of the Canadian Subsidiaries or the payment of any Taxes payable by any of such Canadian Subsidiaries. Canadian Federal and provincial income tax assessments have been issued to the Canadian Subsidiaries covering all past periods up to and including the fiscal years

ended on or before December 31, 2000 and such assessments, if any amounts were owing in respect thereof, have been paid or settled, and only fiscal years ended subsequent to December 31, 2000 remain open for assessment of additional Taxes. There are no actions, suits or other proceedings or claims in progress, pending or threatened against the Canadian Subsidiaries in respect of any Taxes, and in particular there are no currently outstanding reassessments, written inquiries or written notices of deficiencies which have been issued or raised, as the case may be, by any governmental authority relating

to any such Taxes. No claim has ever been made by an authority in a jurisdiction where the Canadian Subsidiaries do, or any of them does, not file Tax Returns that such entity is or may be subject to taxation by that jurisdiction.

(ii) The Canadian Subsidiaries have withheld, collected and paid to the proper Governmental Authority all Taxes required to have been withheld, collected and paid by such Canadian Subsidiaries including, without limitation, any Taxes in connection with (A) amounts paid or owing to any shareholder, employee or any non-resident of Canada and (B) goods and services received from or provided to any Person.

(iii) No steps have been taken by any Governmental Authority to assess any additional Taxes (including any source deductions or Employment Insurance or Canada Pension Plan premiums) against any of the Canadian Subsidiaries for any period for which Tax Returns have been filed nor are there any actual or pending investigations of any such entity relating to Taxes. Either Casella or RTG has made available to the Buyer correct and complete copies of all of the Tax Returns of the Canadian Subsidiaries and all written notices of assessment which have been received by Casella or RTG and the Canadian Subsidiaries, examination reports or statements of deficiencies assessed against or agreed to by any of the Canadian Subsidiaries for all taxable periods for which the statute of limitations has not yet closed and any correspondence relating thereto.

(iv) None of the Canadian Subsidiaries (A) is a party to any Tax allocation or sharing agreement, (B) has been a member of an affiliated, combined or unitary group filing a combined, unitary or other return for provincial, local or foreign tax purposes reflecting the income, assets, or activities of Affiliates, or (C) has any liability for the Taxes of any Person other than such Canadian Subsidiary under any provision of Federal, provincial, local or foreign law as a transferee or successor, or by contract, or otherwise. None of the Canadian Subsidiaries is a party to any joint venture, partnership or other arrangement or contract that could be treated as a partnership for Tax purposes.

(v) The tax basis of the assets of the Canadian Subsidiaries by category, including the classification of such assets and the amounts claimed for capital cost allowances with respect to the depreciable property or legible capital property as reflected in their respective Tax Returns and related work papers is true and correct.

(vi) There are no circumstances existing at or prior to the Closing Date which could, in themselves, result in the application of any of Sections 80 to 80.03 of the Income Tax Act (Canada) (the "ITA") or any equivalent provincial or foreign provision to the Canadian Subsidiaries. None of the Canadian Subsidiaries has (A) made any election pursuant to Section 80.04 of the ITA or any equivalent provincial or foreign provision in which it is an eligible transferee, (B) filed, or will file in respect of any taxation year ending on or before the Closing Date, an agreement pursuant to Section 191.3 of the ITA or any equivalent provincial or foreign provision, (C) claimed, and shall not claim in their Tax Returns for any taxation year ending on the Closing Date, any reserve under any of Sections 40(1)(a)(iii) or 20(1)(n) of the ITA or any equivalent provincial provision of any amount could be included in the income of such Canadian Subsidiary for any period ending after the Closing Date in respect of any such reserve, or (D) deducted any amounts in computing its income in a taxation year which may be included in income in a subsequent year under Section 78 of the ITA.

(vii) None of the Purchased Stock is taxable Canadian property for purposes of the ITA.

(viii) Each of the Canadian Subsidiaries is not a non-resident of Canada under the ITA.

SECTION 5.9 OPERATION OF THE BUSINESS; SUFFICIENCY OF ASSETS. Except as set forth on SCHEDULE 5.9, no part of the Business is operated by or through any Person other than the Controlled Purchased Companies. The Controlled Purchased Companies have good and marketable title to all of the assets owned or used by the Controlled Purchased Companies and, upon consummation of the transactions contemplated by this Agreement, such assets shall be free and clear of all Liens (other than Permitted Liens). The Sellers have good and marketable title to the Purchased Stock and Debt and, upon consummation of the transactions contemplated by this Agreement, the Buyer will acquire good and marketable title to the Purchased Stock and Debt and all of the Sellers' right, title and interest in and under the Purchased Stock and Debt free and clear of all Claims, Liens and objections or equities of any kind. The assets owned or used by the Controlled Purchased Companies comprise all assets and services required for the continued conduct of the Business as now being conducted by the Controlled Purchased Companies. The assets owned or used by the Controlled Purchased Companies in connection with the Business are adequate for the purposes for which such assets are currently used or are held for use, and are in working repair and operating condition and there are no facts or conditions affecting such assets which could, individually or in the aggregate, interfere materially with the use or operation thereof as currently used or operated, or their adequacy for such use.

SECTION 5.10 EQUIPMENT AND MACHINERY. SCHEDULE 5.10 sets forth a complete and correct list of each item of Equipment and Machinery and lists the owner thereof. The Controlled Purchased Companies have good title, free and clear of all Liens (other than Permitted Liens) and title defects of any kind to the Equipment and Machinery. The Controlled Purchased Companies hold good and transferable leaseholds in all of the Equipment and Machinery leased by the Controlled Purchased Companies, and each such lease is valid and enforceable. The Controlled Purchased Companies are not in default with respect to any item of leased Equipment and Machinery and no event has occurred that constitutes, or with due notice or lapse of time or both may constitute, a default under any lease thereof.

SECTION 5.11 CUSTOMER RELATIONSHIPS. SCHEDULE 5.11 contains a true, accurate and complete list of the ten largest customer accounts, in terms of revenues to each of the Controlled Purchased Companies (a) for the calendar year ended December 31, 2000 and (b) for the year ended June 30, 2001, together with the dollar amount of revenue earned from each such customer during each of such periods. With respect to any such customer listed on SCHEDULE 5.11, no such customer has terminated or is expected to terminate a material portion of its normal business (based on past practice) with any of the Controlled Purchased Companies. No director or executive officer of any Seller or any Purchased Company, or any Affiliate of any of the foregoing, has any direct or indirect interest, either by way of equity ownership or otherwise, in any Person which competes with, is a customer of, or is a sales agent for, or is a party to any Contract with, any of the Controlled Purchased Companies.

SECTION 5.12 LICENSES AND PERMITS. SCHEDULE 5.12 sets forth a true and complete list, including the owner or holder thereof, of all of the material licenses, permits, franchises, authorizations, registrations, approvals and certificates of occupancy (or their equivalent) ("GOVERNMENTAL AUTHORIZATIONS") issued or granted to any of the Controlled Purchased Companies by any Governmental Authority, including without limitation, those required under the Environmental Laws (collectively, the "LICENSES AND PERMITS"), and all pending applications therefor. Such scheduled Licenses and Permits comprise all of the Governmental Authorizations necessary or required for the operation of the Business as currently conducted. Except as set forth of SCHEDULE 5.12; Governmental Authorizations held by the Controlled Purchased Companies or used in connection with the Business have been duly obtained, are valid and in full force and effect, and are not subject to any pending or threatened administrative or

judicial proceeding to revoke, cancel, suspend or declare any such Governmental Authorization invalid in any respect. Except as set forth on SCHEDULE 5.12, the Governmental Authorizations are owned or held, as applicable, by the applicable Purchased Company free and clear of all Liens.

SECTION 5.13 COMPLIANCE WITH LAW. The operations of the Controlled Purchased Companies and their respective businesses have been conducted in accordance with all applicable laws, regulations, orders and other requirements of all Governmental Authorities having jurisdiction over the Controlled Purchased Companies and their assets, properties and operations, except where the failure to do so would not have a material adverse effect on any of the Controlled Purchased Companies or the Purchased Stock or Purchased Debt or the ability to consummate the transactions contemplated by this Agreement. Except as set forth on SCHEDULE 5.13, no Seller nor any Purchased Company has received notice of any violation of any such law, regulation, order or other legal requirement, or are in default with respect to any order, writ, judgment, award, injunction or decree of any Governmental Authority.

SECTION 5.14 LITIGATION. Except as set forth of SCHEDULE 5.14, there are no Claims pending or, to the Sellers' knowledge, threatened, before any Governmental Authority brought by or against any Seller or any of the Controlled Purchased Companies or the Sellers' or any of the Controlled Purchased' respective officers, directors, partners, employees, agents or Affiliates involving, affecting or relating to the Business, the Controlled Purchased Companies, or any of the Purchased Stock or Purchased Debt or the transactions contemplated by this Agreement. None of the Sellers nor any of the Controlled Purchased Companies are named in, or otherwise bound by, any order, writ, judgment, award, injunction or decree of any Governmental Authority that affects or may reasonably be expected to affect the Business, any of the Controlled Purchased Companies, any of the Purchased Stock or Purchased Debt, or that would interfere with the transactions contemplated by this Agreement. SCHEDULE 5.14 lists all pending or to the Sellers' knowledge, threatened litigation brought by or against the Sellers, any of the Purchased Companies or their respective Subsidiaries with respect to the Business any of the Purchased Stock or Purchased Debt.

SECTION 5.15 CONTRACTS.

(a) SCHEDULE 5.15(a) sets forth a true and complete list of all of the contracts, agreements and other instruments and arrangements (whether written or oral) to which any of the Controlled Purchased Companies is a party or by which any of the Controlled Purchased Companies or any of the Purchased Stock or Purchased Debt is bound, in each case, which are of the nature described below or are otherwise material to the Business (collectively, the "CONTRACTS"), including but not limited to:

(i) arrangements relating to providing collection, transportation or disposal services for automobile, vehicle or other vehicle tires involving in excess of US$100,000 per year;

(ii) leases, licenses, permits, insurance policies, service contracts and other arrangements concerning or relating to real estate;

(iii) employment, consulting, collective bargaining or other similar arrangements relating to or for the benefit of current, future or former employees, agents, and independent contractors or consultants of the Controlled Purchased Companies;

(iv) agreements and instruments relating to the borrowing of money or obtaining of or extension of credit;

(v) material brokerage or finder's agreements;

(vi) contracts involving a sharing of profits or expenses;

(vii) material acquisition or divestiture agreements;

(viii) material service agreements;

(ix) manufacturer's representative, or distributorship agreements;

(x) arrangements limiting or restraining it from engaging or competing in any lines of business or with any Person; and

(xi) documents granting a power of attorney.

(b) All of the Contracts are in full force and effect and are valid, binding and enforceable against the parties thereto in accordance with their terms; provided that the agreements identified in Section 5.15(a)(x) may not be enforceable under all circumstances. The Sellers, the Controlled Purchased Companies and, to the best knowledge of the Sellers, each other party to the Contracts, has performed all obligations required to be performed by it to date under, and is not in default or delinquent in performance, status or any other respect (claimed or actual) in connection with, the Contracts, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default. The enforceability of the Contracts will not be affected in any manner by the execution, delivery and performance of this Agreement or the other documents and instruments delivered in connection with this Agreement. The Sellers have delivered to the Buyer or its representatives true and complete originals or copies of all of the Contracts.

SECTION 5.16 RECEIVABLES. All Accounts Receivable are reflected on SCHEDULE 5.16, were legally and validly incurred pursuant to bona fide transactions in the ordinary course of business consistent with past practices, and are current and Collectible in amounts not less than the aggregate amount thereof net of reserves reflected on the balance sheets of the Controlled Purchased Companies included in the Financial Statements as set forth on SCHEDULE 5.16, and are not subject to any counterclaims or set-offs. The term "COLLECTIBLE" shall mean that not less than one hundred percent (100%) of the book value of such Accounts Receivable are payable within ninety (90) days of the applicable due date. None of the Sellers nor any Controlled Purchased Company has any knowledge of any fact or circumstance generally that would result in any material increase in the uncollectability of the Accounts Receivable as a class. SCHEDULE 5.16 sets forth, as of June 30, 2001, all of the Accounts Receivable, the Controlled Purchased Company to which such amount is owed, the amount owing and the aging of such receivable, the name and last known address of the party from whom such receivable is owing, and any security in favor of it for the repayment of such receivable which the Controlled Purchased Companies purport to have.

SECTION 5.17 LABOR MATTERS.

(a) SCHEDULE 5.17(a) sets forth a true, accurate and complete list containing the names of all employees who are employed by any of the Controlled Purchased Companies, or who otherwise provide substantially all of their services to the Controlled Purchased Companies, as of the date hereof (the "BUSINESS EMPLOYEES"), the employer of such Business Employee, the job designations of each such Business Employee, the compensation paid to each such Business Employee and the basis for such compensation, currently and for calendar year 2000.

(b) None of the Controlled Purchased Companies is a party to (i) any employment agreement or consulting agreement with any Person, (ii) any agreement, policy or past or present practice that requires it to pay termination or severance pay to salaried, non-exempt or hourly employees (other than as required by law), (iii) any collective bargaining agreement or other labor union contract, nor does any Seller know of any activities or proceedings of any labor union to organize any such employees of the Controlled Purchased Companies, (iv) or subject to any conciliation agreements, consent decrees or settlements with respect to their employees. The Sellers have furnished, or have caused to be furnished, to the Buyer complete and correct copies of all such agreements, contracts and policies (the "EMPLOYMENT AND LABOR AGREEMENTS"). None of the Controlled Purchased Companies has breached or otherwise failed to comply with any provisions of any of the Employment and Labor Agreements and there are no grievances outstanding thereunder. The transactions contemplated hereby do not cause or give rise to the payment of any severance or "change of control" payments to any employee of the Controlled Purchased Companies.

(c) Each of the Controlled Purchased Companies is in compliance in all material respects with all applicable laws relating to employment and employment practices, wages, hours, and terms and conditions of employment.

(d) There is no unfair labor practice charge or complaint pending or to the knowledge of the Sellers, threatened before the National Labor Relations Board ("NLRB") or any other Governmental Authority relating to any of the Controlled Purchased Companies, including, without limitation, the Canada

Industrial Relations Board and any labor relations board of any province or territory of Canada.

(e) There is no labor strike, material slowdown or material work stoppage or lockout pending or to the knowledge of the Sellers threatened against or affecting any of the Controlled Purchased Companies, and none of the Controlled Purchased Companies has experienced any strike, material slowdown or material work stoppage, lockout or other collective labor action by or with respect to their employees.

(f) There is no representation, claim or petition pending before the NLRB or any other Governmental Authority, including, without limitation, the Canada Industrial Relations Board and any labor relations board of any province or territory of Canada, and no question concerning representation exists relating to the employees of any of the Controlled Purchased Companies.

(g) There are no charges with respect to or relating to any of the Controlled Purchased Companies pending before the Equal Employment Opportunity Commission or any other Governmental Authority responsible for the prevention of unlawful employment practices.

(h) None of the Sellers nor the Controlled Purchased Companies has received notice from any Governmental Authority responsible for the enforcement of labor or employment laws of an intention to conduct an investigation of it relating to the Business and no such investigation is in progress.

(i) Each Controlled Purchased Company has furnished to the Buyer a complete and accurate list of all its employee manuals, policies, procedures and work-related rules that apply to employees of any of the Controlled Purchased Companies ("EMPLOYEE POLICIES"). Each Controlled Purchased Company has provided the Buyer with copies of all of the written Employee Policies and a written description of all material unwritten Employee Policies. Each of the Employee Policies can be amended or terminated at will by the applicable Controlled Purchased Company.

(j) None of the Sellers nor the Controlled Purchased Companies has any liability in Canada for sick leave, vacation time, severance pay or similar items or any occupational disease of any of the employees, former employees or other Persons relating to any of the Controlled Purchased Companies.

SECTION 5.18 EMPLOYEE PLANS.

(a) SCHEDULE 5.18(a) sets forth a complete and correct list of all benefit plans and all employment, compensation, bonus, stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree medical or life insurance, supplemental retirement, severance, change of control or other benefit plans, programs or arrangements, in each case, which are maintained, contributed to or sponsored by any Seller on behalf of any current or former employees of the Business or by any of the Controlled Purchased Companies, or for which any of the Controlled Purchased Companies have any liability, contingent or otherwise (collectively, the "BENEFIT PLANS").

(b) The Benefit Plans have been operated and administered in all material respects in accordance with their terms and the applicable requirements of the Code and applicable law, except for such failures as would not reasonably have a material adverse effect on any of the Controlled Purchased Companies. All contributions and all payments required to have been made to or under any Benefit Plan have been properly made, except for such failures as would not have a material adverse effect on any of the Controlled Purchased Companies.

(c) No Benefit Plan is subject to Title IV of ERISA or is a multi-employer plan within the meaning of Section 3(37)(A) of ERISA. None of the Sellers nor any of the Controlled Purchased Companies, nor any trade or business (whether or not incorporated) which is or has ever been treated as a single employer with the Controlled Purchased Companies under Section 414(b), (c), (m) or (o) of the Code ("ERISA AFFILIATES"), has incurred any liability under Title IV of ERISA or Section 412 of the Code, except for such liability that has been paid in full.

(d) There is no Claim (excluding claims for benefits incurred in the ordinary course consistent with past practices) that is pending or to the Sellers' knowledge threatened with respect to any of the Benefit Plans.

(e) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment becoming due to any current or former employee or consultant of the any of the Controlled Purchased Companies, (ii) increase any benefits under any Benefit Plan, or (iii) result in the acceleration of the time of payment, vesting or other rights with respect to any benefits under any Benefit Plan.

(f) All pension plans maintained or required to be maintained by the Controlled Purchased Companies are duly registered under, and have been maintained in accordance with, all applicable laws.

SECTION 5.19 INSURANCE. SCHEDULE 5.19 lists the fidelity bonds and the aggregate coverage amount and type and generally applicable deductibles of all insurance policies insuring, or maintained by, the Controlled Purchased Companies (the "INSURANCE POLICIES") or the Sellers with respect to the Business. The Insurance Policies (together with all riders and amendments thereto) are in full force and effect and all premiums due on the Insurance Policies have been paid. The Controlled Purchased Companies have complied with the provisions of the Insurance Policies. Neither the Sellers nor any of the Controlled Purchased Companies has received any written notice canceling or threatening to cancel or

refusing to renew any of the Insurance Policies. The rights of the insured under the Insurance Policies will not be terminated or adversely affected by the transactions contemplated hereby. The Controlled Purchased Companies shall maintain the coverage under all Insurance Policies in full force and effect through and including the Closing Date. The Sellers have delivered to the Buyer or its representatives true and complete originals or copies of all of the Insurance Policies. The Insurance Policies are sufficient to comply with all requirements of applicable law, Contracts and Licenses and Permits, and are in amounts and coverages customary in the industry for similarly situated companies.

SECTION 5.20 OWNED REAL PROPERTY; LEASED REAL PROPERTY.

(a) (i) SCHEDULE 5.20(a)(i) sets forth a complete and accurate description of the real property owned by any of the Controlled Purchased Companies (the "OWNED REAL PROPERTY"). Except as may be indicated on the title insurance policies covering the Owned Real Property, the applicable Controlled Purchased Company has good, indefeasible and marketable fee simple title to the Owned Real Property. The Sellers have delivered to the Buyer or its representatives true and complete originals or copies of all of the existing title insurance policies covering the Owned Real Property.

(ii) Except as set forth in the title policies covering the Owned Real Property, (the "PERMITTED ENCUMBRANCES"), the Owned Real Property is not subject to any Liens (other than Permitted Liens). All Liens listed on SCHEDULE 5.20(a)(ii) shall be satisfied and discharged on or prior to the Closing Date unless otherwise indicated on SCHEDULE 5.20(a)(ii). All building, structures and improvements on the Owned Real Property and the operations therein conducted conform in all material respects to all applicable zoning and building laws, Environmental Laws, ordinances and administrative regulations, and neither the Sellers nor any of the Controlled Purchased Companies has received any notice of violation of the foregoing from any Governmental Authority, and all such buildings, structures, improvements and fixtures are in good order, condition and repair.

(iii) None of the Sellers nor any of the Controlled Purchased Companies has received any written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise), nor has any knowledge that any operations on or uses of the Owned Real Property constitute non-conforming uses under any applicable building, zoning, land use or other similar statutes, laws, ordinances, regulations, permits or other requirements. None of the Sellers nor any of the Controlled Purchased Companies has knowledge of or has received any written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) of any

pending or contemplated rezoning proceeding affecting the Owned Real Property.

(iv) The Owned Real Property has access to public roads, streets or the like or valid easements over private streets, roads or other private property providing ingress to and egress from such Owned Real Property.

(v) None of the Sellers nor any of the Controlled Purchased Companies has received any written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) from any utility company or municipality of any fact or condition which could reasonably be expected to result in the discontinuation of presently available or otherwise necessary sewer, water, electric, gas, telephone or other utilities or services for the Owned Real Property. The Owned Real Property has adequate rights of access to all water, sewer, sanitary sewer and storm drain facilities and community services. All public utilities necessary or convenient to the full use, occupancy, disposition and enjoyment of the Owned Real Property are located in the public right-of-way abutting the Owned Real Property and all such utilities are connected so as to serve the Owned Real Property without passing over other property.

(vi) Neither the Sellers nor any of the Controlled Purchased Companies have knowledge of any proposed reassessment of the Owned Real Property by the local taxing agencies, and there is no pending or threatened special assessment, tax reduction proceeding or other action which could reasonably be expected to increase or decrease real property taxes or assessments against the Owned Real Property.

(b) The Owned Real Property is not subject to any right or option of any other Person to purchase or lease or otherwise obtain title to an interest in the Owned Real Property. No Person other than the applicable Controlled Purchased Companies has any right to use, occupy or lease any of the Owned Real Property.

(c) A list of all of the leases (the "LEASES") affecting any real property with respect to which any of the Controlled Purchased Companies is a lessor or lessee is set forth on SCHEDULE 5.20(c) (the "LEASED REAL PROPERTY"). SCHEDULE 5.20(c) sets forth the lessor, lessee, commencement date, termination date, renewal or expansion options (if any), options to purchase such Leased Real Property and annual rents for each Lease and the amount of any security deposit delivered pursuant to such Lease. Each of the Leases is valid and enforceable in accordance with its terms and is in full force and effect. The Sellers have delivered to the Buyer true and complete copies of each Lease and all documents relating to such Leases including, without limitation, any non-disturbance and recognition agreements, subordination agreements, attornment agreements and agreements regarding the term or rental of any of the Leases. None of the Controlled Purchased Companies, nor any other party to any Lease, is in default of its obligations thereunder or has delivered or received any written notice (and none of Sellers' Senior Management has delivered or received notice of any kind, whether written or otherwise) of default under any Lease, nor has any event occurred which, with the giving of notice, the passage of time or both, would constitute a default under any Lease.

(d) The plumbing, electrical, heating, air conditioning, ventilating and all other mechanical or structural systems of all buildings and structures located on the Owned Real Property and the Leased Real Property are in good order, condition and repair and the roof, basement and foundation walls of all buildings and structures located on the Owned Real Property and the Leased Real Property are free of leaks and other defects that would have an adverse effect on their continued use and are suitable for their actual current use. The applicable Controlled Purchased Companies are in possession of valid certificates of occupancy with respect to all buildings and structures located on the Owned Real Property and the Leased Real Property.

(e) There are no proceedings in eminent domain or other similar proceedings pending which affect any of the Owned Real Property and the Leased Real Property nor, to the knowledge of the Sellers, is any such matter threatened. Except as disclosed on SCHEDULE 5.20(e), there exists no writ, injunction, decree, order or judgment outstanding relating to the ownership, lease, use, occupancy or operation of any Owned Real Property or any Leased Real Property, nor to the knowledge of the Sellers, is any such matter threatened.

(f) None of the Sellers nor any of the Controlled Purchased Companies has received written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) of any violation of any applicable statutes, laws, ordinances, regulations, permits or other requirements of any government, or any agency body or subdivision thereof, pertaining to the use, operation, or construction of the Owned Real Property or the Leased Real Property (including, without limitation, those relating to zoning, building, fire, health and safety, environmental control and safety, or the Americans with Disabilities Act or other similar state, provincial, local or foreign legislation) and no such violations exist.

(g) None of the Sellers nor any of the Controlled Purchased Companies has received written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) from any of its insurance carriers of any defects or inadequacies in any Owned Real Property or any Leased Real Property which, if not corrected, would result in termination of any Insurance Policy or insurance coverage therefore or an increase in the cost thereof.

(h) The buildings, driveways and all other structures and improvements upon the Owned Real Property and the Leased Real Property are within the boundary lines of such property or have the benefit of valid easements and there are no encroachments thereon that would adversely affect the use thereof.

SECTION 5.21 ENVIRONMENTAL MATTERS. The Buyer and the Sellers each agree that the only representations and warranties of the Sellers herein as to any environmental matters are those contained in this Section 5.21. Without limiting the generality of the foregoing, the Buyer specifically acknowledges that the representations and warranties contained in Sections 5.12, 5.13 and 5.14 do not relate to environmental matters.

(a) All of the Licenses and Permits required under Environmental Laws for the operation of the Business have been obtained and maintained in effect in good standing by the Controlled Purchased Companies. No material change in the facts or circumstances reported or assumed in the applications for such Licenses and Permits exists. The Controlled Purchased Companies are in compliance, and at all times have complied, with all Environmental Laws applicable to the operations associated with the Business, the transactions contemplated by this Agreement, the Owned Real Property, the Leased Real Property and each of the properties formerly owned, leased or operated by them with respect to the periods during which such entities owned, leased or operated such properties (the "FORMER REAL PROPERTY") and with all of the Licenses and Permits (including, without limitation, all filing and reporting requirements under all applicable Environmental Laws). Except as set forth on SCHEDULE 5.21(d), no Seller or Controlled Purchased Company, nor any of their respective Subsidiaries has received any notice of any violation with respect to any of such Licenses or Permits, which violations are outstanding or uncured as of the date hereof, and no proceeding is pending, or to the knowledge of the Sellers, threatened, to revoke or limit any of such Licenses or Permits. All of such Licenses and Permits are listed on SCHEDULE 5.21(a).

(b) None of the Controlled Purchased Companies has performed or suffered any act which could give rise to, or has otherwise incurred, liability to any Person, including itself, under the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. ("CERCLA") or any other Environmental Law, nor do the Sellers or any of the Controlled Purchased Companies have notice of any such liability or any Claim therefore or submitted notice pursuant to Section 103 of CERCLA to any governmental agency nor provided information in response to a request for information pursuant to Section 104(e) of CERCLA or any analogous state or local information gathering authority.

(c) No Hazardous Substance has been Released on, placed, dumped, disposed of, manufactured, stored or otherwise come to be located in, on, at, beneath or near any of the Owned Real Property, the Leased Real Property or the Former Real Property or any surface waters or groundwaters thereon or thereunder in excess of the levels prescribed or permitted under Environmental Laws.

(d) Except as set forth on SCHEDULE 5.21(d), there have not been and are no aboveground or underground storage tanks, polychlorinated

biphenyls or asbestos-containing materials located at or within the Owned Real Property, the Leased Real Property or the Former Real Property.

(e) None of the Owned Real Property, the Leased Real Property or the Former Real Property is identified or, to the Sellers' knowledge, proposed for listing on the National Priorities List under 40 C.F.R. Section300 Appendix B, the Comprehensive Environmental Response Compensation and Liability Inventory System ("CERCLIS") or any analogous list of any Government Authority and none of the Sellers nor any of the Controlled Purchased Companies is aware of any conditions on such properties which, if known to a Governmental Authority, would qualify such properties on any such list.

(f) The Sellers have furnished, or caused to be furnished, to the Buyer copies of all environmental studies, assessments or reports relating to any of the Controlled Purchased Companies, the Leased Real Property, the Owned Real Property and the Former Real Property in its possession or under its control.

(g) Except as set forth of SCHEDULE 5.21(g), none of the Owned Real Property, the Leased Real Property or the Former Real Property, or any current or previous business operations conducted by any of the Controlled Purchased Companies, is the subject of any pending or threatened investigation or judicial or administrative proceeding, notice, decree or settlement respecting any actual, potential or alleged violation of any Environmental Law, or any Releases of Hazardous Substances into any surface water, ground water, drinking water supply, soil, land surface, subsurface strata, or ambient air, or in the workplace at a level that exceeds standards established by an applicable Governmental Authority (collectively, the "ENVIRONMENT"). None of the Sellers, nor any Controlled Purchased Company, nor any of their respective Subsidiaries has received from any Governmental Authority, insurance company or other Person: any request for information that a Seller, Controlled Purchased Company or Subsidiary thereof is the subject of an investigation under Environmental Laws; notice of any potential or alleged violations of any Environmental Laws or of any proposed order under any Environmental Laws; or any order or proposed order requiring any of such parties to prepare studies, action plans, or clean-up strategies as required by any Environmental Law because of any Environmental Condition on any of the Owned Real Property, the Leased Real Property or the Former Real Property.

(h) None of the Sellers, with respect to the Business, nor any of the Controlled Purchased Companies has reported any violation of any applicable Environmental Law to any Governmental Authority; and no Releases have occurred on any of the Owned Real Property, Leased Real Property or Former Real Property, which would require the Controlled Purchased Companies to report to any Governmental Authority under any Environmental Laws.

(i) None of the Controlled Purchased Companies has sent, transported, or directly arranged for the transport of any garbage, solid waste or Hazardous Substance, whether generated by the Controlled Purchased Companies or another Person, to any site listed on the National Priorities List or, proposed for listing on the National Priorities List or to a site included on the CERCLIS list or any analogous state list of sites.

(j) Except as set forth on SCHEDULE 5.21(j), there is not now, nor has there ever been, on or in any Owned Real Property, Leased Real Property or Former Real Property, any generation, treatment, recycling, storage or disposal of any hazardous waste, as that term is defined under 40 C.F.R. Part 261 or any state or foreign equivalent, including, without limitation, the Environmental Management and Protection Act (Saskatchewan) and the Environmental Protection Act (Ontario), except in accordance with Environmental Laws.

SECTION 5.22 INTELLECTUAL PROPERTY AND OTHER TANGIBLE ASSETS. Except as indicated on SCHEDULE 5.22, the applicable Controlled Purchased Companies own, or have a valid license to use all domestic and foreign patents, patent rights, patents pending, patent applications and registrations,

industrial designs, trademarks, trademark rights, trademark applications, trademark registrations, trade names, trade name rights, domain names, service marks, copyrights, computer software, databases, licenses and other proprietary

rights and all know how relating to the foregoing (collectively, the "INTELLECTUAL PROPERTY") owned, licensed or used by any of the Controlled Purchased Companies (the "PURCHASED INTELLECTUAL PROPERTY"), in the manner currently used by them. Schedule 5.22 contains a list of the Purchased Intellectual Property which is registered and indicates the owner and/or licensee and registration status and registration number thereof. The Purchased Intellectual Property is valid and none of the Sellers nor any of the Controlled Purchased Companies has received, or has knowledge of, any challenges to the validity thereof. To the knowledge of the Sellers, none of the Controlled Purchased Companies is infringing upon or in violation of the Intellectual Property of any other Person. To the knowledge of the Sellers and the Controlled Purchased Companies, none of the Purchased Intellectual Property is being infringed upon by any Person or is otherwise used or available for use by any Person other than the Controlled Purchased Companies.

SECTION 5.23 ORGANIZATIONAL DOCUMENTS. Copies of the certificates of incorporation or articles or certificates of formation, as applicable, of each of the Purchased Companies (as certified by a Governmental Authority of the jurisdiction of their respective organization) and copies of the by-laws or operating agreements of each of the Purchased Companies and all amendments thereto and all other Organizational Documents of each of the Purchased Companies have been delivered to the Buyer, and such copies, as so amended, are true, complete and accurate. None of the Controlled Purchased Companies is in violation of any of its respective Organizational Documents.

SECTION 5.24 UNLAWFUL OR UNDISCLOSED PAYMENTS. None of the Sellers, with respect to the conduct of the Business, nor any of the Controlled Purchased Companies, nor any Person acting on behalf of any of them, has made any payments or otherwise provided any benefits, direct or indirect, to any customer, supplier, Governmental Authority or otherwise, or to any employee or agent thereof, for the purpose of acquiring purchase or sales relationships, or otherwise, that:

(a) may be unknown or undisclosed to the employers of any Persons who received any such payments;

(b) are unlawful, in any respect; or

(c) are not fully disclosed as such on the books and records of the Sellers or the Controlled Purchased Companies (and have been disclosed in writing to the Buyer).

SECTION 5.25 DISCLOSURE OF CONFIDENTIAL INFORMATION TO OTHERS; NON-COMPETITION AGREEMENTS.

(a) There are no currently existing and effective Contracts to which any Seller or any of the Controlled Purchased Companies is a party and which restrict any of them from engaging in the Business as currently, or currently proposed to be, conducted or from competing with any other Person.

(b) There are no non-disclosure or similar such agreements to which any of the Controlled Purchased Companies is a party that binds any of them with respect to information provided to a Controlled Purchased Company.

(c) There are no non-disclosure, non-competition or similar such agreements with respect to which any of the Controlled Purchased Companies is a beneficiary.

SECTION 5.26 ACCURACY OF INFORMATION. None of the representations, warranties or statements contained in this Article V, or in any of the exhibits hereto or any certificate delivered to Buyer pursuant to this Agreement contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any of such representations, warranties or statements, in light of the circumstances under which they were made, not misleading.

SECTION 5.27 CLOSURE BONDS. SCHEDULE 5.27 sets forth a description of all of the "closure bonds" issued to or on behalf of, guaranteed by or otherwise controlled by any of the Controlled Purchased Companies, or by any of the Sellers with respect to the Business to be transferred to the Buyer (the "CLOSURE BONDS").

SECTION 5.28 RTO. Seller acknowledges and agrees that Buyer's current intention is to cause all of the membership and other interests of Recovery Technology Operations, LLC, an Illinois limited liability company, held by RTG to be transferred to Holdco 2 LLC after the Closing.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer hereby represents and warrants to the Sellers as follows:

SECTION 6.1 CORPORATE ORGANIZATION. The Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite power and authority to own its properties and assets as now conducted.

SECTION 6.2 CAPITALIZATION OF THE BUYER. Other than the funds managed or controlled by Angelo, Gordon & Co., L.P. and its Affiliates, and certain members of management of RTG, New Heights and their Subsidiaries, no person or entity is a member of the Buyer and there are no Rights requiring the admission of any Person as a member of Buyer, and there are no contracts or other agreements by which any person has a right to become a member of the Buyer. Neither the Buyer nor, to the Buyer's knowledge, its members, is a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any membership interest of Buyer.

SECTION 6.3 AUTHORIZATION AND VALIDITY OF AGREEMENTS. The Buyer has all requisite corporate power and authority to enter into this Agreement and the other agreements and instruments delivered by the Buyer under this Agreement and to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and the other agreements and instruments delivered by the Buyer under this Agreement and the performance of the Buyer's obligations hereunder and thereunder have been duly authorized by all necessary action by the members of the Buyer, and no other limited liability company proceedings on the part of the Buyer is necessary to authorize such execution, delivery and performance. This Agreement and the other agreements and instruments delivered by the Buyer under this Agreement have been duly executed by the Buyer and constitute its legal, valid and binding obligations, enforceable against it in accordance with their respective terms.

SECTION 6.4 NO CONFLICT OR VIOLATION. The execution, delivery and performance by the Buyer under this Agreement and the other agreements and instruments delivered by it pursuant to this Agreement do not and will not violate or conflict with any provision of the Organizational Documents of the Buyer and do not and will not violate any provision of law, or any order, judgment or decree of any court or other governmental or regulatory authority, nor violate nor will result in a breach of or constitute

(with due notice or lapse of time or both) a default under any contract, lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Buyer is a party or by which it is bound or to which any of its properties or assets is subject.

SECTION 6.5 CONSENTS AND APPROVALS. The execution, delivery and performance of this Agreement on behalf of the Buyer do not require the consent, waiver, authorization or approval of any Governmental Authority or of any other Person.

SECTION 6.6 INVESTMENT PURPOSES. The Buyer is acquiring the Purchased Stock and Debt for its own account for investment and not with a view to the distribution thereof, and agrees that it shall not make any sale, transfer or other disposition of such Stock in violation of the Securities Act of 1933, as amended, or the rules and regulations thereunder.

ARTICLE VII

[INTENTIONALLY OMITTED]

ARTICLE VIII
COVENANTS OF THE SELLERS

SECTION 8.1 CONDUCT OF BUSINESS PRIOR TO THE CLOSING DATE.

(a) Without the prior written consent of the Buyer, between the date hereof and the Closing Date, the Sellers shall not, and shall cause the Controlled Purchased Companies not to, except (1) as required or expressly permitted pursuant to the terms hereof, (2) as set forth on SCHEDULE 8.1(a), or (3) the prior written consent of the Buyer:

(i) make any material change in the conduct of the Business or enter into any transaction other than in the ordinary course of business consistent with past practices;

(ii) make any sale, transfer, or other conveyance of any assets of any of the Controlled Purchased Companies in an amount greater than US$10,000, other than in the ordinary course of business consistent with past practices (except as otherwise provided in subclause (xii) of this SECTION 8.1(a));

(iii) subject any of the assets owned by the Controlled Purchased Companies to any Lien;

(iv) pay, lend or advance any amount to, or sell, transfer or lease any properties or assets to, or enter into any agreement or arrangement with, any of its Affiliates with respect to the Controlled Purchased Companies, other than in the ordinary course of business consistent with past practices (except as otherwise provided in subclause (xii) of this SECTION 8.1(a));

(v) take any action that would cause any of the representations and warranties made by it in this Agreement not to remain true and correct;

(vi) write down or write off as uncollectable any of the Accounts Receivable;

(vii) settle, release or forgive any Claim or litigation or waive any right thereto with respect to the Controlled Purchased Companies or the Business except claims that are Seller Liabilities (provided, however, that any liability resulting from any such settlement, release or forgiveness shall constitute a Seller Liability);

(viii) make, enter into, modify, amend in any material respect or terminate any of the Contracts, bids or expenditures with respect to the Business involving an expenditure of more than US$50,000, other than as set forth in Section (viii) of SCHEDULE 8.1(a), which agreements the Sellers may continue to negotiate and enter into for so long as they exercise commercially reasonable judgment and keep the Buyer informed as to progress and terms;

(ix) make, change or revoke any election or method of accounting with respect to the Taxes affecting or relating to the Controlled Purchased Companies;

(x) enter into, or permit to be entered into, any closing or other agreement or settlement with respect to the Taxes affecting or relating to the Controlled Purchased Companies;

(xi) adopt any new employee benefit plan or arrangement for Business Employees, or increase the compensation of Business Employees;

(xii) cause or permit the Controlled Purchased Companies to distribute or pay, or authorize the distribution or payment by the Controlled Purchased Companies of, any cash or other assets or property to Sellers or any of their Affiliates, except with respect to (A) the payment of US$810,220, reduced by applicable withholding taxes, by RT Canada to Casella, KTI Environmental Group and Affiliates of Casella of accrued management fees and accrued interest on intercompany loans; provided, however, concurrently with the payment of such accrued management fees and interest, Casella shall make an intercompany loan to RT Canada of US$810,220; and (B) Seller Distributions; or

(xiii) commit to do any of the foregoing.

(b) From and after the date hereof through the Closing Date, the Sellers shall, and shall cause the Controlled Purchased Companies, to:

(i) continue to maintain, in all material respects, the Business in accordance with present practice in a condition suitable for their current use;

(ii) file, when due or required, its Federal, state, foreign and other Tax Returns required to be filed and pay when due all the Taxes, unless the validity thereof is contested in good faith and by appropriate proceedings diligently conducted;

(iii) keep, and cause the Controlled Purchased Companies to keep, the Files and Records in the ordinary course consistent with past practices;

(iv) use commercially reasonable efforts to continue, and to cause the Controlled Purchased Companies to continue, to maintain existing business relationships with customers with respect to the Business;

(v) pay and satisfy when due all payables and payroll expenses of the Purchased Companies as and when due consistent with past practice; and

(vi) notify the Buyer no later than three (3) Business Days following the date of any notice or other communication from any Governmental Authority, in connection with the transactions contemplated by this Agreement.

SECTION 8.2 CONSENTS AND APPROVALS. Prior to the Closing, the Sellers (a) shall, at its own cost and expense, use commercially reasonable efforts to obtain all necessary consents, waivers, authorizations, and approvals of all Governmental Authorities and all other Persons required in connection with the execution, delivery and performance by the Sellers of this Agreement and the other agreements and instruments required to consummate the transactions contemplated hereby and (b) shall diligently assist and cooperate with the Buyer in preparing and filing all documents, including permits, transfers, modifications and applications required to be submitted by the Buyer to any Governmental Authority, in connection with such transactions and in obtaining any governmental consents, waivers, authorizations or approvals which may be required to be obtained by the Buyer in connection with such transactions (which assistance and cooperation shall include, without limitation, timely furnishing to the Buyer all information concerning the Sellers that counsel to the Buyer determines is required to be included in such documents or would be helpful in obtaining any such consent, waiver, notation, authorization or approval).

SECTION 8.3 ACCESS TO PROPERTIES AND RECORDS. The Sellers shall afford to the Buyer, and to its accountants, counsel, prospective lenders, agents and representatives, upon reasonable notice, full access during normal business hours throughout the period from the date hereof through the Closing Date to all Owned Real Property, Leased Real Property, operations, books, Contracts and Files and Records (including but not limited to Tax Returns and correspondence with accountants) of the Controlled Purchased Companies and, during such period, shall furnish promptly to the Buyer all other information concerning the Business and its properties and personnel as the Buyer may reasonably request; provided, that no investigation or receipt of information pursuant to this Section 8.3 shall qualify any representation or warranty of the Sellers or the conditions to the obligations of the Buyer.

SECTION 8.4 GOVERNMENTAL FILINGS. As soon as practicable, the Sellers and the Buyer shall make any and all filings and submissions to any Governmental Authority which are required to be made in connection with the transactions contemplated hereby. The Sellers shall furnish to the Buyer such information and assistance as the Buyer may reasonably request in connection with the preparation by them of any such filings or submissions. The Sellers shall supply the Buyer and the Buyer shall supply the Sellers with copies of all correspondence, filings or communications (or memoranda setting forth the substance thereof) between such party or its representatives, on the one hand, and any Governmental Authority or members of their respective staffs, on the other hand, with respect to this Agreement or the transactions contemplated hereby.

SECTION 8.5 NON-COMPETE AND NON-SOLICITATION PROVISIONS; CONFIDENTIALITY.

(a) Each of the Sellers, for itself and on behalf of each of its direct and indirect Subsidiaries (the "SELLER GROUP"), agree that, without the prior written consent of the Buyer, for a period of five (5) years after the Closing Date, none of the Seller Group shall, within the United States, Canada or Mexico, directly or indirectly (whether as a stockholder, director, officer, employee, principal, member, manager, agent, trustee, partner, joint venturer, financing source, consultant or employee or in any other capacity whatsoever), engage in the business of collecting, processing and recycling automobile, truck and other vehicle tires, provided that the Sellers shall be entitled to (i) collect and shred automobile, truck and other vehicle tires to the extent permitted by the Holdco 1 Stockholder Agreement and (ii) collect and dispose of automobile, truck and other vehicle tires in connection with and incidental to their municipal solid waste programs.

(b) The Sellers acknowledge and agree that the value to the Buyer of the transactions contemplated by this Agreement would be substantially diminished if the Sellers or any member of the Seller Group were to solicit the employment of any employees of a Seller or a Purchased Company on the date hereof or on or after the Closing Date. The Sellers and each member of the Seller Group agree, that, without the prior written consent of the Buyer, for the five (5) year period commencing on the Closing Date, they will not, except by general advertising not targeted or directed at any employees of the Purchased Companies, make, offer, solicit or induce to enter into, any written or oral arrangement, agreement or understanding regarding employment or retention as a consultant with any person who is, on the date hereof or on or after the Closing Date, an employee of any of the Controlled Purchased Companies.

(c) The Sellers recognize and acknowledge that information about the Controlled Purchased Companies and the Business or relating to the services provided by the Controlled Purchased Companies or any phase of their operations or business or financial affairs that is not a matter of public record, including, without limitation, techniques, know-how, plans, contracts, business methods, strategies, technologies, trade secrets, customers, subscribers, distributors, suppliers, inventions and computer programs (collectively, the "CONFIDENTIAL INFORMATION"), is not generally known to its competitors. Notwithstanding the foregoing, Confidential Information shall not include any information which is or becomes generally available to the public other than as a result of disclosure in violation of this Agreement. Accordingly, the Sellers will not, at any time after the date hereof, directly or indirectly, without the prior written consent of the Buyer: (i) use any Confidential Information for its own benefit; or (ii) except as may be required by law, divulge, disclose or make accessible any of the Confidential Information or any part thereof to any Person for any reason or purpose whatsoever. In the event that a Seller becomes legally compelled to disclose any of the Confidential Information, such Seller will provide the Buyer with prompt notice so that the Buyer may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Section 8.5(c). In the event that such protective order or other remedy is not obtained, or that the Buyer waives compliance with this Section 8.5(c), the Sellers will furnish only that portion of the Confidential Information which is legally required.

(d) The Sellers specifically acknowledge and agree that the value to the Buyer of the transactions contemplated by this Agreement would be substantially diminished if any of the Sellers or any member of the Seller Group does not comply in all respects with this Section 8.5, and the Sellers have agreed to the covenants set forth in this Section 8.5 as an inducement to the Buyer to enter into this Agreement. The Sellers acknowledge that the Buyer would not purchase the Purchased Stock or Purchased Debt but for the agreements and covenants of the Sellers set forth in this Section 8.5. The Sellers acknowledge and agree that the covenants set forth in this Section 8.5 are commercially reasonable and reasonably necessary to protect the interests the Buyer intends to acquire hereunder. The Buyer and the Sellers agree that the Buyer will suffer substantial damages in the event of a breach of the provisions of this Section 8.5, the amount of which may be difficult to establish promptly and with certainty. The Sellers acknowledge and agree that a monetary remedy for a breach of the covenants set forth in this Section 8.5 hereof may be inadequate and further agree that such a breach would cause the Buyer irreparable harm, and that the Buyer shall be entitled to temporary and permanent injunctive relief without the necessity of proving actual damages.

(e) If a court of competent jurisdiction determines that any of the provisions of this Section 8.5 is unenforceable because of the scope, duration or area of applicability of such provision(s), it is the intention of the parties that the court making such determination (i) shall modify such scope, duration or area, or all of them, only to the extent required to cause such provisions to be deemed enforceable; and (ii) that such provision(s) as so modified shall then be deemed by such court to be applicable and enforceable in such modified form and shall be enforced.

SECTION 8.6 DISCLOSURE. Until the Closing, the Sellers shall have the continuing obligation to promptly supplement or amend the written disclosures being made pursuant to this Agreement with respect to any matter hereafter arising or discovered which, if existing or known at the date of this Agreement, would have been required to be set forth or described in such written disclosures; provided, however, that for the purpose of the rights and obligations of the parties hereunder, any such supplemental disclosure shall not be deemed to have been disclosed as of the date of this Agreement for purposes of Section 14.1 (in which case Casella shall reimburse Buyer for all of its Transaction Expenses pursuant to Section 16.4 if the transactions contemplated by this Agreement are not consummated as a result of any of the matters not disclosed in writing to Buyer pursuant to this Agreement as of the date hereof), but if the Closing occurs, such disclosure shall be deemed to have been disclosed for purposes of Section 12.1. Until the Closing, Casella shall promptly give to the Buyer written notice upon learning of or having knowledge of any matter that may constitute a breach of any representation, warranty, agreement or covenant contained in this Agreement, which notice shall identify and describe the breach in reasonable detail.

SECTION 8.7 RECONCILED DISTRIBUTIONS. Sellers shall provide to Buyer all information necessary or otherwise requested by Buyer to determine the amount of the Reconciled Distributions and the Seller Distributions.

SECTION 8.8 CONTINUED USE OF SELLERS' FACILITIES. Sellers shall permit Buyer and the Purchased Companies (without any cost to the Buyer or any of the Purchased Companies) to use all of the Intellectual Properties of the Sellers (including, without limitation, the management information systems of the Sellers) currently being used by the Purchased Companies for a period of 90 days after the Closing Date in the same manner as currently being used by the Purchased Companies.

ARTICLE IX
COVENANTS OF THE BUYER

SECTION 9.1 ACTIONS PRIOR TO THE CLOSING DATE. Between the date hereof and the Closing Date, the Buyer shall not take any action which shall cause it to be in breach of any of its representations, warranties, covenants or agreements contained in this Agreement. The Buyer shall use its commercially reasonable efforts to perform all its obligations and satisfy all conditions to Closing to be performed or satisfied by it under this Agreement as soon as practicable, but in no event later than the Closing Date. Until the Closing, the Buyer shall promptly give to Casella written notice upon learning of or having knowledge of any matter that may constitute a breach of any representation, warranty, agreement or covenant of the Buyer contained in this Agreement, which notice shall identify and describe the breach in reasonable detail.

SECTION 9.2 CONFIDENTIALITY. The Buyer recognizes and acknowledges that all information about the Purchased Companies and the Business or relating to the services provided by the Purchased Companies or any phase of their operations or business or financial affairs that is not a matter of public record, including, without limitation, techniques, know-how, plans, contracts, business methods, strategies, technologies, trade secrets, customers, subscribers, distributors, suppliers, inventions and computer programs (collectively, the "SELLER CONFIDENTIAL INFORMATION"), is not generally known to its competitors. Notwithstanding the foregoing, Seller Confidential Information shall not include any information which is or becomes generally available to the public other than as a result of disclosure in violation of this Agreement. Accordingly, the Buyer will not, at any time prior to the Closing Date, except as necessary for the consummation of the transactions contemplated hereby, directly or indirectly, without the prior written consent of Casella: (i) use the Seller Confidential Information for its own

benefit; (ii) except as may be required by law, divulge, disclose or make accessible the Seller Confidential Information or any part thereof to any Person for any reason or purpose whatsoever; or (iii) render any services to any Person to whom the Seller Confidential Information, in whole or in part, has been disclosed or is threatened to be disclosed by or at the instance of the Buyer. In the event that the Buyer becomes legally compelled to disclose the Seller Confidential Information, the Buyer will provide Casella with prompt notice so that the Sellers may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Section 9.2. In the event that such protective order or other remedy is not obtained, or that Casella waives compliance with this Section 9.2, the Buyer will furnish only that portion of the Seller Confidential Information which is legally required. The Buyer acknowledges and agrees that the covenants set forth in this Section 9.2 are commercially reasonable and reasonably necessary to protect the interests of the Sellers hereunder. The Buyer agrees that the Sellers will suffer substantial damages in the event of a breach of the provisions of this Section 9.2, the amount of which may be difficult to establish promptly and with certainty. The Buyer acknowledges and agrees that a monetary remedy for a breach of the covenants set forth in this Section 9.2 hereof may be inadequate and further agrees that such a breach would cause the Sellers irreparable harm, and that the Sellers shall be entitled to temporary and permanent injunctive relief without the necessity of proving actual damages. If a court of competent jurisdiction determines that any of the provisions of this Section 9.2 is unenforceable because of the scope, duration or area of applicability of such provision(s), it is the intention of the parties that the court making such determination (i) shall modify such scope, duration or area, or all of them, only to the extent required to cause such provisions to be deemed enforceable; and (ii) that such provision(s) as so modified shall then be deemed by such court to be applicable and enforceable in such modified form and shall be enforced.

SECTION 9.3 CONSENTS AND APPROVALS. The Buyer shall, at its cost and expense, use reasonable efforts to obtain all necessary consents and approvals of third parties required to be obtained by it to effect the transactions contemplated by this Agreement.

SECTION 9.4 ACCESS TO PROPERTIES. The Sellers, its agents, employees, consultants and representatives shall have access to the Leased Real Property and Owned Real Property during normal business hours (or such other times as the parties hereto may mutually agree) subsequent to the Closing with right to conduct inspections, surveys, sampling, test borings, well installation, removal, containment, treatment or remediation of Hazardous Substances (hereafter, "Work") to the extent such Work is required by applicable law and pursuant to this Agreement; provided, however, that the Seller shall provide the Buyer with reasonable prior notice of the Work (but not less than 5 Business Days), and any such Work shall be performed in a manner that does not unreasonably interfere with the Buyer's ownership or use of the Lease Real Property and Owned Real Property. Seller shall provide Buyer a copy of each final report prepared in connection with the Work.

ARTICLE X
TAXES

SECTION 10.1 TAX RETURNS.

(a) For any Pre-Closing Tax Period that is not part of a Straddle Period, the Sellers shall or shall cause the Controlled Purchased Companies to, timely prepare and file with the appropriate authorities all income Tax Returns required to be filed by or with respect to the Controlled Purchased Companies regardless of the due date of such Tax Returns, and shall pay or cause to be paid all Taxes shown to be due or required to be paid on such Tax Returns. The Sellers also shall prepare and timely

file, or cause the Controlled Purchased Companies to prepare and timely file, all other Tax Returns required to be filed by or with respect to the Controlled Purchased Companies that are due on or before the Closing Date, and the Sellers shall pay all Taxes shown to be due or required to be paid on such Tax Returns. The Sellers shall include the income of the Controlled Purchased Companies (to the extent such Controlled Purchased Companies are members of the Sellers' "Affiliated Group") (within the meaning of Section 1504(a) of the Code)) for all Pre-Closing Tax Periods (including any deferred income included in income by

Treasury Regulations Sections 1.1502-13 and 1.1502-14 and similar provisions of state, local or foreign law and any excess loss accounts taken into account under Treasury Regulations Section 1.1502-19 and similar provisions of state, local or foreign law) on the Sellers' consolidated or combined returns and pay any Taxes attributable to such income. The Buyer shall timely prepare and file, or cause the Controlled Purchased Companies to prepare and timely file, all other Tax Returns required to be filed by or with respect to the Controlled Purchased Companies, and shall pay, or cause the Controlled Purchased Companies or the appropriate Subsidiary thereof to pay, all Taxes shown to be due or required to be paid on those Tax Returns. Each party that prepares Tax Returns pursuant to this Section 10.1 shall permit the other party a reasonable opportunity to review and comment on such Tax Returns and shall make such changes as are reasonably requested.

(b) In the case of any Straddle Period, and in the case of the final taxable year of the Controlled Purchased Companies (other than the Canadian Subsidiaries) for U.S. Federal income tax purposes as a member of the Sellers' affiliated group for the Pre-Closing Tax Period, to the extent that Taxes of the Controlled Purchased Companies are based on or measured by income or gross receipts in lieu of income and not on a transaction basis (which are subject to indemnification by the Sellers to the extent set forth in this Section 10.1 and Article XII of this Agreement), such Taxes shall be computed using a closing-of-the-books method as if such taxable period ended as of the end of the Closing Date, with all standard deductions, exemptions, progressivity in rates, and other items calculated with respect to the full Straddle Period apportioned to the Pre-Closing Tax Period based upon the ratio of the number of days during the Straddle Period that are in the Pre-Closing Tax Period to the total number of days in the Straddle Period; provided, however, that any transactions not in the ordinary course of a Purchased Company's business that occur on the Closing Date but after the Closing shall be considered to occur on the day following the Closing Date. In the case of any Straddle Period, to the extent that Taxes are not based on or measured by income or gross receipts in lieu of income, such Taxes for the Pre-Closing Tax Period shall be (i) for any Tax that is determined based upon specific transactions (including, but not limited to, value added, sales and use Taxes), all Taxes applicable to transactions that have been consummated during the period through the Closing Date and (ii) for any Tax that is not based upon specific transactions (including, but not limited to, license, real property, personal property, franchise and doing business Taxes), an amount equal to the full amount of such Tax for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days during the Straddle Period that are in the Pre-Closing Tax Period and the denominator of which is the total number of days in the Straddle Period (as such amount shall be equitably adjusted to reflect material acquisitions or disposition during the Straddle Period).

(c) The Sellers' indemnity obligations for Taxes for a Straddle Period of any Controlled Purchased Company shall initially be effected by its payment to the Buyer of 100% of the excess of (a) such Taxes for the Pre-Closing Tax Period, over (b) the sum of (i) the amount of such Taxes paid by the Sellers or any of their respective affiliates (other than such Controlled Purchased Company) at any time, plus (ii) the amount of such Taxes paid by such Controlled Purchased Company before the Closing. The Sellers shall initially pay such excess to the Buyer within fifteen (15) days after the Tax Return with respect to the liability for such Taxes is required to be filed (or, if later, is actually filed). If the amount of such Taxes paid to Buyer by the Sellers or any of their respective Affiliates (other than a Controlled Purchased Company) pursuant to this Section 10.1(c) at any time exceeds 100% of the excess

if any of (x) the amount of such Taxes for the Pre-Closing Period, over (y) the amount of such Taxes paid by the Controlled Purchased Companies, the Buyer shall pay to the Sellers the amount of such excess, within fifteen (15) days after the Tax Return with respect to the liability for such Taxes is required to be filed. The payments to be made under this paragraph by the Sellers or the Buyer with respect to any Straddle Period shall be appropriately adjusted to reflect any final determination with respect to Taxes for such Straddle Period.

SECTION 10.2 COOPERATION. The Sellers, the Buyer, and each of the Controlled Purchased Companies shall reasonably cooperate, and shall cause their respective Affiliates, officers, employees, agents, auditors, and other representatives to reasonably cooperate, in preparing and filing all Tax Returns relating to Taxes of the Controlled Purchased Companies, including maintaining and making available to each other all records necessary in connection with such

Taxes and in resolving all disputes and audits with respect to all taxable periods relating to such Taxes. The Buyer and the Sellers recognize and agree that the other party and its Affiliates will need access from time to time after the Closing to certain accounting and Tax records and information held by such party and its respective Affiliates to the extent such records and information pertain to events occurring on or before the Closing Date. Therefore, each of the Buyer and the Sellers shall, and the Buyer shall cause each of the Controlled Purchased Companies to, (a) properly retain and maintain such records and information in accordance with the past custom and practice of such Person until such time as such retention and maintenance is no longer reasonably necessary, provided that such records and information shall be retained and maintained until the expiration of the applicable statute of limitations, and (b) allow the other party, its Affiliates and their agents and representatives, at times and dates mutually acceptable to the parties, to inspect, review and make copies of such records and information as such other party may deem necessary or appropriate from time to time, such activities to be conducted during normal business hours and at the other party's expense. Notwithstanding anything to the contrary in this Agreement, the provisions of this Section 10.2 shall be effective until the expiration of the applicable statute of limitations.

SECTION 10.3 REFUNDS. Except as otherwise provided in this Section 10.3, any refunds or credits of Taxes of the Controlled Purchased Companies for any Pre-Closing Tax Period that is distributed to Holdco 1 Corp. that is not part of a Straddle Period shall be for the account of the Sellers. Any refunds or credits of Taxes of the Controlled Purchased Companies for any Straddle Period that is distributed to Holdco 1 Corp. shall be equitably apportioned between the Sellers and the Buyer (based on each party's respective indemnification obligations with respect to such Taxes). Any other refunds or credits of Taxes of the Controlled Purchased Companies that is distributed to Holdco 1 Corp. shall be for the account of the Buyer.

SECTION 10.4 AMENDED RETURNS. The Sellers shall be responsible for filing any amended consolidated, combined, or unitary income Tax Returns for Pre-Closing Tax Periods that are not part of a Straddle Period that are required as a result of examination adjustments made by the Internal Revenue Service or by the applicable state, local, or foreign taxing authorities for such taxable years as finally determined. For those jurisdictions in which separate income Tax Returns are filed by any of the Controlled Purchased Companies, any required amended income Tax Returns resulting from such examination adjustments, as finally determined, shall be prepared by the Sellers and furnished to the Buyer for approval (which shall not be unreasonably withheld), signature and filing at least ten (10) days before the due date for filing such amended income Tax Returns.

SECTION 10.5 AUDITS. The Sellers shall allow the Buyer and its counsel to participate in any audits of the Sellers' consolidated or combined income Tax Returns to the extent that such returns relate to the Controlled Purchased Companies. The Sellers shall not settle any such audit in a manner that would adversely affect the Buyer or any of the Purchased Companies after the Closing Date without the

consent of the Buyer (which shall not be unreasonably withheld or delayed). The Buyer shall allow the Sellers and their counsel to participate in any audits of any Controlled Purchased Companies to the extent that such audits pertain to Taxes for which the Sellers are liable pursuant to Section 10.1 hereof. The Buyer shall not settle or cause to have settled any such audit without the consent of the Sellers (which shall not be unreasonably withheld or delayed.)

SECTION 10.6 TAX SHARING AGREEMENTS. All Tax sharing, Tax allocation, Tax indemnity or other similar agreements in effect prior to the Closing to which any of the Controlled Purchased Companies is a party or by which any of them is bound shall be terminated as of the Closing Date and, after the Closing Date, each of the Controlled Purchased Companies shall not be bound thereby or have any liability thereunder except those tax indemnifications disclosed on SCHEDULE 5.8(a)(v).

SECTION 10.7 CERTIFICATE OF NON-FOREIGN STATUS. At the Closing, the Sellers shall deliver to the Buyer, pursuant to Section 1445(b)(2) of the Code and Treasury Regulation Section 1.1445-2(b)(2), a duly executed certification of non-foreign status. Such certification shall conform to the model certification provided in Treasury Regulation Section 1.1445-2(b)(2)(iii)(B).

SECTION 10.8 GOVERNING PROVISIONS. To the extent that any amounts are payable to Buyer or Sellers pursuant to this Article X, the provisions of this Article X shall solely govern the payment of such amounts; provided, however, that the provisions of Article XII of this Agreement shall govern the remedies available to Buyer and Sellers as a result of any breach of the provisions of this Article X.

ARTICLE XI
EMPLOYEE BENEFITS

SECTION 11.1 EMPLOYMENT MATTERS.

(a) Notwithstanding anything to the contrary contained herein, SCHEDULE 11.1 sets forth a list of those current employees of, and consultants to, the Controlled Purchased Companies who will be employees of or consultants to the Controlled Purchased Companies as of the Closing and no other person shall have any right to become an employee of or consultant to any of the Controlled Purchased Companies after the Closing nor shall any other person have any right to any payment from any of the Controlled Purchased Companies.

(b) Nothing contained herein shall restrict Holdco 1 Corp. in the future in the exercise of its independent business judgment as to the terms and conditions under which the employment of the employees of any of the Controlled Purchased Companies shall continue, the duration of such employment, the basis on which such employment is terminated or the benefits provided to such employees.

SECTION 11.2 SELLERS' EMPLOYEE BENEFITS INDEMNIFICATION. Neither Holdco 1 Corp. nor any of the Controlled Purchased Companies shall assume or otherwise be responsible for any Benefit Plan or liability or obligation under any plan, contract, payroll practice or other arrangement that the Sellers sponsor, contribute to, or participate in on the date hereof, or that they have or may have any liability or obligation under, whether or not disclosed under this Agreement or in any schedule or exhibit hereto.

ARTICLE XII
INDEMNIFICATION

SECTION 12.1 INDEMNIFICATION BY THE SELLERS.

(a) Subject to Section 12.1(b), notwithstanding the Closing and regardless of any investigation at any time made by or on behalf of the Buyer or any knowledge or information that the Buyer may have, the Sellers shall, jointly and severally, indemnify and fully defend, save and hold harmless the Buyer, any Affiliate of the Buyer (excluding Holdco 1 Corp., the Purchased Companies and the Sellers), and their respective directors, officers, employees, members, partners, shareholders, representatives, agents and attorneys (the "BUYER INDEMNITEES"), from and against any damage, liability, loss, cost, expense (including all costs of any investigation and reasonable attorneys', experts' and consultants' fees), deficiency, interest, penalty, impositions, assessments or fines (collectively, "LOSSES") arising out of or resulting from, any Seller Liabilities and/or Sellers' Event of Breach. As used herein, "SELLERS' EVENT OF BREACH" shall be and mean any one or more of the following:

(i) any untruth or inaccuracy in any representation or warranty of the Sellers in this Agreement or in any certificate delivered by the Sellers at Closing;

(ii) any failure of the Sellers to duly perform or observe any term, provision, covenant, agreement or condition contained in this Agreement on the part of such Seller to be performed or observed;

(iii) any Claim for Taxes or interest or penalty thereon resulting from the failure of the Buyer to withhold Taxes owed by the Sellers from the Purchase Price under any applicable Law; and

(iv) any Claim or cause of action by any unrelated third party against any Buyer Indemnitee with respect to the Seller Liabilities.

(b) The collective liability of (i) the Sellers in connection with or arising out of this Agreement and (ii) the New Heights

Sellers in connection with or arising out of the New Heights Purchase Agreement, shall be limited to an aggregate amount equal to the Seller Liability Cap plus the aggregate amount of the reasonable legal fees, costs and expenses incurred by the Sellers and (to the extent provided herein) the Buyers Indemnitees in connection with any Seller Liabilities and/or any Sellers' Event of Breach; provided that the Sellers shall not be liable under this Section 12.1 unless and until the aggregate amount of Losses under this Section 12.1 and under Section 12.1 of the New Heights Purchase Agreement exceed US$100,000 (at which point the Sellers shall become liable for the aggregate amount of Losses, and not just amounts in excess of US$100,000, but subject to the limitations on Sellers' liability set forth in this Section 12.1). Notwithstanding the foregoing or anything to the contrary in this Agreement: (A) if any Buyer Indemnitee becomes liable (pursuant to any statute, rule, regulation or other law or any judicial, agency or governmental ruling or action, in each case, as a result of any condition, event or circumstance that existed or occurred prior to the Closing, other than solely due to the action or inaction of any Buyer Indemnitee) for any liabilities of any Purchased Company that result in such Buyer Indemnitee being required to make an out-of-pocket payment of any kind to a person or entity who is not a Buyer Indemnitee (any such payment, an "EXCESS PAYMENT") and specifically excluding any diminution or reduction in the value of Buyer's equity investment in Holdco 1 Corp., then such Excess Payment shall not be subject to the Seller Liability Cap, and the Sellers shall indemnify and fully defend, save and hold harmless the Buyer Indemnitees from and against all such liabilities; and (B) the Seller Liability Cap shall not apply to, or be reduced by or limit Sellers' obligations to indemnify Buyer Indemnitees from and against Losses incurred by them as a result of any Sellers' Event of Breach

described in clause 12.1(a)(ii) or (iii) and, to the extent arising out of any Sellers' Event of Breach described in clause 12.1(a)(ii) or (iii), clause 12.1(a)(iv).

(c) Except as provided under Section 12.1(b), the Sellers shall not be responsible or liable for any Losses that are consequential, in the nature of lost profits, diminution in value, damage to reputation or the like, special or punitive or otherwise not actual Losses; provided, however, that the Sellers shall be liable for consequential damages resulting from (i) any breach by the Sellers of their representations and warranties in this Agreement that any Seller knew was not true and correct in all material respects when made or as of the Closing, and (ii) any willful or intentional breach by any of the Sellers of any of the covenants or agreements in this Agreement of which any Seller has knowledge.

(d) In determining the amounts for any Losses hereunder for which a Buyer Indemnitee is entitled to assert a claim for indemnification, the amount of any such Losses shall be determined after deducting therefrom the amount of any insurance proceeds received by such Buyer Indemnitee in respect of such Losses (which recoveries the Buyer agrees to use its commercially reasonable efforts to obtain or cause to be obtained). If an indemnification payment is received by a Buyer Indemnitee and such Buyer Indemnitee later receives insurance proceeds in respect of the related Loss, the Buyer shall immediately pay to the Sellers a sum equal to the lesser of (i) the actual amount of insurance proceeds received, or (ii) the actual amount of the indemnification repayment previously paid by the Sellers with respect to such Losses.

SECTION 12.2 INDEMNIFICATION BY THE BUYER.

(a) Subject to Section 12.2(b), notwithstanding the Closing or the delivery of the Purchased Stock and Debt, the Buyer shall indemnify and fully defend, save and hold harmless the Sellers, any Affiliate of the Sellers (excluding Holdco 1 Corp., the Purchased Companies and the Buyer) and their respective officers, directors, employees, members, partners, shareholders, representative, agents and attorneys), and their respective officers, directors, employees, members, partners, shareholders, representatives, agents and attorneys (the "SELLER INDEMNITEES") from and against any Losses arising out of or resulting from any Buyer's Event of Breach. As used herein, "BUYER'S EVENT OF BREACH" shall be and mean any one or more of the following:

(i) any untruth or inaccuracy in any representation or warranty of the Buyer in this Agreement or in any certificate delivered by Buyer at Closing;

(ii) all Claims against Seller Indemnitees arising out of or relating to occurrences of any nature relating to the Purchased Companies, the Purchased Stock and Debt and the Business after the Closing Date, whether in contract or tort; and

(iii) any failure of the Buyer to duly perform or observe any term, provision, covenant, agreement or condition contained in this Agreement on the part of the Buyer to be performed or observed.

(b) The collective liability of (i) the Buyer in connection with or arising out of this Agreement and (ii) the New Heights Buyer in connection with or arising out of the New Heights Purchase Agreement, shall be limited to an aggregate amount equal to the Buyer Liability Cap plus the aggregate amount of the reasonable legal fees, costs and expenses incurred by the Buyer and (to the extent provided herein) the Seller Indemnitees in connection with any Buyer's Event of Breach; provided that the Buyer shall not be liable under this Section 12.2 unless and until the aggregate amount of Losses under this Section 12.2 and under Section 12.2 of the New Heights Purchase Agreement exceed US$100,000 (at

which point the Buyer shall become liable for the aggregate amount of Losses, and not just amounts in excess of US$100,000, but subject to the limitations on Buyer's liability to Seller Indemnitees set forth in this Section 12.2). Notwithstanding the foregoing or anything to the contrary in this Agreement: (A) if any Seller Indemnitee incurs any out-of-pocket cash Loss due to a Buyers' Event of Breach (which shall exclude any diminution or reduction in the value of the Sellers' equity interest in Holdco 1 Corp. that does not involve or require any cash payment by a Seller Indemnitee to any person or entity), for purposes of determining the obligations of the Buyer under this Section 12.2 with respect to such Loss, the Buyer Liability Cap shall be deemed to be US$16,000,000; and (B) the Buyer Liability Cap shall not apply to, or be reduced by or limit Buyer's obligations to fully indemnify Seller Indemnitees against Losses incurred by them as a result of any Buyer's Event of Breach described in clause 12.2(a)(ii) or (iii).

(c) The Buyer shall not be responsible or liable for any Losses that are consequential, in the nature of lost profits, diminution in value, damage to reputation or the like, special or punitive or otherwise not actual Losses.

(d) In determining the amounts for any Losses hereunder for which a Seller Indemnitee is entitled to assert a claim for indemnification, the amount of any such Losses shall be determined after deducting therefrom the amount of any insurance proceeds received by such Indemnitee in respect of such Losses (which recoveries the Sellers agree to use their commercially reasonable efforts to obtain or cause to be obtained). If an indemnification payment is received by a Seller Indemnitee and such Seller Indemnitee later receives insurance proceeds in respect of the related Loss, the Sellers shall immediately pay to the Buyer a sum equal to the lesser of (i) the actual amount of insurance proceeds received, or (ii) the actual amount of the indemnification repayment previously paid by the Buyer with respect to such Losses.

SECTION 12.3 TERM OF INDEMNIFICATION. Except as set forth below, the obligations to indemnify under Section 12.1 and Section 12.2 hereof for breaches of representations and warranties shall only apply in respect of Losses asserted on or before the date that is two (2) years following the Closing Date. Notwithstanding the foregoing, (a) the obligation to indemnify under Section 12.1 hereof in respect of the corporate or other authority of the Sellers, Taxes, violations of Environmental Laws (or otherwise in respect of a breach of or untruth or inaccuracy in the representation contained in Section 5.21) and ERISA, shall apply in respect of Losses asserted prior to the end of the statutory period for bringing such claims, and (b) the obligation to indemnify under Section 12.2 hereof in respect of the authority of the Buyer shall apply in respect of Losses asserted prior to the end of the statutory period for bringing such claims.

SECTION 12.4 PROCEDURES FOR INDEMNIFICATION. If the Sellers' Event of Breach or a Buyer's Event of Breach (a "PARTY'S EVENT OF BREACH") occurs or is alleged and a Buyer Indemnitee or a Seller Indemnitee (a "PARTY INDEMNITEE") asserts that the other party has become obligated to it pursuant to Section 12.1 or Section 12.2, or if any Claim is begun, made or instituted as a result of which the other party may become obligated to a Party Indemnitee hereunder, such

Party Indemnitee shall give prompt notice to the other party. The Party Indemnitee shall permit the other party (at its expense) to assume the defense of any Claim; provided, however, that (a) the counsel for the other party who shall conduct the defense shall be reasonably satisfactory to the Party Indemnitee (it being understood that if the Sellers are required to defend a Claim hereunder that Hale and Dorr LLP is satisfactory for such purpose, and that if the Buyer is required to defend a Claim hereunder that Duval & Stachenfeld LLP is satisfactory for such purpose), (b) the Party Indemnitee may participate in such defense at its own expense, and (c) the omission by the Party Indemnitee to give notice as provided herein shall not relieve the other party of its indemnification obligation except to the extent that such omission results in a failure of actual notice to the other party and the other party is damaged as a result of such failure to give notice. Except with the

prior written consent of the Party Indemnitee, the other party shall not, in the defense of any such Claim, consent to entry of any judgment or enter into any settlement that provides for injunctive or other nonmonetary relief affecting the Party Indemnitee or that does not include as an unconditional term thereof the giving by each claimant or plaintiff to such Party Indemnitee of a release from all liability with respect to such Claim or litigation. In the event that the Party Indemnitee shall in good faith determine that the conduct of any defense of any Claim subject to indemnification hereunder or any proposed settlement of any such Claim by the other party might reasonably be expected to affect adversely the ability of the Party Indemnitee to conduct the Business or that the Party Indemnitee may have available to it one or more defense or counterclaims that are inconsistent with one or more of those that may be available to the other party in respect of such Claim relating thereto, the Party Indemnitee shall have the right at all times to take over and assume control over the defense, settlement, negotiations or litigation relating to any such Claim at the sole cost of the other party (including without limitation reasonable attorneys' fees and disbursements and other amounts paid as the result of such Claim). In the event that the Party Indemnitee does so take over and assume control over the defense of a Claim pursuant to the immediately preceding sentence, the Party Indemnitee (i) shall be entitled to satisfy or settle any such Claim on a reasonable basis, without prior notice to or consent from the other party, (ii) may subsequently make a claim for indemnification with respect to such satisfaction or settlement of such Claim in accordance with the provisions of this Article XII, and (iii) shall be reimbursed, in accordance with the provisions of this Article XII, for any such Losses satisfied or settled and for which the Party Indemnitee establishes that it is entitled to indemnification pursuant to this Article XII. In any such claim for indemnification, the Party Indemnitee agrees that the amount paid to any such third party shall not be determinative of the amount of Losses suffered by the Party Indemnitee or introduced as evidence of the amount of such Losses in any such claim for indemnification, and the other party shall have the right to dispute the Party Indemnitee's entitlement to indemnification and the amount for which it is entitled to indemnification under the terms of this Article XII. In the event that the other party does not accept and continue the defense of any matter as provided above, the Party Indemnitee shall have the full right to defend against any such Claim, and to satisfy or settle any such Claim, without prior notice to or consent from the other party, subject in each case to the limitations set forth in the prior two sentences of this Section 12.4. In any other event, the Party Indemnitee shall have no right to settle or agree to pay any claim to which it is entitled to indemnification hereunder.

SECTION 12.5 PURCHASE PRICE ADJUSTMENT. The Buyer and the Sellers shall treat any payments under this Article XII as an adjustment to the Purchase Price for all Federal, provincial, state and local income tax purposes.

SECTION 12.6 EXCLUSIVE REMEDIES. The remedies available to the Sellers and Buyer shall be the exclusive remedies available to them for monetary damages; provided, however, that the Sellers and the Buyer shall be entitled to pursue any equitable remedies (including specific performance) to the extent available to them.

SECTION 12.7 ARTICLE X. To the extent that any amounts are payable to Buyer or Sellers pursuant to Article X of this Agreement, the provisions of Article X shall solely govern the payment of such amounts; provided, however, that the provisions of this Article XII shall govern the remedies available to Buyer or Sellers as a result of any breach of the provisions of Article X.

ARTICLE XIII
CONDITIONS PRECEDENT TO PERFORMANCE BY THE SELLERS

The obligations of the Sellers to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by Casella in its sole discretion:

SECTION 13.1 REPRESENTATIONS AND WARRANTIES OF THE BUYER. The representations and warranties of the Buyer contained in this Agreement shall be true and correct (i) at and as of the date hereof, and (ii) on and as of the Closing Date with the same effect as though made on and as of the Closing Date, except in either such case (i) or (ii) where the failure of the representations and warranties of Buyer in this Agreement or of the New Heights Buyer in the New Heights Purchase Agreement to be true and correct, individually or in the aggregate, could not reasonably be expected to (x) have a material adverse effect on the Buyer, or (y) have a material adverse effect on the ability of the Buyer or the New Heights Buyer to perform their obligations under this Agreement and the New Heights Purchase Agreement; and the Sellers shall have received a certificate dated the Closing Date and signed by any officer of the Buyer to that effect.

SECTION 13.2 PERFORMANCE OF THE OBLIGATIONS OF THE BUYER. The Buyer shall have performed in all material respects all obligations required under this Agreement to be performed by the Buyer on or before the Closing Date, and the Sellers shall have received a certificate dated the Closing Date and signed by any officer of the Buyer to that effect.

SECTION 13.3 CONSENTS AND APPROVALS. All consents, waivers, authorizations and approvals of any Governmental Authority required or desired in connection with the execution, delivery and performance of this Agreement shall have been duly obtained and shall be in full force and effect on the Closing Date.

SECTION 13.4 NO VIOLATION OF ORDERS. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority, that declares this Agreement invalid or unenforceable in any respect or that prevents the consummation of the transactions contemplated hereby shall be in effect, and no action or proceeding before any Governmental Authority shall have been instituted or threatened by any government or Governmental Authority which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement, and which in any such case has a reasonable likelihood of success in the opinion of counsel to the Sellers.

SECTION 13.5 DELIVERY OF DOCUMENTS. Each document required to be delivered pursuant to Section 4.3 must have been delivered.

SECTION 13.6 NEW HEIGHTS PURCHASE AGREEMENT. The transactions contemplated by the New Heights Purchase Agreement shall have been consummated simultaneously herewith.

ARTICLE XIV
CONDITIONS PRECEDENT TO PERFORMANCE BY THE BUYER

The obligations of the Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by the Buyer in its sole discretion:

SECTION 14.1 REPRESENTATIONS AND WARRANTIES OF THE SELLERS. The representations and warranties of the Sellers contained in this Agreement shall be true and correct (i) at and as of the date hereof, and (ii) on and as of the Closing Date with the same effect as though made on and as of the Closing Date, except in either such case (i) or (ii) where the failure of the representations and warranties of the Sellers in this Agreement and the New Heights Sellers under the New Heights Purchase Agreement to be true and correct, individually or in the aggregate, could not reasonably be expected to (x) have a Seller Material Adverse Effect, or (y) have a material adverse effect on the ability of the

Sellers or the New Heights Sellers to perform their obligations under this Agreement and the New Heights Purchase Agreement; provided, however, that notwithstanding the foregoing, in the event that the representation made by Sellers in SECTION 5.7(c) of this Agreement is not true and correct on and as of the Closing Date, the condition set forth in this SECTION 14.1 shall be deemed to have not been satisfied. The Buyer shall have received certificates dated the Closing Date and signed by the Chief Executive Officer or Chief Operating Officer of each Seller stating that the condition set forth in this SECTION 14.1 has been satisfied.

SECTION 14.2 PERFORMANCE OF THE OBLIGATIONS OF THE SELLERS. The Sellers shall have performed in all material respects all obligations required under this Agreement to be performed by them on or before the Closing Date, and the Buyer shall have received certificates dated as of the Closing Date and signed by the Chief Executive Officer or Chief Operating Officer of each Seller to that effect; provided, however, that notwithstanding the foregoing, in the event that the Sellers are in breach of SECTION 8.1(a)(xii) or SECTION 8.1(b)(v) of this Agreement, the condition set forth in this SECTION 14.2 shall be deemed to have not been satisfied.

SECTION 14.3 CONSENTS AND APPROVALS. All consents, waivers, novations, authorizations and approvals of any Governmental Authority and all of the consents, waivers, novations, authorizations and approvals set forth on SCHEDULE 5.5 of this Agreement shall have been duly obtained and shall be in full force and effect on the Closing Date.

SECTION 14.4 NO VIOLATION OF ORDERS. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority, that declares this Agreement invalid in any respect or that prevents the consummation of the transactions contemplated hereby, or that materially and adversely affects the assets, properties, operations, prospects, net income or financial condition of the Purchased Companies or the Business shall be in effect, and no action or proceeding before any Governmental Authority shall have been instituted or threatened by any government or Governmental Authority which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement, and which in any such case has a reasonable likelihood of success in the opinion of counsel to the Buyer.

SECTION 14.5 NO MATERIAL ADVERSE CHANGE. During the period from July 1, 2001 through the Closing, there shall not have been any change in the business, operations, or financial condition of the Controlled Purchased Companies, the New Heights Purchased Companies, the Business, and the New Heights Business, that, individually or in the aggregate, could reasonably be expected to have a Seller Material Adverse Effect.

SECTION 14.6 DELIVERY OF DOCUMENTS. Each document required to be delivered pursuant to Section 4.2 must have been delivered.

SECTION 14.7 LICENSES AND PERMITS. All Licenses and Permits shall be in full force and effect.

SECTION 14.8 PURCHASE AGREEMENT. The transactions contemplated by the New Heights Purchase Agreement shall have been consummated simultaneously herewith.

SECTION 14.9 CANCELLATION OR CONTRIBUTION OF INTERCOMPANY DEBT. All amounts (other than the Intercompany Debt) owed to Sellers or any of their Affiliates (other than the Purchased Companies) by any of the Purchased Companies shall have been contributed by Sellers or such Affiliates to RTG or cancelled in full by Sellers or such Affiliates.

SECTION 14.10. MARTY SERGI. Marty Sergi shall not have died.

ARTICLE XV
TERMINATION

SECTION 15.1 CONDITIONS OF TERMINATION. Notwithstanding anything to the contrary contained herein, this Agreement may be terminated at any time before the Closing: (a) by mutual consent of Casella and the Buyer, (b) by either Casella or the Buyer if the other party shall have breached this

Agreement in any material respect and such breach cannot be cured by September 30, 2001 (the "OUTSIDE DATE") (c) by Casella if at the Outside Date, any of the conditions set forth in Article XIII shall not have been met, unless a Sellers' breach of this Agreement is the reason for the failure of such conditions to be satisfied, or (d) by the Buyer if at the Outside Date, any of the conditions set forth in Article XIV shall not have been met, unless the Buyer's breach of this Agreement is the reason for the failure of such conditions to be satisfied. Notwithstanding the foregoing, this Agreement may not be terminated by either party unless the New Heights Purchase Agreement is also terminated in accordance with its terms.

SECTION 15.2 PROCEDURE UPON TERMINATION. In the event of termination by Casella and/or the Buyer pursuant to Section 15.1 and written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement are terminated as provided herein:

(a) the Sellers and the Buyer each will return all documents, work papers and other material of the other party relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the party furnishing the same;

(b) all Confidential Information received by the Sellers or the Buyer with respect to the business of the other party or its subsidiaries shall be treated in accordance with Section 8.5; and

(c) such termination shall not in any way limit or restrict the rights and remedies of the Sellers or the Buyer against the other party hereto which has violated or breached any of the representations, warranties, agreements or other provisions of this Agreement prior to the termination hereof.

SECTION 15.3 EFFECT OF TERMINATION. In the event of termination pursuant to Section 15.1, or as otherwise provided in this Agreement, this Agreement shall become null and void and have no effect, with no liability on the part of the parties, or their directors, officers, agents or stockholders, with respect to this Agreement, except for (a) the liability of a party for expenses pursuant to Section 16.4, (b) liability for breach of this Agreement, and (c) the provisions of Section 8.5(c) and Section 9.2.

ARTICLE XVI
MISCELLANEOUS

SECTION 16.1 SURVIVAL OF PROVISIONS. The respective representations, warranties, covenants and agreements of each of the parties to this Agreement made herein or in any certificate or other instrument delivered by one of the parties to this Agreement (except covenants and agreements which are expressly required to be performed and are performed in full on or before the Closing Date), shall be considered to have been relied upon by the other party to this Agreement, as the case may be, and shall survive the Closing Date for a period of two (2) years following the Closing Date, provided that the representations and warranties regarding the corporate or other authority of the Sellers, Taxes and violations of Environmental Laws (or otherwise contained in Section 5.21 hereof) and ERISA, shall survive until the end of the statutory period for bringing Claims related thereto. Notwithstanding any investigation by the Buyer of the affairs of the Sellers and their respective Subsidiaries and notwithstanding any knowledge of the facts determined or determinable by the Buyer pursuant to such investigation, the Buyer has the right to rely fully upon the representations, warranties, covenants and agreements of the Sellers contained in this Agreement.

SECTION 16.2 SUCCESSORS AND ASSIGNS. Except as otherwise provided in this Agreement, no party hereto shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other party hereto and any such attempted assignment without such prior written consent shall be void and of no force and effect; provided, however that the Buyer shall be permitted to assign some or all of its rights hereunder to one or more of its Affiliates. This Agreement shall inure to the benefit of and shall be binding upon the successors and permitted assigns of the parties hereto.

SECTION 16.3 GOVERNING LAW; JURISDICTION. THIS AGREEMENT SHALL BE CONSTRUED, PERFORMED AND ENFORCED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS

OF LAWS THEREOF. THE PARTIES HERETO IRREVOCABLY ELECT AS THE SOLE JUDICIAL FORUM FOR THE ADJUDICATION OF ANY MATTERS ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT, AND CONSENT TO THE JURISDICTION OF, THE COURTS OF THE SOUTHERN DISTRICT OF NEW YORK.

SECTION 16.4 EXPENSES. In the event the transactions contemplated by this Agreement are consummated, the fees, costs and expenses of each party hereto in connection with this Agreement and the transactions contemplated hereby, including without limitation, any legal fees (both U.S. and foreign), accounting fees, brokers' fees and commissions, fees and expenses of consultants and travel and similar expenses (collectively, the "TRANSACTION EXPENSES"), shall be paid by Holdco 1 Corp. as and to the extent provided in the Holdco 1 Stockholder Agreement and all of the other Transactional Expenses shall be paid by the party that incurred such expenses. Except as otherwise provided in this Section 16.4, in the event the transactions contemplated by this Agreement are not consummated, each of the parties hereto shall pay its own Transaction Expenses. In the event that this Agreement is terminated by Casella pursuant to Section 15.1(c) due to a breach of this Agreement by Buyer, Buyer shall pay all of the reasonable Transaction Expenses and other reasonable fees, costs and expenses incurred by the Sellers and their Affiliates in connection with this Agreement and the New Heights Purchase Agreement, and the transactions contemplated hereby and thereby, promptly (but in no event later than five days) upon delivery by Casella to Buyer of reasonably specific summary or invoice of such Transaction Expenses and other fees, costs expenses. In the event that this Agreement is terminated by Buyer pursuant to Section 15.1(d) due to a breach of this Agreement by Sellers, the Sellers shall pay all of the reasonable

Transaction Expenses and other reasonable fees, costs and expenses incurred by the Buyer and its Affiliates in connection with this Agreement and the New Heights Purchase Agreement, and the transactions contemplated hereby and thereby, promptly (but in no event later than five days) upon delivery by the Buyer to Casella of reasonably specific summary or invoice of such Transaction Expenses. The Sellers shall pay all recording and filing fees that may be imposed by reason of the sale, transfer, assignment and delivery of the Purchased Stock and Debt. In the event of a dispute as to the amount of fees payable pursuant to this Section 16.4, the parties agree to submit such dispute to binding arbitration in front of a single arbitrator in New York, New York designated by both the Buyer and the Sellers, under the commercial arbitration rules of the American Arbitration Association with expedited procedures in effect on the date thereof; provided, however, if the parties fail to agree upon an arbitrator within 30 days from the date on which such dispute arose, the arbitrator shall be selected in accordance with commercial arbitration rules of the American Arbitration Association. The costs of any such arbitration shall be determined by the arbitrator.

SECTION 16.5 BROKER'S AND CONSULTANT'S FEES. Except as set forth on SCHEDULE 16.5 of this Agreement, each of the parties represents and warrants that it has not dealt with any broker or finder in connection with any of the transactions contemplated by this Agreement and, insofar as it knows, no broker or other Person is entitled to any commission or finder's fee in connection with any of the transactions contemplated hereby.

SECTION 16.6 FURTHER ASSURANCES. The Sellers shall, at any time and from time to time after the Closing Date, upon the request of the Buyer and at the expense of the Sellers, do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, all such further deeds, assignments, transfers and conveyances as may be required for the better assigning, transferring, granting, conveying and confirming to the Buyer or its successors and assigns, or for aiding and assisting in collecting and reducing to possession, any or all of the Purchased Stock and Debt.

SECTION 16.7 PUBLIC ANNOUNCEMENTS. Following the execution and delivery of this Agreement, the Sellers may announce publicly that it has reached an agreement with respect to the transactions contemplated herein; provided, however, such announcement shall have been approved by Buyer in writing prior to being made by Sellers, which approval shall not be unreasonably withheld. Thereafter, prior to the Closing Date, no party hereto shall (and each party hereto shall cause each of its Subsidiaries, Affiliates, successors and assigns not to) furnish any communication (written or oral) to any third party or to the public generally if the subject matter thereof relates to the existence of this Agreement or the other party's involvement herein or to the transactions contemplated hereby without the prior approval of the other party

hereto as to the content thereof, which approval may be granted or withheld in the other party's sole discretion; PROVIDED HOWEVER, that the foregoing shall not be deemed to prohibit any disclosure required by any applicable law or Governmental Authority having jurisdiction over such matters, although in any event, the disclosing party shall provide the other party the content of the proposed disclosure and shall reflect all reasonable comments thereon made by the other party. After the Closing Date, the Sellers and the Buyer shall consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to the transactions contemplated by this Agreement, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law or government regulation or decree, court process or by obligations pursuant to any listing agreement with any national securities exchange.

SECTION 16.8 SEVERABILITY. In the event that any part of this Agreement is declared by any court or other judicial or administrative body to be null, void or unenforceable, said provision shall

survive to the extent it is not so declared, and all of the other provisions of this Agreement shall remain in full force and effect.

SECTION 16.9 NOTICES. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) on the date of service if served personally on the party to whom notice is to be given, (b) on the day of transmission if sent via facsimile transmission to the facsimile number given below, (c) on the day after delivery to an overnight courier service, or (d) on the fifth day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid and properly addressed, to the party as follows:

If to the Sellers:

Casella Waste Systems, Inc.
25 Green Hill Lane
Rutland, VT 05701
Attention: Mr. James W. Bohlig
Telecopier: (802) 775-6198

with a copy (which shall not constitute notice) to:

Casella Waste Systems, Inc.
25 Green Hill Lane
Rutland, VT 05701
Attention: Michael Brennan, Esq.
Telecopier: (802) 770-5030

If to the Buyer:

Crumb Rubber Investors Co., LLC
c/o Angelo, Gordon & Co., L.P.
245 Park Avenue, 26th Floor
New York, New York 10167
Attention: Mr. Josh Brain
Telecopier: (212) 599-2920

with a copy (which shall not constitute notice) to:

Duval & Stachenfeld LLP
300 East 42nd Street, 3rd Floor
New York, New York 10017
Attention: Bruce Stachenfeld, Esq.
Telecopier: (212) 883-8883

Any party may change its address for the purpose of this Section 16.9 by giving the other party written notice of its new address in the manner set forth above.

SECTION 16.10 AMENDMENTS; WAIVERS. This Agreement may be amended or modified, and any of the terms, covenants, representations, warranties or conditions hereof may be waived, only by a written instrument executed by the parties hereto, or in the case of a waiver, by the party waiving compliance. Any waiver by any party of any condition, or of the breach of any provision, term, covenant, representation or warranty contained in this Agreement, in any one or more instances, shall not be deemed to be nor construed as a further or continuing waiver of any such condition, or of the breach of any other provision, term, covenant, representation or warranty of this Agreement.

SECTION 16.11 ENTIRE AGREEMENT. This Agreement and the other documents referred to herein contain the entire understanding between the parties hereto with respect to the transactions contemplated hereby and supersede and replace all prior and contemporaneous agreements and understandings, oral or written, with regard to such transactions.

SECTION 16.12 SECTION AND PARAGRAPH HEADINGS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

SECTION 16.13 NO THIRD PARTY BENEFICIARIES. This Agreement does not create and shall not be construed as creating any rights enforceable by any Person who or which is not a party to this Agreement.

SECTION 16.14 GENDER; NUMBER. As used in this Agreement, the masculine shall include the feminine and the neuter, the singular shall include the plural and the plural shall include the singular as the context may require.

SECTION 16.15 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CRUMB RUBBER INVESTORS CO., LLC

By: AG Crumb Rubber Manager, Inc., its manager

By: /s/ Michael Gordon

Name: Michael Gordon
Title: Vice President

CASELLA WASTE SYSTEMS, INC.

By: /s/ James W. Bohlig

Name: James W. Bohlig
Title: President

KTI ENVIRONMENTAL GROUP, INC.

By: /s/ James W. Bohlig

Name: James W. Bohlig
Title: Vice President

AG Equity Partners, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 40% of all of the obligations of the Buyer set forth in this Agreement and up to 40% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 40% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG EQUITY PARTNERS, L.P.

By: AG Equity LLC, General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Super Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 23% of all of the obligations of the Buyer set forth in this Agreement and up to 23% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 23% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG SUPER FUND, L.P.

By: Angelo, Gordon & Co., L.P.,
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Super Fund International Partners, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 9% of all of the obligations of the Buyer set forth in this Agreement and up to 9% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 9% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG SUPER FUND INTERNATIONAL PARTNERS, L.P.

By: Angelo, Gordon & Co., L.P.,
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

Nutmeg Partners, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 8% of all of the obligations of the Buyer set forth in this Agreement and up to 8% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 8% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

NUTMEG PARTNERS, L.P.

By: Angelo, Gordon & Co., L.P.,
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

Angelo, Gordon & Co., L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 5% of all of the obligations of the Buyer set forth in this Agreement and up to 5% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 5% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

ANGELO, GORDON & CO., L.P.

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

PHS Bay Colony Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 3% of all of the obligations of the Buyer set forth in this Agreement and up to 3% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 3% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or

returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

PHS BAY COLONY FUND, L.P.

By: Angelo, Gordon & Co., L.P.,
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG CNG Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 3% of all of the obligations of the Buyer set forth in this Agreement and up to 3% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 3% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public

policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG CNG FUND, L.P.

By: Angelo, Gordon & Co., L.P.,
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG MM, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 3% of all of the obligations of the Buyer set forth in this Agreement and up to 3% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 3% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG MM, L.P.

By: Angelo, Gordon & Co., L.P.,
Investment Manager

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Super Advantage, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 2% of all of the obligations of the Buyer set forth in this Agreement and up to 2% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 2% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and

protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG SUPER ADVANTAGE, L.P.

By: AG Super Advantage GP, LLC
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

PHS Patriot Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 2% of all of the obligations of the Buyer set forth in this Agreement and up to 2% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 2% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without

notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

PHS PATRIOT FUND, L.P.

By: Angelo, Gordon & Co., L.P.,
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Princess, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 2% of all of the obligations of the Buyer set forth in this Agreement and up to 2% of all of the obligations of the New Heights Buyer set forth in the New Heights Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 2% of the sum of the Purchase Price and the Purchase Price (as defined in the New Heights Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer

by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG PRINCESS, L.P.

By: Angelo, Gordon & Co., L.P.,
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

EXHIBIT A

[FORM OF ASSIGNMENT AGREEMENT]

EXHIBIT B

[FORM OF RTG STOCKHOLDERS AGREEMENT]

EXHIBIT C

[FORM OF OPINION OF HALE AND DORR]

EXHIBIT D

[FORM OF OPINION OF DUVAL & STACHENFELD LLP]

EXHIBIT 10.43

[EXECUTION FORM]

PURCHASE AGREEMENT

BY AND AMONG

NEW HEIGHTS HOLDING CORPORATION

AS THE BUYER,

AND

KTI, INC.,

KTI OPERATIONS, INC.

AND

CASELLA WASTE SYSTEMS INC.,

AS THE SELLERS

DATED AS OF AUGUST 17, 2001

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT, dated as of August 17, 2001 (this "AGREEMENT"), is made by and among New Heights Holding Corporation, a Delaware corporation (the "BUYER"), and KTI, Inc., a New Jersey corporation ("KTI"), and KTI Operations, Inc., a Delaware corporation and wholly owned subsidiary of KTI ("KTI OPERATIONS"), and Casella Waste Systems, Inc., a Delaware corporation and the parent company of KTI ("CASELLA", together with KTI and KTI Operations, the "SELLERS"). Unless otherwise defined herein or the context clearly requires otherwise, all capitalized terms herein shall have the meanings given to them in ARTICLE I of this Agreement.

R E C I T A L S

WHEREAS, KTI is the holder of the Purchased Equity (as defined below);

WHEREAS, New Heights (as defined below) is engaged in, among other activities, the business of collecting, processing and recycling automobile, truck and other vehicle tires (as operated by New Heights, the business of collection, processing and recycling such tires is referred to as the "BUSINESS");

WHEREAS, the Buyer desires to purchase from the Sellers, and the Sellers desire to sell, assign and transfer to the Buyer the Purchased Equity;

WHEREAS, concurrently herewith, Casella and KTI Environmental Group, Inc., a [Delaware] corporation ("KTI ENVIRONMENTAL GROUP") and Crumb Rubber Investors Co., LLC ("RTG BUYER"), are entering into a certain Purchase Agreement, dated as of the date hereof (the "RTG PURCHASE AGREEMENT"), with respect to the purchase and sale of certain shares of common stock of Recovery Technologies Group, Inc., a Delaware corporation and an Affiliate of the Sellers ("RTG"); and

WHEREAS, it is a condition to each of the Sellers' and the Buyer's obligations hereunder that the transactions contemplated by the RTG Purchase Agreement and this Agreement are consummated simultaneously.

A G R E E M E N T

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements hereinafter contained, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

For purposes of this Agreement, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

"ACCOUNTS RECEIVABLE" means all accounts receivable (including, without limitation, amounts due from customers whether recorded as accounts receivable or reductions in accounts payable) and related deposits, security or collateral therefor, including recoverable customer deposits, of any of the Purchased Companies existing on the Closing Date.

"AFFILIATE" as to any Person means any other Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person, provided that any entity formed by AG Special Situation Corp. in connection with this Agreement shall be deemed to be an Affiliate of the Buyer. For purposes of this Agreement, on and after the Closing,

neither the Sellers nor any of their Affiliates shall be considered to be an Affiliate of Holdco 2 LLC or any of the Purchased Companies.

"BENEFIT PLANS" has the meaning set forth in Section 5.18(a) of this Agreement.

"BUSINESS" has the meaning set forth in the recitals to this Agreement.

"BUSINESS DAY" means any day except a Saturday, Sunday or other day on which commercial banking institutions in the State of New York or State of Vermont are authorized by law or executive order to close.

"BUSINESS EMPLOYEES" has the meaning set forth in Section 5.17(a) of this Agreement.

"BUYER" has the meaning set forth in the introductory paragraph of this Agreement.

"BUYER INDEMNITEES" has the meaning set forth in Section 12.1(a) of this Agreement.

"BUYER LIABILITY CAP" means an aggregate of $4,000,000 with respect to (i) the amounts (if any) due and payable by the Buyer pursuant Article XII of this Agreement, and (ii) the amounts (if any) payable by RTG Buyer pursuant Article XII of the RTG Purchase Agreement.

"BUYER'S EVENT OF BREACH" has the meaning set forth in Section 12.2(a) of this Agreement.

"CASELLA" has the meaning set forth in the introductory paragraph of this Agreement.

"CERCLA" has the meaning set forth in Section 5.21(b) of this Agreement.

"CERCLIS" has the meaning set forth in Section 5.21(e) of this Agreement.

"CLAIMS" means, whether or not formally asserted, all demands, claims, actions or causes of action, assessments, suits, proceedings, disputes, investigations, Losses, damages, costs, expenses, liabilities, judgments, awards, fines, sanctions, penalties, charges, and/or amounts paid in settlement, including, without limitation, costs, fees and expenses of attorneys, court costs, experts, accountants, appraisers, consultants, witnesses, investigators and/or any other Persons employed or retained in connection with any of the foregoing.

"CLOSING" has the meaning set forth in Section 4.1 of this Agreement.

"CLOSING DATE" has the meaning set forth in Section 4.1 of this Agreement.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COLLECTIBLE" has the meaning set forth in Section 5.16 of this Agreement.

"CONFIDENTIAL INFORMATION" has the meaning set forth in Section 8.5(c) of this Agreement.

"CONTRACTS" has the meaning set forth in Section 5.15(a) of this Agreement.

"EMPLOYEE POLICIES" has the meaning set forth in Section 5.17(i) of this Agreement.

"EMPLOYMENT AND LABOR AGREEMENTS" has the meaning set forth in Section 5.17(b) of this Agreement.

"ENVIRONMENT" has the meaning set forth in Section 5.21(g) of this Agreement.

"ENVIRONMENTAL CONDITION" means a condition of the soil, subsoil, surface waters, groundwater, stream sediments, air or other environmental media, including the presence or Release of a Hazardous Substance, at, under, or migrating from a property that, by virtue of Environmental Laws, (a) requires investigatory, corrective or remedial measures of any Seller, any of the Purchased Companies or the Buyer, and/or (b) comprises a basis for claims against, demands of and/or liabilities of any Seller, any of the Purchased Companies or the Buyer by any Person, including, without limitation, adjacent land owners. "Environmental Condition" shall include those conditions identified or discovered before or after the Closing Date resulting from any activity, inactivity or operations of any Seller or any of the Purchased Companies before the Closing Date.

"ENVIRONMENTAL LAWS" means all laws, regulations and other requirements of any Governmental Authority and any judicial or administrative interpretation thereof, any duties under the common law, any orders, decrees, judgments, agreements or recorded covenants, conditions, restrictions or easements in any way relating to the protection of the Environment, human health, public safety or welfare, or natural resources.

"EQUIPMENT AND MACHINERY" means (a) all the equipment, machinery, fixtures and improvements, tooling, spare parts, supplies, furniture, mobile equipment, tractors, trailers, and vehicles owned or leased by any of the Purchased Companies on the Closing Date, and all replacements for any of the foregoing, (b) any rights of any of the Purchased Companies or their respective Subsidiaries to the warranties (to the extent assignable) and licenses with respect to the aforesaid items, and (c) any related Claims, credits, rights of recovery and set-off with respect to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATES" has the meaning set forth in Section 5.18(c) of this Agreement.

"EXCESS PAYMENT" has the meaning set forth in Section 12.1(b) of this Agreement.

"FILES AND RECORDS" means all files and records, whether in hard copy, magnetic or electronic format, of any of the Purchased Companies and their respective Subsidiaries relating to the Business, or the Business Employees (whether owned or held by the Purchased Companies, their respective Subsidiaries or the Sellers), including, without limitation, customer files, equipment maintenance records, warranty records for equipment, maintenance records and sales tax exemption certificates.

"FINANCIAL STATEMENTS" has the meaning set forth in Section 5.6 of this Agreement.

"FORMER REAL PROPERTY" has the meaning set forth in Section 5.21(a) of this Agreement.

"GAAP" means the generally accepted accounting principles for financial reporting in the United States.

"GOVERNMENTAL AUTHORITY" means any agency, department, court or any other administrative, legislative or regulatory authority of any foreign, Federal, state, provincial, local or municipal governmental body.

"GOVERNMENTAL AUTHORIZATIONS" has the meaning set forth in Section 5.12 of this Agreement.

"HAZARDOUS SUBSTANCE" means any pollutant, contaminant, hazardous substance, radioactive substance, toxic substance, hazardous waste, medical waste, radioactive waste, special waste, petroleum or petroleum-derived substance or waste, asbestos, polychlorinated biphenyls, or any hazardous or toxic constituent thereof, and includes, but is not limited to, any substance or material defined in or regulated under the Environmental Laws, or for which levels are prescribed by any Environmental Laws.

"HOLDCO 1 CORP." means RTG Holding Corporation, a Delaware corporation.

"HOLDCO 2 INTEREST" means the interest in Holdco 2 LLC to be held by KTI or its Affiliates in accordance with the terms of the Holdco 2 LLC Agreement.

"HOLDCO 2 LLC" means NH Investors Co., LLC, a Delaware limited liability company.

"HOLDCO 2 LLC AGREEMENT" means the Amended and Restated Operating Agreement of Holdco 2 LLC in the form of EXHIBIT A attached hereto.

"INSURANCE POLICIES" has the meaning set forth in Section 5.19 of this Agreement.

"INTELLECTUAL PROPERTY" has the meaning set forth in Section 5.22 of this Agreement.

"KTI" has the meaning set forth in the introductory paragraph of this Agreement.

"KTI OPERATIONS" has the meaning set forth in the introductory paragraph hereto.

"LEASED REAL PROPERTY" has the meaning set forth in Section 5.20(c) of this Agreement.

"LEASES" has the meaning set forth in Section 5.20(c) of this Agreement.

"LICENSES AND PERMITS" has the meaning set forth in Section 5.12 of this Agreement.

"LIEN" means any lien, mortgage, deed of trust, security interest, charge, pledge, retention of title agreement, title defect, easement, encroachment, condition, reservation, restriction, covenant, right of way or other encumbrance affecting title.

"LOSSES" has the meaning set forth in Section 12.1(a) of this Agreement.

"NEW HEIGHTS" means New Heights Recovery and Power, LLC, a Delaware limited liability company.

"NEW HEIGHTS LLC AGREEMENT" means the Limited Liability Company Operating Agreement of New Heights, dated as of December 28, 1998, as amended, modified and supplemented.

"NEW HEIGHTS POWER PLANT" means the power plant located in Ford Heights, Illinois and owned by New Heights.

"NLRB" has the meaning set forth in Section 5.17(d) of this Agreement.

"NON-POWER PLANT ASSETS" has the meaning set forth in the Holdco 2 LLC Agreement.

"ORGANIZATIONAL DOCUMENTS" means the certificate or articles of incorporation, memorandum or articles of association, certificate of formation, operating, partnership or limited liability company agreement, by-laws or similar organizational or governing documents or instruments, including all amendments thereto of a Person.

"OUTSIDE DATE" has the meaning set forth in Section 15.1 of this Agreement.

"OWNED REAL PROPERTY" has the meaning set forth in Section 5.20(a)(i) of this Agreement.

"PARTY'S EVENT OF BREACH" has the meaning set forth in Section 12.4 of this Agreement.

"PARTY INDEMNITEE" has the meaning set forth in Section 12.4 of this Agreement.

"PERMITTED LIENS" means (i) Liens for Taxes not yet due and payable, (ii) Liens arising under worker's compensation, unemployment insurance, social security, retirement, and similar legislation and (iii) Liens identified in SCHEDULE A attached hereto.

"PERMITTED ENCUMBRANCES" has the meaning set forth in Section 5.20(a)(ii) of this Agreement.

"PERSON" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or any Governmental Authority.

"POWER PLANT ASSETS" has the meaning set forth in the Holdco 2 LLC Agreement.

"PRE-CLOSING TAX PERIOD" means any taxable period ending on or before the Closing Date and the portion ending as of the end of the Closing Date of any taxable period that includes, but does not end until after, the Closing Date.

"PURCHASE PRICE" has the meaning set forth in Section 3.1(a) of this Agreement.

"PURCHASED COMPANIES" means New Heights and all of its Subsidiaries.

"PURCHASED EQUITY" means 80.1% of the Units of New Heights beneficially owned by Sellers, which Units represent 40.05% of the outstanding Units of New Heights.

"PURCHASED INTELLECTUAL PROPERTY" has the meaning set forth in Section 5.22 of this Agreement.

"RECONCILED DISTRIBUTIONS" means the actual, aggregate amount paid by Sellers on behalf of the Purchased Companies with respect to the payables and payroll expenses of the Purchased Companies for which Seller Distributions were made by the Purchased Companies.

"RELEASE" means the release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migrating into the indoor or outdoor environment of any Hazardous Substance.

"RIGHTS" has the meaning set forth in Section 5.3 of this Agreement.

"RTG" has the meaning set forth in the recitals hereto.

"RTG BUSINESS" means the "Business" as defined in the RTG Purchase Agreement.

"RTG BUYER" has the meaning set forth in the recitals hereto.

"RTG PURCHASE AGREEMENT" has the meaning set forth in the recitals hereto.

"RTG PURCHASED COMPANIES" means the "Purchased Companies" as defined in the RTG Purchase Agreement.

"RTG PURCHASED STOCK AND DEBT" means the "Purchased Stock and Debt" as defined in the RTG Purchase Agreement.

"RTG SELLERS" means Casella and KTI Environmental Group.

"SELLER CONFIDENTIAL INFORMATION" has the meaning set forth in Section 9.2 of this Agreement.

"SELLER DISTRIBUTIONS" means all payments and other distributions made by

the Purchased Companies to Sellers from and after June 30, 2001 up to and including the Closing Date to reimburse Sellers for the payments made by Sellers in the ordinary course of business on behalf of the Purchased Companies with respect to the payables and employee payroll expenses of the Purchased Companies.

"SELLER GROUP" has the meaning set forth in Section 8.5(a) of this Agreement.

"SELLER INDEMNITEES" has the meaning set forth in Section 12.2(a) of this Agreement.

"SELLER LIABILITIES" shall mean all of the following liabilities, obligations or commitments:

(a) all of the liabilities of the Purchased Companies, whether known or unknown (including, without limitation, all contingent, unliquidated and all other Claims against the Purchased Companies) in existence as of, or arising prior to or on, the Closing (whether or not asserted on or prior to the Closing) other than (i) liabilities reflected on the June 30, 2001 balance sheet of the Purchased Companies, (ii) liabilities which have arisen since the date of the June 30, 2001 balance sheet of the Purchased Companies in the ordinary course of business consistent with past practices, (iii) contractual and other liabilities which are incurred in the ordinary course of business consistent with past practices, and not required by GAAP to be reflected on a balance sheet, or (iv) any liabilities specifically disclosed in the exhibits and schedules to this Agreement (except as otherwise specified in subclauses (b) through (g) of this definition, all of which shall constitute Seller Liabilities);

(b) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities relating to any litigation or arbitrations against or involving the Purchased Companies in existence as of or arising prior to or on the Closing;

(c) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the Losses (which, for purposes hereof, shall include the costs of remediation of any violation of any Environmental Law or of an Environmental Condition) of the Purchased Companies arising from or in any way relating to any Environmental Condition, or any actual or alleged violation of Environmental Law (including the failure to have or obtain Permits and Governmental Authorizations required by any Environmental Law) existing, occurring or commencing prior to or on the Closing Date, or in connection with the transactions contemplated by this Agreement or otherwise necessary to conduct the Business as currently conducted by the Purchased Companies and the Sellers;

(d) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities for, relating to or in respect of:

(i) Taxes payable with respect to, or as a result of, the sale and transfer (or deemed transfer) of the Purchased Equity pursuant to this Agreement, including, but not limited to, Transfer Taxes and other taxes, if any, resulting from the sale and transfer of the Purchased Equity;

(ii) Taxes of any of the Purchased Companies for any Pre-Closing Tax Period (including any Taxes resulting from the Closing);

(iii) Treasury Regulation Section 1.1502-6(a) or any comparable provision of state, provincial, local, or foreign law for Taxes of any of the Sellers or any other Person affiliated at any time before the Closing with any of the Purchased Companies and any liability for Taxes of any Person by contract, agreement or otherwise arising prior to, or in respect of conditions existing as of, the Closing; and

(iv) breaches by Sellers of the representations and warranties set forth in Section 5.8 and for breaches by Sellers of the covenants, obligations and agreements set forth in Article VIII;

(e) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities in respect of the employment or termination of current or former employees of the Sellers and their Affiliates

and the Purchased Companies, on or prior to the Closing (including, without limitation, any Claims, civil penalty or other cause of action by any current or former employee, governmental entity, or any other party against the Buyer with respect to violations of WARN), except for liabilities relating to accrued but unused vacation days and sick time with respect to employees who remain employed by the Purchased Companies after the Closing;

(f) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities and obligations with respect to the Owned Real Property or Leased Real Property arising or relating to any condition existing prior to the Closing, or with respect to the Former Real Property other than Permitted Encumbrances; or

(g) whether or not disclosed in this Agreement or any of its exhibits or schedules, all of the liabilities with respect to Benefit Plans arising prior to the Closing Date.

"SELLER LIABILITY CAP" means an aggregate of $16,000,000 with respect to (i) the amounts (if any) due and payable by the Sellers pursuant Article XII of this Agreement, and (ii) the amounts (if any) payable by the RTG Sellers pursuant Article XII of the RTG Purchase Agreement.

"SELLER MATERIAL ADVERSE EFFECT" means any material adverse effect on the aggregate value of the Purchased Equity and the RTG Purchased Stock and Debt; provided, however, that without limiting the foregoing, a reduction of five percent (5%) or more in the aggregate value of the Purchased Equity and the RTG Purchased Stock and Debt shall constitute a "Seller Material Adverse Effect."

"SELLERS" has the meaning set forth in the introductory paragraph of this Agreement.

"SELLERS' EVENT OF BREACH" has the meaning set forth in Section 12.1(a) of this Agreement.

"SELLERS' NEW HEIGHTS UNITS" means the Units of New Heights owned by KTI, which Units shall represent fifty percent (50%) of the outstanding Units of New Heights on a fully diluted basis.

"SELLERS' SENIOR MANAGEMENT" means John Casella, James Bohlig, Richard Norris and Mike Brennan.

"STOCK" with respect to any Person, means shares of capital stock or any other equity securities, and any other shares of stock issued or issuable therefor, all membership or partnership interests, or any options, warrants or other rights to acquire any of the above.

"STRADDLE PERIOD" means any taxable period that includes, but ends after, the Closing Date.

"SUBSIDIARY" means any Person with respect to which a specified Person (or a Subsidiary thereof) directly or indirectly owns a majority of the Stock or has the power to vote or direct the voting of sufficient securities to elect 50% or more of the members of the board of directors or similar governing body.

"TAXES" means any Federal, state, provincial, local, foreign, or other tax of any kind whatsoever (together with any interest, penalties, or additions imposed with respect thereto), including, without limitation, income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, service, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, intangible property, sales, use, transfer, recording, registration, value added, alternative or add-on minimum, estimated, rental, lease, ad valorem, or other tax.

"TAX RETURNS" means any return, report, information return or other document filed or required to be filed with any governmental authority in connection with the determination, assessment, collection or administration of any Taxes.

"TRANSACTION EXPENSES" means the expenses incurred by the Sellers or Buyer and their respective Affiliates, as the case may be, in connection with this Agreement and the RTG Purchase Agreement and the transactions contemplated

hereby and thereby, including, without limitation, all reasonable legal fees (both U.S. and foreign), accounting fees, fees and expenses of consultants and travel and similar expenses.

"TRANSFER TAXES" means sales, use, transfer, transfer gains or similar Taxes.

"UNITS" has the meaning set forth in the New Heights LLC Agreement.

"WARN" means the Worker Adjustment and Retraining Notification Act.

ARTICLE II
PURCHASE AND SALE

SECTION 2.1 TRANSFER OF EQUITY

(a) Subject to the terms and conditions set forth in this Agreement, the Sellers shall sell, convey, transfer, assign and deliver the Purchased Equity to the Buyer, and the Buyer shall purchase and accept the Purchased Equity from the Sellers, on the Closing Date.

(b) The sale, transfer, conveyance, assignment and delivery by the Sellers of the Purchased Equity shall be made free and clear of all Liens.

ARTICLE III
PURCHASE PRICE

SECTION 3.1 PURCHASE PRICE. Subject to the terms and conditions set forth in this Agreement, the aggregate purchase price to be paid to the Sellers for the Purchased Equity shall be an amount equal to $250,000 (the "Purchase Price").

SECTION 3.2 PAYMENT OF PURCHASE PRICE. Subject to the terms and conditions set forth in this Agreement, the Buyer shall pay the Purchase Price to the Sellers in cash by wire transfer in immediately available funds to an account or accounts designated by KTI (which account or accounts shall be designated not less than two (2) Business Days prior to the Closing Date).

SECTION 3.3 ALLOCATION OF PURCHASE PRICE. The Purchase Price shall be allocated for Tax and accounting purposes among the Purchased Equity and the covenants contained in Section 8.7 hereof, as provided in SCHEDULE 3.3. Such schedule shall also set forth the manner in which the Purchase Price and the Holdco 2 Interest are allocated among the acquired assets and covenants. The Buyer and the Sellers shall not, at any time prior to or following the Closing Date, take any position with respect to the allocation of the Purchase Price that is inconsistent with the final SCHEDULE 3.3 that is attached hereto.

ARTICLE IV
CLOSING

SECTION 4.1 CLOSING. The closing of the sale and purchase of the Purchased Equity contemplated hereby (the "CLOSING") shall take place at the offices of Hale and Dorr LLP, 60 State Street, Boston, MA 02109 at 10:00 a.m. on the later of (i) September 7, 2001 and (ii) the second Business Day following the satisfaction or waiver by the party entitled to the benefit of such condition of each of the conditions set forth in Articles XIII and XIV, or on such other date and place as shall be mutually agreed upon by KTI and the Buyer (the "CLOSING DATE").

SECTION 4.2 ITEMS TO BE DELIVERED BY THE SELLERS AT THE CLOSING.

In addition to the other deliveries or actions required to be delivered or performed hereby, at the Closing, the Sellers shall deliver or cause to be delivered to the Buyer the following:

(a) the officer's certificate required by Section 14.1;

(b) evidence of all consents, waivers, novations, authorizations and approvals required by Section 14.3;

(c) the certificates or other instruments representing all of the Purchased Equity duly accompanied by stock powers assigned in blank or, if such equity is not certificated, such other certificate, instrument or document evidencing the Purchased Equity reasonably satisfactory to the Buyer,

(d) a counterpart of the Holdco 2 LLC Agreement, duly executed by KTI or an Affiliate thereof;

(e) evidence reasonably satisfactory to the Buyer of the approval of the transactions contemplated hereby by the board of directors of each Seller;

(f) copies of the Organizational Documents of each of the Purchased Companies, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation;

(g) certificates from the Secretary of State or other appropriate official of the respective jurisdictions of incorporation or formation and the respective jurisdictions of qualification (as listed on SCHEDULE 5.1) to the effect that each of the Purchased Companies is in good standing and subsisting in such jurisdictions;

(h) an opinion of counsel to the Sellers, dated as of the Closing Date, in the form of EXHIBIT B attached hereto; and

(i) such other certificates, agreements, documents and other instruments and documents as are required to be delivered by the Sellers or any of the Purchased Companies pursuant to this Agreement at or prior to the Closing.

SECTION 4.3 ITEMS TO BE DELIVERED BY THE BUYER AT THE CLOSING.

In addition to the other deliveries or actions required to be delivered or performed hereby, at the Closing, the Buyer shall deliver or cause to be delivered to the Sellers the following:

(a) the officer's certificate contemplated by Section 13.1;

(b) evidence of all consents, waivers, novations, authorizations and approvals required by Section 13.3;

(c) a counterpart of the Holdco 2 LLC Agreement, duly executed by the Buyer;

(d) an opinion of the Buyer's counsel, dated as of the Closing Date, in the form of EXHIBIT C attached hereto;

(e) a wire transfer of immediately available funds in an amount equal to the Purchase Price to be paid on the Closing Date; and

(f) such other certificates and other instruments and documents required to be delivered by the Buyer pursuant to this Agreement at or prior to the Closing.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

The Sellers, jointly and severally, hereby represent and warrant to the Buyer that the statements contained in this Article V are true and correct, except as set forth in the disclosure schedule provided by the Sellers to the Buyer on the date hereof (the "DISCLOSURE SCHEDULE"). For purposes of this Article V, the representations and warranties shall be deemed not to apply to, or be affected in any way by, the New Heights Power Plant. Without limiting the foregoing, references in this Article V to "Purchased Companies," "Business," or "Purchased Equity" shall not include the New Heights Power Plant.

SECTION 5.1 CORPORATE ORGANIZATION. Each Seller and each of the Purchased Companies is a corporation or limited liability company that is duly incorporated or organized, as applicable, validly existing and in good standing under the laws of the jurisdiction of its incorporation, continuance or organization, as applicable, and it has all requisite corporate or other power

and authority to own its properties and assets and to conduct its business as now conducted. Each of the Purchased Companies is duly qualified to do business as a foreign corporation or limited liability company in good standing in every jurisdiction in which the character or location of the properties and other assets owned or leased by it or the nature of the business conducted by it makes such qualification necessary. SCHEDULE 5.1 lists every jurisdiction in which (a) each of the Purchased Companies is incorporated or organized, as applicable, and (b) each of the Purchased Companies is qualified to do business.

SECTION 5.2 AUTHORIZATION AND VALIDITY OF AGREEMENTS. Each Seller has all requisite corporate or other power and authority to enter into, execute and deliver this Agreement and the other agreements and instruments delivered by it pursuant to this Agreement and to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement by each Seller and the other agreements and instruments delivered by such Seller pursuant to this Agreement and the performance of its obligations hereunder and thereunder have been duly authorized by all necessary corporate or other action by its board of directors and sole shareholder and no other corporate or other proceedings on its part are necessary to authorize such execution, delivery and performance. This Agreement and the other agreements and instruments delivered by each Seller pursuant to this Agreement have been duly executed and delivered by such Seller and constitutes its legal, valid and binding obligation, enforceable against it in accordance with their respective terms.

SECTION 5.3 CAPITALIZATION. SCHEDULE 5.3 sets forth the authorized Stock of each of the Purchased Companies and the owners of record of all of the issued and outstanding Stock of each of the Purchased Companies. The Purchased Companies are the record owners of all of the issued and outstanding Stock of each of their respective Subsidiaries, and such ownership is free and clear of any Lien. KTI is the record and beneficial owner of, and has full power and authority to convey, the Purchased Equity free and clear of any Lien, and, upon delivery of and payment for such Purchased Equity as herein provided, the Buyer will acquire good and valid title thereto, free and clear of any Lien. New Heights is the beneficial owner of all of the issued and outstanding common stock of the other Purchased Companies on a fully diluted basis. There is no other Stock outstanding and no other outstanding options, warrants, convertible or exchangeable securities, subscriptions, rights (including any preemptive, registration or anti-dilutive rights), stock appreciation rights, calls or commitments, agreements or understandings of any character whatsoever (collectively, "RIGHTS") requiring the issuance or sale of shares of any Stock of the Purchased Companies, and there are no contracts or other agreements by which any of the Purchased Companies may become bound to issue additional shares of Stock or any Rights. None of the Sellers nor any of the Purchased Companies is a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any Stock of any of the Purchased Companies.

SECTION 5.4 NO CONFLICT OR VIOLATION. The execution, delivery and performance by each Seller of this Agreement and the other agreements and instruments delivered by it pursuant to this Agreement do not and will not (a) violate or conflict with any provision of such Seller's or any of the Purchased Companies' Organization Documents or the Organization Documents of any Subsidiary of a Seller or any of the Purchased Companies, (b) violate any provision of law, or any order, judgment or decree of any Governmental Authority applicable to any Seller, (c) violate or conflict with, or result in a breach of or constitute (with due notice or lapse of time or both) a default under, or result in the termination of, or accelerate the performance required by, any contract, lease, loan agreement or other agreement or instrument to which any of the properties or assets of any of the Purchased Companies is subject, (d) result in the creation or imposition of any Lien upon any of the Purchased Equity or (e) result in the cancellation, modification, revocation or suspension of any of the Licenses and Permits.

SECTION 5.5 CONSENTS AND APPROVALS. Except as set forth on SCHEDULE 5.5 to this Agreement, there are no consents, waivers, authorizations, filings with or approvals of any Governmental Authority or of any other Person that are required in connection with the (a) the execution and delivery by the Sellers of this Agreement and the other agreements and instruments required to consummate the transactions contemplated by this Agreement and (b) the performance by the Sellers of their respective obligations hereunder and pursuant to the other agreements and instruments required to consummate the transactions contemplated by this Agreement, except for those consents, waivers, authorizations, filings and approvals, the absence of which would not have a material adverse effect on

the Business, any Purchased Company, any of the Purchased Equity or the ability to consummate the transaction contemplated by this Agreement; provided, however, that Sellers' failure to obtain any consent required to be obtained from Grace Brothers, Ltd. in connection with the transaction contemplated by this Agreement shall constitute a material adverse effect on the Purchased Companies; provided further, however, that Sellers failure to obtain any of the consents described in the preceding clause of this Section 5.5 shall not serve as the basis for Buyer not consummating the transactions contemplated by this Agreement, and the remedy for the failure to obtain any such consent shall be limited to Sellers' obligation to indemnify any Buyer Indemnitee from and against any Losses arising as a result of such failure as set forth in Section 12.1.

SECTION 5.6 FINANCIAL STATEMENTS. Attached as SCHEDULE 5.6 are true and complete copies of (i) the unaudited balance sheets for New Heights as at June 30, 2001, and (ii) the statements of income and cash flows for New Heights for the six months ended at June 30, 2001; in each case, together with the notes and schedules thereto, as applicable. The financial statements described in this Section 5.6, including the notes and schedules thereto, are referred to herein collectively as the "FINANCIAL STATEMENTS." The Financial Statements (a) have been prepared in accordance with GAAP, consistently with the accounting practices previously employed by New Heights (except as indicated in the notes thereto), (b) present fairly the financial position, results of operations and cash flows of New Heights as of the dates thereof and for the periods then ended, (c) are complete, correct and in accordance with the books of account and records of New Heights, and (d) can be reconciled with the financial records maintained and the accounting methods applied by New Heights for Federal income tax purposes.

SECTION 5.7 ABSENCE OF CERTAIN CHANGES OR EVENTS.

(a) Since June 30, 2001, there has not been:

(i) any material adverse change in the business, operations, properties, condition (financial or other) or prospects of any of the Purchased Equity or any of the Purchased Companies, and no factor or condition exists and no event has occurred that would be likely to result in any such change;

(ii) any material loss, damage, or other casualty to the Purchased Equity or the Purchased Companies, whether or not covered by insurance; or

(iii) any loss of the employment, services or benefits of any officer or key employee of any of the Purchased Companies.

(b) Since June 30, 2001, the Purchased Companies have operated their respective Business in the ordinary course of business consistent with past practices and have not:

(i) incurred or failed to pay or satisfy when due any material obligation or liability (whether accrued, contingent or otherwise) relating to the operations of the Business;

(ii) incurred or failed to discharge or satisfy any Lien that is not a Permitted Lien;

(iii) transferred any of their assets with a value in excess of $10,000 other than in the ordinary course of business and consistent with past practices, or canceled any debts or Claims or waived any rights material to the Business or relating to the operations of the Business;

(iv) intentionally defaulted on any obligation, or unintentionally defaulted on any material obligation relating to the Business;

(v) entered into any transaction material to the Business, or amended or terminated any arrangement material to the Business or relating to the Business;

(vi) taken or omitted to take any other action, which would, had it been taken subsequent to the date hereof, constitute a breach of the provisions of Section 8.1; or

(vii) entered into any agreement or made any commitment to do any of the foregoing.

(c) Notwithstanding the foregoing or any other provision in this Agreement to the contrary, since June 30, 2001, none of the Sellers has caused or permitted the Purchased Companies to distribute or pay, or authorize the distribution or payment of, any cash or other assets or property to Sellers or any of their Affiliates, except the Seller Distributions.

SECTION 5.8 TAX MATTERS.

(a) All Tax Returns required to be filed by or on behalf of the Purchased Companies, either separately or as a member of an affiliated group, have been filed, and all such Tax Returns were correct and complete in all material respects. All Taxes of the Purchased Companies (whether or not shown to be due on any Tax Return) that were due (determined after taking into account all applicable extensions) have been paid. None of the Purchased Companies currently is the beneficiary of any extension of time within which to file any Tax Return. None of the Sellers nor any of the Purchased Companies has carried on business or performed any acts in a jurisdiction where Tax Returns were required to be, but were not, filed which activity would cause it to be subject to the taxing authority of such jurisdiction. No claim has been made by a taxing authority in a jurisdiction where any of the Sellers or the Purchased Companies does not file Tax Returns that any of the Sellers or the Purchased Companies is or may be subject to taxation by that jurisdiction.

(b) The Purchased Companies have withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(c) There is no material, unresolved dispute or claim concerning any liability for Tax in respect of any of the Purchased Companies either (A) claimed or proposed by any representative of any taxing authority or (B) as to which any of the Sellers or the Purchased Companies or the directors and officers of any of the Sellers or the Purchased Companies has knowledge. SCHEDULE 5.8 lists all Federal, state, local, and foreign income and franchise Tax returns filed with respect to each of the Purchased Companies for taxable periods ended after December 31, 1996, indicates any such Tax returns that have been audited by any taxing authority, identifying such authority, indicates those Tax returns that currently are the subject of audit by any taxing authority, identifying such authority, and indicates those Tax returns that remain open to future audit by any taxing authority. KTI has delivered, or has caused to be delivered, to the Buyer correct and complete copies of all income and franchise Tax returns, examination reports, and statements of deficiencies assessed against or agreed to by or on behalf of any of the Purchased Companies for taxable periods ending after December 31, 1996.

(d) There are no outstanding agreements, waivers, or arrangements extending the statutory period of limitations applicable to any claim for, or the period for the collection or assessment of, Taxes due from or with respect to any of the Purchased Companies.

(e) None of the Purchased Companies has made any payments, is obligated to make any payments, nor is party to any agreement that could obligate them to make any payments that will not be deductible under Code Section 280G. None of the Purchased Companies is a party to, bound by, or subject to, any Tax sharing, Tax allocation, Tax indemnification, or similar agreement, other than (i) agreements for the benefit of one or more of the Purchased Companies made in connection with the acquisition transactions whereby the Purchased Companies were acquired by New Heights and (ii) agreements among only some or all of the Purchased Companies. None of the Purchased Companies (A) has been a member of an affiliated group filing a consolidated or combined Federal, state, local, or foreign income or franchise Tax return (other than a group the common parent of which was the Sellers) or (B) has any liability for the Taxes of any Person under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise. No closing agreement pursuant to Code Section 7121 or any similar provision of state, local, or foreign law has been entered into by or with respect to any of the Purchased Companies. None of the Purchased Companies has agreed to make any adjustment pursuant to Code Section 481(a) by reason of any change in any accounting method, and there is no

application pending with any taxing authority requesting permission for any changes in any accounting method of any of the Purchased Companies. The Internal Revenue Service has not proposed any such adjustment or change in accounting method that has not been resolved.

(f) None of the Sellers nor any of their respective Affiliates has made, with respect to any of the Purchased Companies, or any property held by any of the Purchased Companies, any consent under Section 341(f) of the Code. No property of any of the Purchased Companies is "tax exempt use property" within the meaning of Section 168(h) of the Code. None of the Purchased Companies is a party to any lease made pursuant to Section 168(f)(8) of the Internal Revenue Code of 1954, as amended. There are no Liens on any of the Purchased Equity or assets of any of the Purchased Companies that arose in connection with any failure (or alleged failure) to pay any Tax.

(g) SCHEDULE 5.8 sets forth the estimated basis of each of the Purchased Companies in their assets as of December 31, 2000.

(h) No election under Section 754 of the Code has been made or filed by or with respect to New Heights.

(i) No election has been made under Treasury Regulations Section 301.7701-3 to treat New Heights as a corporation for U.S. Federal income tax purposes.

SECTION 5.9 OPERATION OF THE BUSINESS; SUFFICIENCY OF ASSETS. Except as set forth on SCHEDULE 5.9, no part of the Business is operated by or through any Person other than the Purchased Companies. The Purchased Companies have good and marketable title to all of the assets owned or used by the Purchased Companies and, upon consummation of the transactions contemplated by this Agreement, such assets shall be free and clear of all Liens (other than Permitted Liens). The Sellers have good and marketable title to the Purchased Equity and, upon consummation of the transactions contemplated by this Agreement, the Buyer will acquire good and marketable title to all of Sellers' right, title and interest in and under the Purchased Equity free and clear of all Claims, Liens and objections or equities of any kind. The assets owned or used by the Purchased Companies comprise all assets and services required for the continued conduct of the Business as now being conducted by the Purchased Companies. The assets owned or used by the Purchased Companies in connection with the Business are adequate for the purposes for which such assets are currently used or are held for use, and are in working repair and operating condition and there are no facts or conditions affecting such assets which could, individually or in the aggregate, interfere materially with the use or operation thereof as currently used or operated, or their adequacy for such use.

SECTION 5.10 EQUIPMENT AND MACHINERY. SCHEDULE 5.10 sets forth a complete and correct list of each item of Equipment and Machinery and lists the owner thereof. The Purchased Companies have good title, free and clear of all Liens (other than Permitted Liens) and title defects of any kind to the Equipment and Machinery. The Purchased Companies hold good and transferable leaseholds in all of the Equipment and Machinery leased by the Purchased Companies, and each such lease is valid and enforceable. The Purchased Companies are not in default with respect to any item of leased Equipment and Machinery and no event has occurred that constitutes, or with due notice or lapse of time or both may constitute, a default under any lease thereof.

SECTION 5.11 CUSTOMER RELATIONSHIPS. SCHEDULE 5.11 contains a true, accurate and complete list of the ten largest customer accounts, in terms of revenues to each of the Purchased Companies (a) for the calendar year ended December 31, 2000 and (b) for the six-month period ended June 30, 2001, together with the dollar amount of revenue earned from each such customer during each of such periods. With respect to any such customer listed on SCHEDULE 5.11, no such customer has terminated or is expected to terminate a material portion of its normal business (based on past practice) with any of the Purchased Companies. No director or executive officer of any Seller or any Purchased Company, or any Affiliate of any of the foregoing, has any direct or indirect interest, either by way of equity ownership or otherwise, in any Person which competes with, is a customer of, or is a sales agent for, or is a party to any Contract with, any of the Purchased Companies.

SECTION 5.12 LICENSES AND PERMITS. SCHEDULE 5.12 sets forth a true and complete list, including the owner or holder thereof, of all of the material

licenses, permits, franchises, authorizations, registrations, approvals and certificates of occupancy (or their equivalent) ("GOVERNMENTAL AUTHORIZATIONS") issued or granted to any of the Purchased Companies by any Governmental Authority, including without limitation, those required under the Environmental Laws (collectively, the "LICENSES AND PERMITS"), and all pending applications therefor. Such scheduled Licenses and Permits comprise all of the Governmental Authorizations necessary or required for the operation of the Business as currently conducted. Except as set forth of SCHEDULE 5.12 Governmental Authorizations held by the Purchased

Companies or used in connection with the Business have been duly obtained, are valid and in full force and effect, and are not subject to any pending or threatened administrative or judicial proceeding to revoke, cancel, suspend or declare any such Governmental Authorization invalid in any respect. Except as set forth on SCHEDULE 5.12, the Governmental Authorizations are owned or held, as applicable, by the applicable Purchased Company free and clear of all Liens.

SECTION 5.13 COMPLIANCE WITH LAW. The operations of the Purchased Companies and their respective businesses have been conducted in accordance with all applicable laws, regulations, orders and other requirements of all Governmental Authorities having jurisdiction over the Purchased Companies and their assets, properties and operations, except where the failure to do so would not have a material adverse effect on any of the Purchased Companies or the Purchased Equity or the ability to consummate the transactions contemplated by this Agreement. Except as set forth on SCHEDULE 5.13, no Seller nor any Purchased Company has received notice of any violation of any such law, regulation, order or other legal requirement, or are in default with respect to any order, writ, judgment, award, injunction or decree of any Governmental Authority.

SECTION 5.14 LITIGATION. Except as set forth of SCHEDULE 5.14, there are no Claims pending or, to the Sellers' knowledge, threatened, before any Governmental Authority brought by or against any Sellers or any of the Purchased Companies or any Sellers' or any of the Purchased Companies' respective officers, directors, partners, employees, agents or Affiliates involving, affecting or relating to the Business, the Purchased Companies, or any of the Purchased Equity or the transactions contemplated by this Agreement. None of the Sellers nor any of the Purchased Companies is named in, or otherwise bound by, any order, writ, judgment, award, injunction or decree of any Governmental Authority that affects or may reasonably be expected to affect the Business, any of the Purchased Companies, any of the Purchased Equity, or that would interfere with the transactions contemplated by this Agreement. SCHEDULE 5.14 lists all pending or to the Seller's knowledge, threatened litigation brought by or against the Sellers, any of the Purchased Companies or their respective Subsidiaries with respect to the Business any of the Purchased Equity.

SECTION 5.15 CONTRACTS.

(a) SCHEDULE 5.15(a) sets forth a true and complete list of all of the contracts, agreements and other instruments and arrangements (whether written or oral) to which any of the Purchased Companies is a party or by which any of the Purchased Companies or any of the Purchased Equity is bound, in each case, which are of the nature described below or are otherwise material to the Business (collectively, the "CONTRACTS"), including but not limited to:

(i) arrangements relating to providing collection, transportation or disposal services for automobile, vehicle or other vehicle tires involving in excess of $100,000 per year;

(ii) leases, licenses, permits, insurance policies, service contracts and other arrangements concerning or relating to real estate;

(iii) employment, consulting, collective bargaining or other similar arrangements relating to or for the benefit of current, future or former employees, agents, and independent contractors or consultants of the Purchased Companies;

(iv) agreements and instruments relating to the borrowing of money or obtaining of or extension of credit;

(v) material brokerage or finder's agreements;

(vi) contracts involving a sharing of profits or expenses;

(vii) material acquisition or divestiture agreements;

(viii) material service agreements;

(ix) manufacturer's representative, or distributorship agreements;

(x) arrangements limiting or restraining it from engaging or competing in any lines of business or with any Person; and

(xi) documents granting a power of attorney.

(b) All of the Contracts are in full force and effect and are valid, binding and enforceable against the parties thereto in accordance with their terms; provided that the agreements identified in Section 5.15(a)(x) may not be enforceable under all circumstances. The Sellers, the Purchased Companies and, to the best knowledge of the Sellers, each other party to the Contracts, has performed all obligations required to be performed by it to date under, and is not in default or delinquent in performance, status or any other respect (claimed or actual) in connection with, the Contracts, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default. The enforceability of the Contracts will not be affected in any manner by the execution, delivery and performance of this Agreement or the other documents and instruments delivered in connection with this Agreement. The Sellers have delivered to the Buyer or its representatives true and complete originals or copies of all of the Contracts.

SECTION 5.16 RECEIVABLES. All Accounts Receivable are reflected on SCHEDULE 5.16, were legally and validly incurred pursuant to bona fide transactions in the ordinary course of business consistent with past practices, and are current and Collectible in amounts not less than the aggregate amount thereof net of reserves reflected on the balance sheets of the Purchased Companies included in the Financial Statements as set forth on SCHEDULE 5.16, and are not subject to any counterclaims or set-offs. The term "COLLECTIBLE" shall mean that not less than one hundred percent (100%) of the book value of such Accounts Receivable are payable within ninety (90) days of the applicable due date. None of the Sellers nor any Purchased Company has any knowledge of any fact or circumstance generally that would result in any material increase in the uncollectability of the Accounts Receivable as a class. SCHEDULE 5.16 sets forth, as of June 30, 2001, all of the Accounts Receivable, the Purchased Company to which such amount is owed, the amount owing and the aging of such receivable, the name and last known address of the party from whom such receivable is owing, and any security in favor of it for the repayment of such receivable which the Purchased Companies purport to have.

SECTION 5.17 LABOR MATTERS.

(a) SCHEDULE 5.17(a) sets forth a true, accurate and complete list containing the names of all employees who are employed by any of the Purchased Companies, or who otherwise provide substantially all of their services to the Purchased Companies, as of the date hereof (the "BUSINESS EMPLOYEES"), the employer of such Business Employee, the job designations of each such Business Employee, the compensation paid to each such Business Employee and the basis for such compensation, currently and for calendar year 2000.

(b) None of the Purchased Companies is a party to (i) any employment agreement or consulting agreement with any Person, (ii) any agreement, policy or past or present practice that requires it to pay termination or severance pay to salaried, non-exempt or hourly employees (other than as required by law), (iii) any collective bargaining agreement or other labor union contract, nor does any Seller know of any activities or proceedings of any labor union to organize any such employees of the Purchased Companies, (iv) or subject to any conciliation agreements, consent decrees or settlements with respect to their employees. The Sellers have furnished, or have caused to be furnished, to the Buyer complete and correct copies of all such agreements, contracts and policies (the "EMPLOYMENT AND LABOR AGREEMENTS"). None of the

Purchased Companies has breached or otherwise failed to comply with any provisions of any of the Employment and Labor Agreements and there are no grievances outstanding thereunder. The transactions contemplated hereby do not cause or give rise to the payment of any severance or "change of control" payments to any employee of the Purchased Companies.

(c) Each of the Purchased Companies is in compliance in all material respects with all applicable laws relating to employment and employment practices, wages, hours, and terms and conditions of employment.

(d) There is no unfair labor practice charge or complaint pending or to the knowledge of the Sellers, threatened before the National Labor Relations Board ("NLRB") or any other Governmental Authority relating to any of the Purchased Companies.

(e) There is no labor strike, material slowdown or material work stoppage or lockout pending or to the knowledge of the Sellers, threatened against or affecting any of the Purchased Companies, and none of the Purchased Companies has experienced any strike, material slowdown or material work stoppage, lockout or other collective labor action by or with respect to their employees.

(f) There is no representation, claim or petition pending before the NLRB or any other Governmental Authority, and no question concerning representation exists relating to the employees of any of the Purchased Companies.

(g) There are no charges with respect to or relating to any of the Purchased Companies pending before the Equal Employment Opportunity Commission or any other Governmental Authority responsible for the prevention of unlawful employment practices.

(h) None of the Sellers nor any Purchased Company has received notice from any Governmental Authority responsible for the enforcement of labor or employment laws of an intention to conduct an investigation of it relating to the Business and no such investigation is in progress.

(i) Each Purchased Company has furnished to the Buyer a complete and accurate list of all its employee manuals, policies, procedures and work-related rules that apply to employees of any of the Purchased Companies ("EMPLOYEE POLICIES"). Each Purchased Company has provided the Buyer with copies of all of the written Employee Policies and a written description of all material unwritten Employee Policies. Each of the Employee Policies can be amended or terminated at will by the applicable Purchased Company.

SECTION 5.18 EMPLOYEE PLANS.

(a) SCHEDULE 5.18(a) sets forth a complete and correct list of all benefit plans and all employment, compensation, bonus, stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree medical or life insurance, supplemental retirement, severance, change of control or

other benefit plans, programs or arrangements, in each case, which are maintained, contributed to or sponsored by any Seller on behalf of any current or former employees of the Business or by any of the Purchased Companies, or for which any of the Purchased Companies have any liability, contingent or otherwise (collectively, the "BENEFIT PLANS").

(b) The Benefit Plans have been operated and administered in all material respects in accordance with their terms and the applicable requirements of the Code and applicable law, except for such failures as would not reasonably have a material adverse effect on any of the Purchased Companies. All contributions and all payments required to have been made to or under any Benefit Plan have been properly made, except for such failures as would not have a material adverse effect on any of the Purchased Companies.

(c) No Benefit Plan is subject to Title IV of ERISA or is a multi-employer plan within the meaning of Section 3(37)(A) of ERISA. Neither the Sellers nor any of the Purchased Companies, nor any trade or business (whether or not incorporated) which is or has ever been treated as a single employer with the Purchased Companies under Section 414(b), (c), (m) or (o) of the Code ("ERISA AFFILIATES"), has incurred any liability under Title IV of ERISA or

Section 412 of the Code, except for such liability that has been paid in full.

(d) There is no Claim (excluding claims for benefits incurred in the ordinary course consistent with past practices) that is pending or to the Sellers' knowledge threatened with respect to any of the Benefit Plans.

(e) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment becoming due to any current or former employee or consultant of the any of the Purchased Companies, (ii) increase any benefits under any Benefit Plan, or (iii) result in the acceleration of the time of payment, vesting or other rights with respect to any benefits under any Benefit Plan.

(f) All pension plans maintained or required to be maintained by the Purchased Companies are duly registered under, and have been maintained in accordance with, all applicable laws.

SECTION 5.19 INSURANCE. SCHEDULE 5.19 lists the fidelity bonds and the aggregate coverage amount and type and generally applicable deductibles of all insurance policies insuring, or maintained by, the Purchased Companies (the "INSURANCE POLICIES") or the Sellers with respect to the Business. The Insurance Policies (together with all riders and amendments thereto) are in full force and effect and all premiums due on the Insurance Policies have been paid. The Purchased Companies have complied with the provisions of the Insurance Policies. Neither the Sellers nor any of the Purchased Companies has received any written notice canceling or threatening to cancel or refusing to renew any of the Insurance Policies. The rights of the insured under the Insurance Policies will not be terminated or adversely affected by the transactions contemplated hereby. The Purchased Companies shall maintain the coverage under all Insurance Policies in full force and effect through and including the Closing Date. The Sellers have delivered to the Buyer or its representatives true and complete originals or copies of all of the Insurance Policies. The Insurance Policies are sufficient to comply with all requirements of applicable law, Contracts and Licenses and Permits, and are in amounts and coverages customary in the industry for similarly situated companies.

SECTION 5.20 OWNED REAL PROPERTY; LEASED REAL PROPERTY.

(a) (i) SCHEDULE 5.20(a)(i) sets forth a complete and accurate description of the real property owned by any of the Purchased Companies (the "OWNED REAL PROPERTY"). Except as may be indicated on the title insurance policies covering the Owned Real Property, the applicable Purchased Company has good, indefeasible and marketable fee simple title to the Owned Real Property. The Sellers have delivered to the Buyer or its representatives true and complete originals or copies of all of the existing title insurance policies covering the Owned Real Property.

(ii) Except as set forth in the title policies covering the Owned Real Property, (the "PERMITTED ENCUMBRANCES"), the Owned Real Property is not subject to any Liens (other than Permitted Liens). All Liens listed on SCHEDULE 5.20(a)(ii) shall be satisfied and discharged on or prior to the Closing Date unless otherwise indicated on SCHEDULE 5.20(a)(ii). All building, structures and improvements on the Owned Real Property and the operations therein conducted conform in all material respects to all applicable zoning and building laws, Environmental Laws, ordinances and administrative regulations, and neither the Sellers nor any of the Purchased Companies has received any notice of violation of the foregoing from any Governmental Authority, and all such buildings, structures, improvements and fixtures are in good order, condition and repair.

(iii) None of the Sellers nor any of the Purchased Companies has received any written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise), nor has any knowledge that any operations on or uses of the Owned Real Property constitute non-conforming uses under any applicable building, zoning, land use or other similar statutes, laws, ordinances, regulations, permits or other requirements. None of the Sellers nor any of the Purchased Companies has knowledge of or has received any written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) of any pending or contemplated rezoning proceeding affecting the Owned Real Property.

(iv) The Owned Real Property has access to public roads,

streets or the like or valid easements over private streets, roads or other private property providing ingress to and egress from such Owned Real Property.

(v) None of the Sellers nor any of the Purchased Companies has received any written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) from any utility company or municipality of any fact or condition which could reasonably be expected to result in the discontinuation of presently available or otherwise necessary sewer, water, electric, gas, telephone or other utilities or services for the Owned Real Property. The Owned Real Property has adequate rights of access to all water, sewer, sanitary sewer and storm drain facilities and community services. All public utilities necessary or convenient to the full use, occupancy, disposition and enjoyment of the Owned Real Property are located in the public right-of-way abutting the Owned Real Property and all such utilities are connected so as to serve the Owned Real Property without passing over other property.

(vi) Neither the Sellers nor any of the Purchased Companies have knowledge of any proposed reassessment of the Owned Real Property by the local taxing agencies, and there is no pending or threatened special assessment, tax reduction proceeding or other action which could reasonably be expected to increase or decrease real property taxes or assessments against the Owned Real Property.

(b) The Owned Real Property is not subject to any right or option of any other Person to purchase or lease or otherwise obtain title to an interest in the Owned Real Property. No Person

other than the applicable Purchased Companies has any right to use, occupy or lease any of the Owned Real Property.

(c) A list of all of the leases (the "LEASES") affecting any real property with respect to which any of the Purchased Companies is a lessor or lessee is set forth on SCHEDULE 5.20(c) (the "LEASED REAL PROPERTY"). SCHEDULE 5.20(c) sets forth the lessor, lessee, commencement date, termination date, renewal or expansion options (if any), options to purchase such Leased Real Property and annual rents for each Lease and the amount of any security deposit delivered pursuant to such Lease. Each of the Leases is valid and enforceable in accordance with its terms and is in full force and effect. The Sellers have delivered to the Buyer true and complete copies of each Lease and all documents relating to such Leases including, without limitation, any non-disturbance and recognition agreements, subordination agreements, attornment agreements and agreements regarding the term or rental of any of the Leases. None of the Purchased Companies, nor any other party to any Lease, is in default of its obligations thereunder or has delivered or received any written notice (and none of Sellers' Senior Management has delivered or received notice of any kind, whether written or otherwise) of default under any Lease, nor has any event occurred which, with the giving of notice, the passage of time or both, would constitute a default under any Lease.

(d) The plumbing, electrical, heating, air conditioning, ventilating and all other mechanical or structural systems of all buildings and structures located on the Owned Real Property and the Leased Real Property are in good order, condition and repair and the roof, basement and foundation walls of all buildings and structures located on the Owned Real Property and the Leased Real Property are free of leaks and other defects that would have an adverse effect on their continued use and are suitable for their actual current use. The applicable Purchased Companies are in possession of valid certificates of occupancy with respect to all buildings and structures located on the Owned Real Property and the Leased Real Property.

(e) There are no proceedings in eminent domain or other similar proceedings pending which affect any of the Owned Real Property and the Leased Real Property nor, to the knowledge of the Sellers, is any such matter threatened. Except as disclosed on SCHEDULE 5.20(e), there exists no writ, injunction, decree, order or judgment outstanding relating to the ownership, lease, use, occupancy or operation of any Owned Real Property or any Leased Real Property, nor to the knowledge of the Sellers, is any such matter threatened.

(f) None of the Sellers nor any of the Purchased Companies has received written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) of any violation of any

applicable statutes, laws, ordinances, regulations, permits or other requirements of any government, or any agency body or subdivision thereof, pertaining to the use, operation, or construction of the Owned Real Property or the Leased Real Property (including, without limitation, those relating to zoning, building, fire, health and safety, environmental control and safety, or the Americans with Disabilities Act or other similar state, provincial, local or foreign legislation) and no such violations exist.

(g) None of the Sellers nor any of the Purchased Companies has received written notice (and none of Sellers' Senior Management has received notice of any kind, whether written or otherwise) from any of its insurance carriers of any defects or inadequacies in any Owned Real Property or any Leased Real Property which, if not corrected, would result in termination of any Insurance Policy or insurance coverage therefore or an increase in the cost thereof.

(h) The buildings, driveways and all other structures and improvements upon the Owned Real Property and the Leased Real Property are within the boundary lines of such property or have the benefit of valid easements and there are no encroachments thereon that would adversely affect the use thereof.

SECTION 5.21 ENVIRONMENTAL MATTERS. The Buyer and the Sellers each agree that the only representations and warranties of the Sellers herein as to any environmental matters are those contained in this Section 5.21. Without limiting the generality of the foregoing, the Buyer specifically acknowledges that the representations and warranties contained in Sections 5.12, 5.13 and 5.14 do not relate to environmental matters.

(a) All of the Licenses and Permits required under Environmental Laws for the operation of the Business have been obtained and maintained in effect in good standing by the Purchased Companies. No material change in the facts or circumstances reported or assumed in the applications for such Licenses and Permits exists. The Purchased Companies are in compliance, and at all times have complied, with all Environmental Laws applicable to the operations associated with the Business, the transactions contemplated by this Agreement, the Owned Real Property, the Leased Real Property and each of the properties formerly owned, leased or operated by them with respect to the periods during which such entities owned, leased or operated such properties (the "FORMER REAL PROPERTY") and with all of the Licenses and Permits (including, without limitation, all filing and reporting requirements under all applicable Environmental Laws). Except as set forth on SCHEDULE 5.21(a-1), no Seller or Purchased Company, nor any of their respective Subsidiaries has received any notice of any violation with respect to any of such Licenses or Permits, which violations are outstanding or uncured as of the date hereof, and no proceeding is pending, or to the knowledge of the Sellers, threatened, to revoke or limit any of such Licenses or Permits. All of such Licenses and Permits are listed on SCHEDULE 5.21(a-2).

(b) None of the Purchased Companies has performed or suffered any act which could give rise to, or has otherwise incurred, liability to any Person, including itself, under the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. ("CERCLA") or any other Environmental Law, nor do the Sellers or any of the Purchased Companies have notice of any such liability or any Claim therefore or submitted notice pursuant to Section 103 of CERCLA to any governmental agency nor provided information in response to a request for information pursuant to Section 104(e) of CERCLA or any analogous state or local information gathering authority.

(c) No Hazardous Substance has been Released on, placed, dumped, disposed of, manufactured, stored or otherwise come to be located in, on, at, beneath or near any of the Owned Real Property, the Leased Real Property or the Former Real Property or any surface waters or groundwaters thereon or thereunder in excess of the levels prescribed or permitted under Environmental Laws.

(d) Except as set forth on SCHEDULE 5.21(d), there have not been and are no aboveground or underground storage tanks, polychlorinated biphenyls or asbestos-containing materials located at or within the Owned Real Property, the Leased Real Property or the Former Real Property.

(e) None of the Owned Real Property, the Leased Real Property or the Former Real Property is identified or, to the Sellers' knowledge, proposed

for listing on the National Priorities List under 40 C.F.R. Section 300 Appendix B, the Comprehensive Environmental Response Compensation and Liability Inventory System ("CERCLIS") or any analogous list of any Government Authority and none of the Sellers nor any of the Purchased Companies is aware of any conditions on such properties which, if known to a Governmental Authority, would qualify such properties on any such list.

(f) The Sellers have furnished, or caused to be furnished, to the Buyer copies of all environmental studies, assessments or reports relating to any of the Purchased Companies, the Leased Real Property, the Owned Real Property and the Former Real Property in its possession or under its control.

(g) Except as set forth of SCHEDULE 5.21(g), none of the Owned Real Property, the Leased Real Property or the Former Real Property, or any current or previous business operations conducted by any of the Purchased Companies, is the subject of any pending or threatened investigation or judicial or administrative proceeding, notice, decree or settlement respecting any actual, potential or alleged violation of any Environmental Law, or any Releases of Hazardous Substances into any surface water, ground water, drinking water supply, soil, land surface, subsurface strata, or ambient air, or in the workplace at a level that exceeds standards established by an applicable Governmental Authority (collectively, the "ENVIRONMENT"). None of the Sellers, nor any Purchased Company, nor any of their respective Subsidiaries has received from any Governmental Authority, insurance company or other Person: any request for information that a Seller, Purchased Company or Subsidiary thereof is the subject of an investigation under Environmental Laws; notice of any potential or alleged violations of any Environmental Laws or of any proposed order under any Environmental Laws; or any order or proposed order requiring any of such parties to prepare studies, action plans, or clean-up strategies as required by any Environmental Law because of any Environmental Condition on any of the Owned Real Property, the Leased Real Property or the Former Real Property.

(h) None of the Sellers, with respect to the Business, nor any of the Purchased Companies has reported any violation of any applicable Environmental Law to any Governmental Authority; and no Releases have occurred on any of the Owned Real Property, Leased Real Property or Former Real Property, which would require the Purchased Companies to report to any Governmental Authority under any Environmental Laws.

(i) None of the Purchased Companies has sent, transported, or directly arranged for the transport of any garbage, solid waste or Hazardous Substance, whether generated by the Purchased Companies or another Person, to any site listed on the National Priorities List or, proposed for listing on the National Priorities List or to a site included on the CERCLIS list or any analogous state list of sites.

(j) Except as set forth on SCHEDULE 5.21(j), there is not now, nor has there ever been, on or in any Owned Real Property, Leased Real Property or Former Real Property, any generation, treatment, recycling, storage or disposal of any hazardous waste, as that term is defined under 40 C.F.R. Part 261 or any state or foreign equivalent, except in accordance with Environmental Laws.

SECTION 5.22 INTELLECTUAL PROPERTY AND OTHER TANGIBLE ASSETS. Except as indicated on SCHEDULE 5.22, the applicable Purchased Companies own, or have a valid license to use all domestic and foreign patents, patent rights, patents pending, patent applications and registrations, industrial designs, trademarks, trademark rights, trademark applications, trademark registrations, trade names, trade name rights, domain names, service marks, copyrights, computer software, databases, licenses and other proprietary rights and all know how relating to the foregoing (collectively, the "INTELLECTUAL PROPERTY") owned, licensed or used by any of the Purchased Companies (the "PURCHASED INTELLECTUAL PROPERTY"), in the manner currently used by them. Schedule 5.22 contains a list of the Purchased Intellectual Property which is registered and indicates the owner and/or licensee and registration status and registration number thereof. The Purchased Intellectual Property is valid and none of the Sellers nor any of the Purchased Companies has received, or has knowledge of, any challenges to the validity thereof. To the knowledge of the Sellers, none of the Purchased Companies is infringing upon or in violation of the Intellectual Property of any other Person. To the knowledge of the Sellers and the Purchased Companies, none of the

Purchased Intellectual Property is being infringed upon by any Person or is otherwise used or available for use by any Person other than the Purchased Companies.

SECTION 5.23 ORGANIZATIONAL DOCUMENTS. Copies of the certificates of incorporation or articles or certificates of formation, as applicable, of each of the Purchased Companies (as certified by a Governmental Authority of the jurisdiction of their respective organization) and copies of the by-laws or operating agreements of each of the Purchased Companies and all amendments thereto and all other Organizational Documents of each of the Purchased Companies have been delivered to the Buyer, and such copies, as so amended, are true, complete and accurate. None of the Purchased Companies is in violation of any of its respective Organizational Documents.

SECTION 5.24 UNLAWFUL OR UNDISCLOSED PAYMENTS. None of the Sellers, with respect to the conduct of the Business, nor any of the Purchased Companies, nor any Person acting on behalf of any of them, has made any payments or otherwise provided any benefits, direct or indirect, to any customer, supplier, Governmental Authority or otherwise, or to any employee or agent thereof, for the purpose of acquiring purchase or sales relationships, or otherwise, that:

(a) may be unknown or undisclosed to the employers of any Persons who received any such payments;

(b) are unlawful, in any respect; or

(c) are not fully disclosed as such on the books and records of the Sellers or the Purchased Companies (and have been disclosed in writing to the Buyer).

SECTION 5.25 DISCLOSURE OF CONFIDENTIAL INFORMATION TO OTHERS; NON-COMPETITION AGREEMENTS.

(a) There are no currently existing and effective Contracts to which any Seller or any of the Purchased Companies is a party and which restrict any of them from engaging in the Business as currently, or currently proposed to be, conducted or from competing with any other Person.

(b) There are no non-disclosure or similar such agreements to which any of the Purchased Companies is a party that binds any of them with respect to information provided to a Purchased Company.

(c) There are no non-disclosure, non-competition or similar such agreements with respect to which any of the Purchased Companies is a beneficiary.

SECTION 5.26 ACCURACY OF INFORMATION. None of the representations, warranties or statements contained in this Article V, or in any of the exhibits hereto or any certificate delivered to Buyer pursuant to this Agreement contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any of such representations, warranties or statements, in light of the circumstances under which they were made, not misleading.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer hereby represents and warrants to the Sellers as follows:

SECTION 6.1 CORPORATE ORGANIZATION. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite power and authority to own its properties and assets as now conducted.

SECTION 6.2 CAPITALIZATION OF THE BUYER. Other than the Stock held by RTG Buyer, there is no other Stock outstanding and no other Rights requiring the issuance or sale of shares of any Stock of Buyer, and there are no contracts or other agreements by which Buyer may become bound to issue additional Stock or any Rights relating to such shares. Neither the Buyer nor, to the Buyer's

knowledge, its stockholders, is a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any Stock of Buyer.

SECTION 6.3 AUTHORIZATION AND VALIDITY OF AGREEMENTS. The Buyer has all requisite corporate power and authority to enter into this Agreement and the other agreements and instruments delivered by the Buyer under this Agreement and to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and the other agreements and instruments delivered by the Buyer under this Agreement and the performance of the Buyer's obligations hereunder and thereunder have been duly authorized by all necessary action by the board of directors and stockholders of the Buyer, and no other corporate proceedings on the part of the Buyer is necessary to authorize such execution, delivery and performance. This Agreement and the other agreements and instruments delivered by the Buyer under this Agreement have been duly executed by the Buyer and constitute its legal, valid and binding obligations, enforceable against it in accordance with their respective terms.

SECTION 6.4 NO CONFLICT OR VIOLATION. The execution, delivery and performance by the Buyer under this Agreement and the other agreements and instruments delivered by it pursuant to this Agreement do not and will not violate or conflict with any provision of the Organizational Documents of the Buyer and do not and will not violate any provision of law, or any order, judgment or decree of any court or other governmental or regulatory authority , nor violate nor will result in a breach of or constitute (with due notice or lapse of time or both) a default under any contract, lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Buyer is a party or by which it is bound or to which any of its properties or assets is subject.

SECTION 6.5 CONSENTS AND APPROVALS. The execution, delivery and performance of this Agreement on behalf of the Buyer do not require the consent, waiver, authorization or approval of any Governmental Authority or of any other Person.

SECTION 6.6 INVESTMENT PURPOSES. The Buyer is acquiring the Purchased Equity for its own account for investment and not with a view to the distribution thereof, and agrees that it shall not make any sale, transfer or other disposition of such Stock in violation of the Securities Act of 1933, as amended, or the rules and regulations thereunder.

ARTICLE VII

[INTENTIONALLY OMITTED]

ARTICLE VIII
COVENANTS OF THE SELLERS

SECTION 8.1 CONDUCT OF BUSINESS PRIOR TO THE CLOSING DATE.

(a) Without the prior written consent of the Buyer, between the date hereof and the Closing Date, the Sellers shall not, and shall cause the Purchased Companies not to, except (1) as required or expressly permitted pursuant to the terms hereof, (2) as set forth on SCHEDULE 8.1(a), or (3) the prior written consent of the Buyer:

(i) make any material change in the conduct of the Business or enter into any transaction other than in the ordinary course of business consistent with past practices;

(ii) make any sale, transfer, or other conveyance of any assets of any of the Purchased Companies in an amount greater than $10,000, other than in the ordinary course of business consistent with past practices (except as otherwise provided in subclause (xii) of this SECTION 8.1(a));

(iii) subject any of the assets owned by the Purchased Companies to any Lien;

(iv) pay, lend or advance any amount to, or sell, transfer or lease any properties or assets to, or enter into any agreement or arrangement with, any of its Affiliates with respect to the Purchased Companies, other than in the ordinary course of business consistent with past practices (except as otherwise provided in subclause (xii) of this SECTION 8.1(a));

(v) take any action that would cause any of the representations and warranties made by it in this Agreement not to remain true and correct;

(vi) write down or write off as uncollectable any of the Accounts Receivable;

(vii) settle, release or forgive any Claim or litigation or waive any right thereto with respect to the Purchased Companies or the Business except claims that are Seller Liabilities (provided, however, that any liability resulting from any such settlement, release or forgiveness shall constitute a Seller Liability);

(viii) make, enter into, modify, amend in any material respect or terminate any of the Contracts, bids or expenditures with respect to the Business involving an expenditure of more than $50,000, other than as set forth in Section (viii) of SCHEDULE 8.1(a), which agreements the Sellers may continue to negotiate and enter into for so long as they exercise commercially reasonable judgment and keep the Buyer informed as to progress and terms;

(ix) make, change or revoke any election or method of accounting with respect to the Taxes affecting or relating to the Purchased Companies;

(x) enter into, or permit to be entered into, any closing or other agreement or settlement with respect to the Taxes affecting or relating to the Purchased Companies;

(xi) adopt any new employee benefit plan or arrangement for Business Employees, or increase the compensation of Business Employees;

(xii) cause or permit the Purchased Companies to distribute or pay, or authorize the distribution or payment by the Purchased Companies of, any cash or other assets or property to Sellers or any of their Affiliates, except with respect to (A) amounts payable to Sellers in repayment of amounts that Sellers or their Affiliates contributed or advanced to the Purchased Companies on or after June 1, 2001 to fund the operating expenses of the Purchased Companies if, but only to the extent that,

such contributed or advanced amounts exceeded Sellers' 50% pro rata share of such operating expenses; and (B) Seller Distributions; or

(xiii) commit to do any of the foregoing.

(b) From and after the date hereof through the Closing Date, the Sellers shall, and shall cause the Purchased Companies, to:

(i) continue to maintain, in all material respects, the Business in accordance with present practice in a condition suitable for their current use;

(ii) file, when due or required, its Federal, state, foreign and other Tax Returns required to be filed and pay when due all the Taxes, unless the validity thereof is contested in good faith and by appropriate proceedings diligently conducted;

(iii) keep, and cause the Purchased Companies to keep, the Files and Records in the ordinary course consistent with past practices;

(iv) use commercially reasonable efforts to continue, and to cause the Purchased Companies to continue, to maintain existing business relationships with customers with respect to the Business;

(v) pay and satisfy when due all payables and payroll expenses of the Purchased Companies as and when due consistent with past practice; and

(vi) notify the Buyer no later than three (3) Business Days following the date of any notice or other communication from any Governmental Authority, in connection with the transactions contemplated by this Agreement.

(c) Notwithstanding anything in this Section 8.1 to the contrary, nothing contained in this Section 8.1 shall prevent, inhibit or delay the ability of any Seller from taking any and all action to enforce all of its rights under the New Heights LLC Agreement and under that certain Operation and Maintenance Agreement, dated as of December 29, 1998, by and between KTI Operations, Inc. and New Heights.

SECTION 8.2 CONSENTS AND APPROVALS. Prior to the Closing, the Sellers (a) shall, at their own cost and expense, use commercially reasonable efforts to obtain all necessary consents, waivers, authorizations, and approvals of all Governmental Authorities and all other Persons required in connection with the execution, delivery and performance by the Sellers of this Agreement and the other agreements and instruments required to consummate the transactions contemplated hereby, and (b) shall diligently assist and cooperate with the Buyer in preparing and filing all documents, including permits, transfers, modifications and applications required to be submitted by the Buyer to any Governmental Authority, in connection with such transactions and in obtaining any governmental consents, waivers, authorizations or approvals which may be required to be obtained by the Buyer in connection with such transactions (which assistance and cooperation shall include, without limitation, timely furnishing to the Buyer all information concerning the Sellers that counsel to the Buyer determines is required to be included in such documents or would be helpful in obtaining any such consent, waiver, notation, authorization or approval).

SECTION 8.3 ACCESS TO PROPERTIES AND RECORDS. The Sellers shall afford to the Buyer, and to its accountants, counsel, prospective lenders, agents and representatives, upon reasonable notice, full access during normal business hours throughout the period from the date hereof through the Closing Date to all Owned Real Property, Leased Real Property, operations, books, Contracts and Files and Records (including but not limited to Tax Returns and correspondence with accountants) of the Purchased Companies and, during such period, shall furnish promptly to the Buyer all other information concerning the Business and its properties and personnel as the Buyer may reasonably request; provided, that no investigation or receipt of information pursuant to this Section 8.3 shall qualify any representation or warranty of the Sellers or the conditions to the obligations of the Buyer.

SECTION 8.4 GOVERNMENTAL FILINGS. As soon as practicable, the Sellers and the Buyer shall make any and all filings and submissions to any Governmental Authority which are required to be made in connection with the transactions contemplated hereby. The Sellers shall furnish to the Buyer such information and assistance as the Buyer may reasonably request in connection with the preparation by them of any such filings or submissions. The Sellers shall supply the Buyer and the Buyer shall supply the Sellers with copies of all correspondence, filings or communications (or memoranda setting forth the substance thereof) between such party or its representatives, on the one hand, and any Governmental Authority or members of their respective staffs, on the other hand, with respect to this Agreement or the transactions contemplated hereby.

SECTION 8.5 NON-COMPETE AND NON-SOLICITATION PROVISIONS; CONFIDENTIALITY.

(a) Each of the Sellers, for itself and on behalf of each of its direct and indirect Subsidiaries (the "SELLER GROUP"), agree that, without the prior written consent of the Buyer, for a period of five (5) years after the Closing Date, none of the Seller Group shall, within the United States, Canada or Mexico, directly or indirectly (whether as a stockholder, director, officer, employee, principal, member, manager, agent, trustee, partner, joint venturer, financing source, consultant or employee or in any other capacity whatsoever), engage in the business of collecting, processing and recycling automobile, truck and other vehicle tires, provided that the Sellers shall be entitled to (i) collect and shred automobile, truck and other vehicle tires to the extent permitted by the Holdco 2 LLC Agreement and (ii) collect and dispose of automobile, truck and other vehicle tires in connection with and incidental to their municipal solid waste programs.

(b) The Sellers acknowledge and agree that the value to the Buyer of the transactions contemplated by this Agreement would be substantially diminished if the Sellers or any member of the Seller Group were to solicit the employment of any employees of a Seller or a Purchased Company on the date

hereof or on or after the Closing Date. The Sellers and each member of the Seller Group agree, that, without the prior written consent of the Buyer, for the five (5) year period commencing on the Closing Date, they will not, except by general advertising not targeted or directed at any employees of the Purchased Companies, make, offer, solicit or induce to enter into, any written or oral arrangement, agreement or understanding regarding employment or retention as a consultant with any person who is, on the date hereof or on or after the Closing Date, an employee of any of the Purchased Companies.

(c) The Sellers recognize and acknowledge that information about the Purchased Companies and the Business or relating to the services provided by the Purchased Companies or any phase of their operations or business or financial affairs that is not a matter of public record, including, without limitation, techniques, know-how, plans, contracts, business methods, strategies, technologies, trade secrets, customers, subscribers, distributors, suppliers, inventions and computer programs (collectively, the "CONFIDENTIAL INFORMATION"), is not generally known to its competitors. Notwithstanding the foregoing, Confidential Information shall not include any information which is or becomes generally

available to the public other than as a result of disclosure in violation of this Agreement. Accordingly, the Sellers will not, at any time after the date hereof, directly or indirectly, without the prior written consent of the Buyer: (i) use any Confidential Information for its own benefit; or (ii) except as may be required by law, divulge, disclose or make accessible any of the Confidential Information or any part thereof to any Person for any reason or purpose whatsoever. In the event that a Seller becomes legally compelled to disclose any of the Confidential Information, such Seller will provide the Buyer with prompt notice so that the Buyer may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Section 8.5(c). In the event that such protective order or other remedy is not obtained, or that the Buyer waives compliance with this Section 8.5(c), the Sellers will furnish only that portion of the Confidential Information which is legally required.

(d) The Sellers specifically acknowledge and agree that the value to the Buyer of the transactions contemplated by this Agreement would be substantially diminished if any of the Sellers or any member of the Seller Group does not comply in all respects with this Section 8.5, and the Sellers have agreed to the covenants set forth in this Section 8.5 as an inducement to the Buyer to enter into this Agreement. The Sellers acknowledge that the Buyer would not purchase the Purchased Equity but for the agreements and covenants of the Sellers set forth in this Section 8.5. The Sellers acknowledge and agree that the covenants set forth in this Section 8.5 are commercially reasonable and reasonably necessary to protect the interests the Buyer intends to acquire hereunder. The Buyer and the Sellers agree that the Buyer will suffer substantial damages in the event of a breach of the provisions of this Section 8.5, the amount of which may be difficult to establish promptly and with certainty. The Sellers acknowledge and agree that a monetary remedy for a breach of the covenants set forth in this Section 8.5 hereof may be inadequate and further agree that such a breach would cause the Buyer irreparable harm, and that the Buyer shall be entitled to temporary and permanent injunctive relief without the necessity of proving actual damages.

(e) If a court of competent jurisdiction determines that any of the provisions of this Section 8.5 is unenforceable because of the scope, duration or area of applicability of such provision(s), it is the intention of the parties that the court making such determination (i) shall modify such scope, duration or area, or all of them, only to the extent required to cause such provisions to be deemed enforceable; and (ii) that such provision(s) as so modified shall then be deemed by such court to be applicable and enforceable in such modified form and shall be enforced.

SECTION 8.6 DISCLOSURE. Until the Closing, the Sellers shall have the continuing obligation to promptly supplement or amend the written disclosures being made pursuant to this Agreement with respect to any matter hereafter arising or discovered which, if existing or known at the date of this Agreement, would have been required to be set forth or described in such written disclosures; provided, however, that for the purpose of the rights and obligations of the parties hereunder, any such supplemental disclosure shall not be deemed to have been disclosed as of the date of this Agreement for purposes of Section 14.1 (in which case Sellers shall reimburse Buyer for all of its Transaction Expenses pursuant to Section 16.4 if the transactions contemplated

by this Agreement are not consummated as a result of any of the matters not disclosed in writing to Buyer pursuant to this Agreement as of the date hereof), but if the Closing occurs, such disclosure shall be deemed to have been disclosed for purposes of Section 12.1. Until the Closing, the Sellers shall promptly give to the Buyer written notice upon learning of or having knowledge of any matter that may constitute a breach of any representation, warranty, agreement or covenant contained in this Agreement, which notice shall identify and describe the breach in reasonable detail.

SECTION 8.7 RECONCILED DISTRIBUTIONS. Sellers shall provide to Buyer all information necessary or otherwise requested by Buyer to determine the amount of the Reconciled Distributions and the Seller Distributions.

SECTION 8.8 CONTINUED USE OF SELLERS' FACILITIES. Sellers shall permit Buyer and the Purchased Companies (without any cost to the Buyer or any of the Purchased Companies) to use all of the Intellectual Properties of the Sellers (including, without limitation, the management information systems of the Sellers) currently being used by the Purchased Companies for a period of 90 days after the Closing Date in the same manner as currently being used by the Purchased Companies.

ARTICLE IX
COVENANTS OF THE BUYER

SECTION 9.1 ACTIONS PRIOR TO THE CLOSING DATE. Between the date hereof and the Closing Date, the Buyer shall not take any action which shall cause it to be in breach of any of its representations, warranties, covenants or agreements contained in this Agreement. The Buyer shall use its commercially reasonable efforts to perform all its obligations and satisfy all conditions to Closing to be performed or satisfied by it under this Agreement as soon as practicable, but in no event later than the Closing Date. Until the Closing, the Buyer shall promptly give to KTI written notice upon learning of or having knowledge of any matter that may constitute a breach of any representation, warranty, agreement or covenant of the Buyer contained in this Agreement, which notice shall identify and describe the breach in reasonable detail.

SECTION 9.2 CONFIDENTIALITY. The Buyer recognizes and acknowledges that all information about the Purchased Companies and the Business or relating to the services provided by the Purchased Companies or any phase of their operations or business or financial affairs that is not a matter of public record, including, without limitation, techniques, know-how, plans, contracts, business methods, strategies, technologies, trade secrets, customers, subscribers, distributors, suppliers, inventions and computer programs (collectively, the "SELLER CONFIDENTIAL INFORMATION"), is not generally known to its competitors. Notwithstanding the foregoing, Seller Confidential Information shall not include any information which is or becomes generally available to the public other than as a result of disclosure in violation of this Agreement. Accordingly, the Buyer will not, at any time prior to the Closing Date, except as necessary for the consummation of the transactions contemplated hereby, directly or indirectly, without the prior written consent of KTI: (i) use the Seller Confidential Information for its own benefit; (ii) except as may be required by law, divulge, disclose or make accessible the Seller Confidential Information or any part thereof to any Person for any reason or purpose whatsoever; or (iii) render any services to any Person to whom the Seller Confidential Information, in whole or in part, has been disclosed or is threatened to be disclosed by or at the instance of the Buyer. In the event that the Buyer becomes legally compelled to disclose any of the Seller Confidential Information, the Buyer will provide KTI with prompt notice so that the Sellers may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Section 9.2. In the event that such protective order or other remedy is not obtained, or that KTI waives compliance with this Section 9.2, the Buyer will furnish only that portion of the Seller Confidential Information which is legally required. The Buyer acknowledges and agrees that the covenants set forth in this Section 9.2 are commercially reasonable and reasonably necessary to protect the interests of the Sellers hereunder. The Buyer agrees that the Sellers will suffer substantial damages in the event of a breach of the provisions of this Section 9.2, the amount of which may be difficult to establish promptly and with certainty. The Buyer acknowledges and agrees that a monetary remedy for a breach of the covenants set forth in this Section 9.2 hereof may be inadequate and

further agrees that such a breach would cause the Sellers irreparable harm, and that the Sellers shall be entitled to temporary and permanent injunctive relief without the necessity of proving actual damages. If a court of competent jurisdiction determines that any of the provisions of this Section 9.2 is unenforceable because of the scope, duration or area of applicability of such provision(s), it is the intention of the parties that the court making such determination (i) shall modify such scope, duration or area, or all of them, only to the extent required to cause such provisions to be deemed enforceable; and (ii) that such provision(s) as so modified shall then be deemed by such court to be applicable and enforceable in such modified form and shall be enforced.

SECTION 9.3 CONSENTS AND APPROVALS. The Buyer shall, at its cost and expense, use reasonable efforts to obtain all necessary consents and approvals of third parties required to be obtained by it to effect the transactions contemplated by this Agreement.

SECTION 9.4 ACCESS TO PROPERTIES. The Sellers, its agents, employees, consultants and representatives shall have access to the Leased Real Property and Owned Real Property during normal business hours (or such other times as the parties hereto may mutually agree) subsequent to the Closing with right to conduct inspections, surveys, sampling, test borings, well installation, removal, containment, treatment or remediation of Hazardous Substances (hereafter, "Work") to the extent such Work is required by applicable law and pursuant to this Agreement; provided, however, that the Seller shall provide the Buyer with reasonable prior notice of the Work (but not less than 5 Business Days), and any such Work shall be performed in a manner that does not unreasonably interfere with the Buyer's ownership or use of the Lease Real Property and Owned Real Property. Seller shall provide Buyer a copy of each final report prepared in connection with the Work.

ARTICLE X
TAXES

SECTION 10.1 TAX RETURNS.

(a) For any Pre-Closing Tax Period that is not part of a Straddle Period, the Sellers shall or shall cause the Purchased Companies to, timely prepare and file with the appropriate authorities all income Tax Returns required to be filed by or with respect to the Purchased Companies regardless of the due date of such Tax Returns, and shall pay or cause to be paid all Taxes shown to be due or required to be paid on such Tax Returns. The Sellers also shall prepare and timely file, or cause the Purchased Companies to prepare and timely file, all other Tax Returns required to be filed by or with respect to the Purchased Companies that are due on or before the Closing Date, and the Sellers shall pay all Taxes shown to be due or required to be paid on such Tax Returns. The Buyer shall timely prepare and file, or cause the Purchased Companies to prepare and timely file, all other Tax Returns required to be filed by or with respect to the Purchased Companies, and shall pay, or cause the Purchased Companies or the appropriate Subsidiary thereof to pay, all Taxes shown to be due or required to be paid on those Tax Returns. Each party that prepares Tax Returns pursuant to this Section 10.1 shall permit the other party a reasonable opportunity to review and comment on such Tax Returns and shall make such changes as are reasonably requested. Notwithstanding the foregoing, the Sellers' obligation to pay any Taxes of the Purchased Companies pursuant to this Section 10.1(a) shall be limited to 50% of such Taxes.

(b) In the case of any Straddle Period, to the extent that Taxes of the Purchased Companies are based on or measured by income or gross receipts in lieu of income and not on a transaction basis (which are subject to indemnification by the Sellers to the extent set forth in this Section 10.1 and Article XII of this Agreement), such Taxes shall be computed using a closing-of-the-books

method as if such taxable period ended as of the end of the Closing Date, with all standard deductions, exemptions, progressivity in rates, and other items calculated with respect to the full Straddle Period apportioned to the Pre-Closing Tax Period based upon the ratio of the number of days during the Straddle Period that are in the Pre-Closing Tax Period to the total number of days in the Straddle Period; provided, however, that any transactions not in the

ordinary course of a Purchased Company's business that occur on the Closing Date but after the Closing shall be considered to occur on the day following the Closing Date. In the case of any Straddle Period, to the extent that Taxes are not based on or measured by income or gross receipts in lieu of income, such Taxes for the Pre-Closing Tax Period shall be (i) for any Tax that is determined based upon specific transactions (including, but not limited to, value added, sales and use Taxes), all Taxes applicable to transactions that have been consummated during the period through the Closing Date and (ii) for any Tax that is not based upon specific transactions (including, but not limited to, license, real property, personal property, franchise and doing business Taxes), an amount equal to the full amount of such Tax for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days during the Straddle Period that are in the Pre-Closing Tax Period and the denominator of which is the total number of days in the Straddle Period (as such amount shall be equitably adjusted to reflect material acquisitions or disposition during the Straddle Period).

(c) The Sellers' indemnity obligations for Taxes for a Straddle Period of any Purchased Company shall initially be effected by its payment to the Buyer of 50% of the excess of (a) such Taxes for the Pre-Closing Tax Period, over (b) the sum of (i) the amount of such Taxes paid by the Sellers or any of their respective affiliates (other than such Purchased Company) at any time, plus (ii) the amount of such Taxes paid by such Purchased Company before the Closing. The Sellers shall initially pay such excess to the Buyer within fifteen (15) days after the Tax Return with respect to the liability for such Taxes is required to be filed (or, if later, is actually filed). If the amount of such Taxes paid to Buyer by the Sellers or any of their respective Affiliates (other than a Purchased Company) pursuant to this Section 10.1(c) at any time exceeds 50% of the excess of any of (x) the amount of such Taxes for the Pre-Closing Period, over (y) the amount of such Taxes paid by the Purchased Companies, the Buyer shall pay to the Sellers the amount of such excess, within fifteen (15) days after the Tax Return with respect to the liability for such Taxes is required to be filed. The payments to be made under this paragraph by the Sellers or the Buyer with respect to any Straddle Period shall be appropriately adjusted to reflect any final determination with respect to Taxes for such Straddle Period.

SECTION 10.2 COOPERATION. The Sellers, the Buyer, and each of the Purchased Companies shall reasonably cooperate, and shall cause their respective Affiliates, officers, employees, agents, auditors, and other representatives to reasonably cooperate, in preparing and filing all Tax Returns relating to Taxes of the Purchased Companies, including maintaining and making available to each other all records necessary in connection with such Taxes and in resolving all disputes and audits with respect to all taxable periods relating to such Taxes. The Buyer and the Sellers recognize and agree that the other party and its Affiliates will need access from time to time after the Closing to certain accounting and Tax records and information held by such party and its respective Affiliates to the extent such records and information pertain to events occurring on or before the Closing Date. Therefore, each of the Buyer and the Sellers shall, and the Buyer shall cause each of the Purchased Companies to, (a) properly retain and maintain such records and information in accordance with the past custom and practice of such Person until such time as such retention and maintenance is no longer reasonably necessary, provided that such records and information shall be retained and maintained until the expiration of the applicable statute of limitations, and (b) allow the other party, its Affiliates and their agents and representatives, at times and dates mutually acceptable to the parties, to inspect, review and make copies of such records and information as such other party may deem necessary or appropriate from time to time, such activities to be conducted during normal business hours and at the other party's expense. Notwithstanding anything to

the contrary in this Agreement, the provisions of this Section 10.2 shall be effective until the expiration of the applicable statute of limitations.

SECTION 10.3 REFUNDS. Except as otherwise provided in this Section 10.3, any refunds or credits of Taxes of the Purchased Companies for any Pre-Closing Tax Period that is distributed to Holdco 2 LLC that is not part of a Straddle Period shall be for the account of the Sellers. Any refunds or credits of Taxes of the Purchased Companies for any Straddle Period that is distributed to Holdco 2 LLC shall be equitably apportioned between the Sellers and the Buyer (based on each party's respective indemnification obligations with respect to such Taxes). Fifty percent of any other refunds or credits of Taxes of the Purchased

Companies that is distributed to Holdco 2 LLC shall be for the account of the Buyer.

SECTION 10.4 AMENDED RETURNS. The Sellers shall be responsible for filing any amended consolidated, combined, or unitary income Tax Returns for Pre-Closing Tax Periods that are not part of a Straddle Period that are required as a result of examination adjustments made by the Internal Revenue Service or by the applicable state, local, or foreign taxing authorities for such taxable years as finally determined. For those jurisdictions in which separate income Tax Returns are filed by any of the Purchased Companies, any required amended income Tax Returns resulting from such examination adjustments, as finally determined, shall be prepared by the Sellers and furnished to the Buyer for approval (which shall not be unreasonably withheld), signature and filing at least ten (10) days before the due date for filing such amended income Tax Returns.

SECTION 10.5 AUDITS. The Sellers shall allow the Buyer and its counsel to participate in any audits of the Sellers' consolidated or combined income Tax Returns to the extent that such returns relate to the Purchased Companies. The Sellers shall not settle any such audit in a manner that would adversely affect the Buyer or any of the Purchased Companies after the Closing Date without the consent of the Buyer (which shall not be unreasonably withheld or delayed). The Buyer shall allow the Sellers and their counsel to participate in any audits of any Purchased Companies to the extent that such audits pertain to Taxes for which the Sellers are liable pursuant to Section 10.1 hereof. The Buyer shall not settle or cause to have settled any such audit without the consent of the Sellers (which shall not be unreasonably withheld or delayed.)

SECTION 10.6 TAX SHARING AGREEMENTS. All Tax sharing, Tax allocation, Tax indemnity or other similar agreements in effect prior to the Closing to which any of the Purchased Companies is a party or by which any of them is bound shall be terminated as of the Closing Date and, after the Closing Date, each of the Purchased Companies shall not be bound thereby or have any liability thereunder except those tax indemnifications disclosed on SCHEDULE 10.6.

SECTION 10.7 CERTIFICATE OF NON-FOREIGN STATUS. At the Closing, the Sellers shall deliver to the Buyer, pursuant to Section 1445(b)(2) of the Code and Treasury Regulation Section 1.1445-2(b)(2), a duly executed certification of non-foreign status. Such certification shall conform to the model certification provided in Treasury Regulation Section 1.1445-2(b)(2)(iii)(B).

SECTION 10.8 GOVERNING PROVISIONS. To the extent that any amounts are payable to Buyer or Sellers pursuant to this Article X, the provisions of this Article X shall solely govern the payment of such amounts; provided, however, that the provisions of Article XII of this Agreement shall govern the remedies available to Buyer and Sellers as a result of any breach of the provisions of this Article X.

ARTICLE XI
EMPLOYEE BENEFITS

SECTION 11.1 EMPLOYMENT MATTERS.

(a) Notwithstanding anything to the contrary contained herein, SCHEDULE 11.1 sets forth a list of those current employees of, and consultants to, the Purchased Companies who will be employees of or consultants to the Purchased Companies as of the Closing and no other person shall have any right to become an employee of or consultant to any of the Purchased Companies after the Closing nor shall any other person have any right to any payment from any of the Purchased Companies.

(b) Nothing contained herein shall restrict Holdco 2 LLC in the future in the exercise of its independent business judgment as to the terms and conditions under which the employment of the employees of any of the Purchased Companies shall continue, the duration of such employment, the basis on which such employment is terminated or the benefits provided to such employees.

SECTION 11.2 SELLERS' EMPLOYEE BENEFITS INDEMNIFICATION. Neither Holdco 2 LLC nor any of the Purchased Companies shall assume or otherwise be responsible for any Benefit Plan or liability or obligation under any plan, contract, payroll practice or other arrangement that the Sellers sponsor, contribute to, or participate in on the date hereof, or that they have or may have any

liability or obligation under, whether or not disclosed under this Agreement or in any schedule or exhibit hereto.

ARTICLE XII
INDEMNIFICATION

SECTION 12.1 INDEMNIFICATION BY THE SELLERS.

(a) Subject to Section 12.1(b), notwithstanding the Closing and regardless of any investigation at any time made by or on behalf of the Buyer or any knowledge or information that the Buyer may have, the Sellers shall, jointly and severally, indemnify and fully defend, save and hold harmless the Buyer, any Affiliate of the Buyer (excluding Holdco 2 LLC, the Purchased Companies and the Sellers), and their respective directors, officers, employees, members, partners, shareholders, representatives, agents and attorneys (the "BUYER INDEMNITEES"), from and against any damage, liability, loss, cost, expense (including all costs of any investigation and reasonable attorneys', experts' and consultants' fees), deficiency, interest, penalty, impositions, assessments or fines (collectively, "LOSSES") arising out of or resulting from, any Seller Liabilities and/or Sellers' Event of Breach. As used herein, "SELLERS' EVENT OF BREACH" shall be and mean any one or more of the following:

(i) any untruth or inaccuracy in any representation or warranty of the Sellers in this Agreement or in any certificate delivered by the Sellers at Closing;

(ii) any failure of the Sellers to duly perform or observe any term, provision, covenant, agreement or condition contained in this Agreement on the part of such Seller to be performed or observed;

(iii) any Claim for Taxes or interest or penalty thereon resulting from the failure of the Buyer to withhold Taxes owed by the Sellers from the Purchase Price under any applicable Law;

(iv) any Claim or cause of action by any party against any Buyer Indemnitee (x) relating to the Power Plant Assets or (y) arising from any action or inaction on or after the Closing by

Sellers or their Affiliates or any of their officers, directors, employees, members, shareholders, partners, representatives, agents or consultants with respect to the Power Plant Assets; and

(v) any Claim or cause of action by any unrelated third party against any Buyer Indemnitee with respect to the Seller Liabilities.

(b) The collective liability of (i) the Sellers in connection with or arising out of this Agreement and (ii) the RTG Sellers in connection with or arising out of the RTG Purchase Agreement, shall be limited to an aggregate amount equal to the Seller Liability Cap plus the aggregate amount of the reasonable legal fees, costs and expenses incurred by the Sellers and (to the extent provided herein) the Buyers Indemnitees in connection with any Seller Liabilities and/or any Sellers' Event of Breach; provided that the Sellers shall not be liable under this Section 12.1 unless and until the aggregate amount of Losses under this Section 12.1 and under Section 12.1 of the RTG Purchase Agreement exceed $100,000 (at which point the Sellers shall become liable for the aggregate amount of Losses, and not just amounts in excess of $100,000, but subject to the limitations on Sellers' liability set forth in this Section 12.1). Notwithstanding the foregoing or anything to the contrary in this Agreement: (A) if any Buyer Indemnitee becomes liable (pursuant to any statute, rule, regulation or other law or any judicial, agency or governmental ruling or action, in each case as a result of any condition, event or circumstance that existed or occurred prior to the Closing, other than solely due to the action or inaction of any Buyer Indemnitee) for any liabilities of any Purchased Company that result in such Buyer Indemnitee being required to make an out-of-pocket payment of any kind to a person or entity who is not a Buyer Indemnitee (any such payment, an "EXCESS PAYMENT") and specifically excluding any diminution or reduction in the value of Buyer's equity investment in Holdco 2 LLC, then such Excess Payment shall not be subject to the Seller Liability Cap, and the Sellers shall indemnify and fully defend, save and hold harmless the Buyer Indemnitees from and against all such liabilities; and (B) the Seller Liability Cap shall not apply to, or be reduced by or limit Sellers' obligations to indemnify Buyer Indemnitees from and against Losses incurred by them as a result of any Sellers'

Event of Breach described in clause 12.1(a)(ii), (iii) or (iv) and, to the extent arising out of any Sellers' Event of Breach described in clause 12.1(a)(ii), (iii) or (iv), clause 12.1(a)(v); and (C) if any Purchased Company incurs or suffers any Loss, or any such Loss exists, because of any Seller Liability not being paid or discharged in full prior to the Closing or because of the occurrence or existence of any Sellers' Event of Breach, and if such Loss is subject to the Seller Liability Cap pursuant to Section 12.1(b) of this Agreement, then, subject to the Seller Liability Cap, the Sellers shall be obligated to pay the Buyer, and the Sellers' indemnification obligations to the Buyer Indemnitees with respect to such Loss shall be satisfied upon payment to the Buyer of, an amount equal to the sum of (1) the product of 50% of the amount of such Losses and the percentage of Buyer's equity interest in Holdco 2 LLC as of the date on which such indemnification or payment obligation is paid in full to such Buyer Indemnitees, and (2) to the extent permitted herein, the aggregate amount of the reasonable legal fees, costs and expenses incurred by the Buyer Indemnitees in connection with such Loss; all of which shall be in addition to any legal fees, costs or expenses incurred or payable by the Sellers in connection with such Loss.

(c) Except as provided under Section 12.1(b), the Sellers shall not be responsible or liable for any Losses that are consequential, in the nature of lost profits, diminution in value, damage to reputation or the like, special or punitive or otherwise not actual Losses; provided, however, that Sellers shall be liable for consequential damages resulting from (i) any breach by Sellers of their representations and warranties in this Agreement that any Seller knew was not true and correct in all material respects when made or as of the Closing, and (ii) any willful or intentional breach by any of the Sellers of any of the covenants or agreements in this Agreement of which any Seller has knowledge.

(d) In determining the amounts for any Losses hereunder for which a Buyer Indemnitee is entitled to assert a claim for indemnification, the amount of any such Losses shall be determined after deducting therefrom the amount of any insurance proceeds received by such Buyer Indemnitee in respect of such Losses (which recoveries the Buyer agrees to use its commercially reasonable efforts to obtain or cause to be obtained). If an indemnification payment is received by a Buyer Indemnitee and such Buyer Indemnitee later receives insurance proceeds in respect of the related Loss, the Buyer shall immediately pay to the Sellers a sum equal to the lesser of (i) the actual amount of insurance proceeds received, or (ii) the actual amount of the indemnification repayment previously paid by the Sellers with respect to such Losses.

SECTION 12.2 INDEMNIFICATION BY THE BUYER.

(a) Subject to Section 12.2(b), notwithstanding the Closing or the delivery of the Purchased Equity, the Buyer shall indemnify and fully defend, save and hold harmless the Sellers, any Affiliate of the Sellers (excluding Holdco 2 LLC, the Purchased Companies and the Buyer) and their respective officers, directors, employees, members, partners, shareholders, representative, agents and attorneys), and their respective officers, directors, employees, members, partners, shareholders, representatives, agents and attorneys (the "SELLER INDEMNITEES") from and against any Losses arising out of or resulting from any Buyer's Event of Breach. As used herein, "BUYER'S EVENT OF BREACH" shall be and mean any one or more of the following:

(i) any untruth or inaccuracy in any representation or warranty of the Buyer in this Agreement or in any certificate delivered by Buyer at Closing;

(ii) all Claims against Seller Indemnitees arising out of or relating to occurrences of any nature relating to the Purchased Companies, the Purchased Equity and the Business after the Closing Date, whether in contract or tort (excluding, however, all Claims relating to the Power Plant Assets or arising from any action or inaction by Sellers or their Affiliates or any of their officers, directors, employees, members, shareholders, partners, representatives, agents or consultants with respect to the Power Plant Assets); and

(iii) any failure of the Buyer to duly perform or observe any term, provision, covenant, agreement or condition contained in this Agreement on the part of the Buyer to be performed or observed.

(b) The collective liability of (i) the Buyer in connection with or arising out of this Agreement and (ii) RTG Buyer in connection with or arising out of the RTG Purchase Agreement, shall be limited to an aggregate amount equal to the Buyer Liability Cap plus the aggregate amount of the reasonable legal fees, costs and expenses incurred by the Buyer and (to the extent provided herein) the Seller Indemnitees in connection with any Buyer's Event of Breach; provided that the Buyer shall not be liable under this Section 12.2 unless and until the aggregate amount of Losses under this Section 12.2 and under Section 12.2 of the RTG Purchase Agreement exceed $100,000 (at which point the Buyer shall become liable for the aggregate amount of Losses, and not just amounts in excess of $100,000, but subject to the limitations on Buyer's liability to Seller Indemnitees set forth in this Section 12.2). Notwithstanding the foregoing or anything to the contrary in this Agreement: (A) if any Seller Indemnitee incurs any out-of-pocket cash Loss due to a Buyers' Event of Breach (which shall exclude any diminution or reduction in the value of Sellers' equity interest in Holdco 2 LLC that does not involve or require any cash payment by a Seller Indemnitee to any person or entity), for purposes of determining the obligations of the Buyer under this Section 12.2 with respect to such Loss, the Buyer Liability Cap shall be deemed to be $16,000,000; and (B) the Buyer Liability Cap shall not apply to, or be reduced by or

limit Buyer's obligations to fully indemnify Seller Indemnitees against Losses incurred by them as a result of any Buyer's Event of Breach described in clause 12.2(a)(ii) or (iii).

(c) The Buyer shall not be responsible or liable for any Losses that are consequential, in the nature of lost profits, diminution in value, damage to reputation or the like, special or punitive or otherwise not actual Losses.

(d) In determining the amounts for any Losses hereunder for which a Seller Indemnitee is entitled to assert a claim for indemnification, the amount of any such Losses shall be determined after deducting therefrom the amount of any insurance proceeds received by such Indemnitee in respect of such Losses (which recoveries the Sellers agree to use their commercially reasonable efforts to obtain or cause to be obtained). If an indemnification payment is received by a Seller Indemnitee and such Seller Indemnitee later receives insurance proceeds in respect of the related Loss, the Sellers shall immediately pay to the Buyer a sum equal to the lesser of (i) the actual amount of insurance proceeds received, or (ii) the actual amount of the indemnification repayment previously paid by the Buyer with respect to such Losses.

SECTION 12.3 TERM OF INDEMNIFICATION. Except as set forth below, the obligations to indemnify under Section 12.1 and Section 12.2 hereof for breaches of representations and warranties shall only apply in respect of Losses asserted on or before the date that is two (2) years following the Closing Date. Notwithstanding the foregoing, (a) the obligation to indemnify under Section 12.1 hereof in respect of the corporate or other authority of the Sellers, Taxes, violations of Environmental Laws (or otherwise in respect of a breach of or untruth or inaccuracy in the representation contained in Section 5.21) and ERISA, shall apply in respect of Losses asserted prior to the end of the statutory period for bringing such claims, and (b) the obligation to indemnify under Section 12.2 hereof in respect of the authority of the Buyer shall apply in respect of Losses asserted prior to the end of the statutory period for bringing such claims.

SECTION 12.4 PROCEDURES FOR INDEMNIFICATION. If the Sellers' Event of Breach or a Buyer's Event of Breach (a "PARTY'S EVENT OF BREACH") occurs or is alleged and a Buyer Indemnitee or a Seller Indemnitee (a "PARTY INDEMNITEE") asserts that the other party has become obligated to it pursuant to Section 12.1 or Section 12.2, or if any Claim is begun, made or instituted as a result of which the other party may become obligated to a Party Indemnitee hereunder, such Party Indemnitee shall give prompt notice to the other party. The Party Indemnitee shall permit the other party (at its expense) to assume the defense of any Claim; PROVIDED, HOWEVER, that (a) the counsel for the other party who shall conduct the defense shall be reasonably satisfactory to the Party Indemnitee (it being understood that if the Sellers are required to defend a Claim hereunder that Hale and Dorr LLP is satisfactory for such purpose, and that if the Buyer is required to defend a Claim hereunder that Duval & Stachenfeld LLP is satisfactory for such purpose), (b) the Party Indemnitee may participate in such defense at its own expense, and (c) the omission by the

Party Indemnitee to give notice as provided herein shall not relieve the other party of its indemnification obligation except to the extent that such omission results in a failure of actual notice to the other party and the other party is damaged as a result of such failure to give notice. Except with the prior written consent of the Party Indemnitee, the other party shall not, in the defense of any such Claim, consent to entry of any judgment or enter into any settlement that provides for injunctive or other nonmonetary relief affecting the Party Indemnitee or that does not include as an unconditional term thereof the giving by each claimant or plaintiff to such Party Indemnitee of a release from all liability with respect to such Claim or litigation. In the event that the Party Indemnitee shall in good faith determine that the conduct of any defense of any Claim subject to indemnification hereunder or any proposed settlement of any such Claim by the other party might reasonably be expected to affect adversely the ability of the Party Indemnitee to conduct the Business or that the Party Indemnitee may have available to

it one or more defense or counterclaims that are inconsistent with one or more of those that may be available to the other party in respect of such Claim relating thereto, the Party Indemnitee shall have the right at all times to take over and assume control over the defense, settlement, negotiations or litigation relating to any such Claim at the sole cost of the other party (including without limitation reasonable attorneys' fees and disbursements and other amounts paid as the result of such Claim). In the event that the Party Indemnitee does so take over and assume control over the defense of a Claim pursuant to the immediately preceding sentence, the Party Indemnitee (i) shall be entitled to satisfy or settle any such Claim on a reasonable basis, without prior notice to or consent from the other party, (ii) may subsequently make a claim for indemnification with respect to such satisfaction or settlement of such Claim in accordance with the provisions of this Article XII, and (iii) shall be reimbursed, in accordance with the provisions of this Article XII, for any such Losses satisfied or settled and for which the Party Indemnitee establishes that it is entitled to indemnification pursuant to this Article XII. In any such claim for indemnification, the Party Indemnitee agrees that the amount paid to any such third party shall not be determinative of the amount of Losses suffered by the Party Indemnitee or introduced as evidence of the amount of such Losses in any such claim for indemnification, and the other party shall have the right to dispute the Party Indemnitee's entitlement to indemnification and the amount for which it is entitled to indemnification under the terms of this Article XII. In the event that the other party does not accept and continue the defense of any matter as provided above, the Party Indemnitee shall have the full right to defend against any such Claim, and to satisfy or settle any such Claim, without prior notice to or consent from the other party, subject in each case to the limitations set forth in the prior two sentences of this Section 12.4. In any other event, the Party Indemnitee shall have no right to settle or agree to pay any claim to which it is entitled to indemnification hereunder.

SECTION 12.5 PURCHASE PRICE ADJUSTMENT. The Buyer and the Sellers shall treat any payments under this Article XII as an adjustment to the Purchase Price for all Federal, provincial, state and local income tax purposes.

SECTION 12.6 EXCLUSIVE REMEDIES. The remedies available to the Sellers and Buyer shall be the exclusive remedies available to them for monetary damages; provided, however, that the Sellers and the Buyer shall be entitled to pursue any equitable remedies (including specific performance) to the extent available to them.

SECTION 12.7 ARTICLE X. To the extent that any amounts are payable to Buyer or Sellers pursuant to Article X of this Agreement, the provisions of Article X shall solely govern the payment of such amounts; provided, however, that the provisions of this Article XII shall govern the remedies available to Buyer or Sellers as a result of any breach of the provisions of Article X.

ARTICLE XIII
CONDITIONS PRECEDENT TO PERFORMANCE BY THE SELLERS

The obligations of the Sellers to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by KTI in its sole discretion:

SECTION 13.1 REPRESENTATIONS AND WARRANTIES OF THE BUYER. The representations and warranties of the Buyer contained in this Agreement shall be

true and correct (i) at and as of the date hereof, and (ii) on and as of the Closing Date with the same effect as though made on and as of the Closing Date, except in either such case (i) or (ii) where the failure of the representations and warranties of Buyer in this Agreement or of the RTG Buyer in the RTG Purchase Agreement to be true and correct,

individually or in the aggregate, could not reasonably be expected to (x) have a material adverse effect on the Buyer, or (y) have a material adverse effect on the ability of Buyer or RTG Buyer to perform their obligations under this Agreement and the RTG Purchase Agreement; and the Sellers shall have received a certificate dated the Closing Date and signed by any officer of the Buyer to that effect.

SECTION 13.2 PERFORMANCE OF THE OBLIGATIONS OF THE BUYER. The Buyer shall have performed in all material respects all obligations required under this Agreement to be performed by the Buyer on or before the Closing Date, and the Sellers shall have received a certificate dated the Closing Date and signed by any officer of the Buyer to that effect.

SECTION 13.3 CONSENTS AND APPROVALS. All consents, waivers, authorizations and approvals of any Governmental Authority required or desired in connection with the execution, delivery and performance of this Agreement shall have been duly obtained and shall be in full force and effect on the Closing Date.

SECTION 13.4 NO VIOLATION OF ORDERS. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority, that declares this Agreement invalid or unenforceable in any respect or that prevents the consummation of the transactions contemplated hereby shall be in effect, and no action or proceeding before any Governmental Authority shall have been instituted or threatened by any government or Governmental Authority which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement, and which in any such case has a reasonable likelihood of success in the opinion of counsel to the Sellers.

SECTION 13.5 DELIVERY OF DOCUMENTS. Each document required to be delivered pursuant to Section 4.3 must have been delivered.

SECTION 13.6 RTG PURCHASE AGREEMENT. The transactions contemplated by the RTG Purchase Agreement shall have been consummated simultaneously herewith.

ARTICLE XIV
CONDITIONS PRECEDENT TO PERFORMANCE BY THE BUYER

The obligations of the Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by the Buyer in its sole discretion:

SECTION 14.1 REPRESENTATIONS AND WARRANTIES OF THE SELLERS. The representations and warranties of the Sellers contained in this Agreement shall be true and correct (i) at and as of the date hereof, and (ii) on and as of the Closing Date with the same effect as though made on and as of the Closing Date, except in either such case (i) or (ii) where the failure of the representations and warranties of the Sellers in this Agreement and the RTG Sellers under the RTG Purchase Agreement to be true and correct, individually or in the aggregate, could not reasonably be expected to (x) have a Seller Material Adverse Effect, or (y) have a material adverse effect on the ability of the Sellers or the RTG Sellers to perform their obligations under this Agreement and the RTG Purchase Agreement; provided, however, that notwithstanding the foregoing, in the event that the representation made by Sellers in Section 5.7(c) of this Agreement is not true and correct on and as of the Closing Date, the condition set forth in this Section 14.1 shall be deemed to have not been satisfied. The Buyer shall have received certificates dated

the Closing Date and signed by the Chief Executive Officer or Chief Operating Officer of each Seller stating that the condition set forth in this Section 14.1

has been satisfied.

SECTION 14.2 PERFORMANCE OF THE OBLIGATIONS OF THE SELLERS. The Sellers shall have performed in all material respects all obligations required under this Agreement to be performed by them on or before the Closing Date, and the Buyer shall have received certificates dated as of the Closing Date and signed by the Chief Executive Officer or Chief Operating Officer of each Seller to that effect; provided, however, that notwithstanding the foregoing, in the event that the Sellers are in breach of Section 8.1(a)(xii) or Section 8.1(b)(v) of this Agreement, the condition set forth in this Section 14.2 shall be deemed to have not been satisfied.

SECTION 14.3 CONSENTS AND APPROVALS. All consents, waivers, novations, authorizations and approvals of any Governmental Authority and all of the consents, waivers, novations, authorizations and approvals set forth on SCHEDULE 5.5 of this Agreement shall have been duly obtained and shall be in full force and effect on the Closing Date

SECTION 14.4 NO VIOLATION OF ORDERS. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority, that declares this Agreement invalid in any respect or that prevents the consummation of the transactions contemplated hereby, or that materially and adversely affects the assets, properties, operations, prospects, net income or financial condition of the Purchased Companies or the Business shall be in effect, and no action or proceeding before any Governmental Authority shall have been instituted or threatened by any government or Governmental Authority which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement, and which in any such case has a reasonable likelihood of success in the opinion of counsel to the Buyer.

SECTION 14.5 NO MATERIAL ADVERSE CHANGE. During the period from July 1, 2001 through the Closing, there shall not have been any change in the business, operations, or financial condition of the Purchased Companies, the RTG Purchased Companies, the Business and/or the RTG Business that, individually or in the aggregate, could reasonably be expected to have a Seller Material Adverse Effect.

SECTION 14.6 DELIVERY OF DOCUMENTS. Each document required to be delivered pursuant to Section 4.2 must have been delivered.

SECTION 14.7 LICENSES AND PERMITS. All Licenses and Permits shall be in full force and effect.

SECTION 14.8 PURCHASE AGREEMENT. The transactions contemplated by the RTG Purchase Agreement shall have been consummated simultaneously herewith.

SECTION 14.9. MARTY SERGI. Marty Sergi shall not have died.

ARTICLE XV
TERMINATION

SECTION 15.1 CONDITIONS OF TERMINATION. Notwithstanding anything to the contrary contained herein, this Agreement may be terminated at any time before the Closing: (a) by mutual consent of KTI and the Buyer, (b) by either KTI or the Buyer if the other party shall have breached this Agreement in any material respect and such breach cannot be cured by September 30, 2001 (the "OUTSIDE DATE") (c) by KTI if at the Outside Date, any of the conditions set forth in Article XIII shall not have been

met, unless a Seller's breach of this Agreement is the reason for the failure of such conditions to be satisfied, or (d) by the Buyer if at the Outside Date, any of the conditions set forth in Article XIV shall not have been met, unless the Buyer's breach of this Agreement is the reason for the failure of such conditions to be satisfied. Notwithstanding the foregoing, this Agreement may not be terminated by either party unless the RTG Purchase Agreement is also terminated in accordance with its terms.

SECTION 15.2 PROCEDURE UPON TERMINATION. In the event of termination by KTI and/or the Buyer pursuant to Section 15.1 and written notice thereof shall forthwith be given to the other party and the transactions contemplated by this

Agreement are terminated as provided herein:

(a) the Sellers and the Buyer each will return all documents, work papers and other material of the other party relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the party furnishing the same;

(b) all Confidential Information received by the Sellers or the Buyer with respect to the business of the other party or its subsidiaries shall be treated in accordance with Section 8.5; and

(c) such termination shall not in any way limit or restrict the rights and remedies of the Sellers or the Buyer against the other party hereto which has violated or breached any of the representations, warranties, agreements or other provisions of this Agreement prior to the termination hereof.

SECTION 15.3 EFFECT OF TERMINATION. In the event of termination pursuant to Section 15.1, or as otherwise provided in this Agreement, this Agreement shall become null and void and have no effect, with no liability on the part of the parties, or their directors, officers, agents or stockholders, with respect to this Agreement, except for (a) the liability of a party for expenses pursuant to Section 16.4, (b) liability for breach of this Agreement, and (c) the provisions of Section 8.5(c) and Section 9.2.

ARTICLE XVI
MISCELLANEOUS

SECTION 16.1 SURVIVAL OF PROVISIONS. The respective representations, warranties, covenants and agreements of each of the parties to this Agreement made herein or in any certificate or other instrument delivered by one of the parties to this Agreement (except covenants and agreements which are expressly required to be performed and are performed in full on or before the Closing Date), shall be considered to have been relied upon by the other party to this Agreement, as the case may be, and shall survive the Closing Date for a period of two (2) years following the Closing Date, provided that the representations and warranties regarding the corporate or other authority of the Sellers, Taxes and violations of Environmental Laws (or otherwise contained in Section 5.21 hereof) and ERISA, shall survive until the end of the statutory period for bringing Claims related thereto. Notwithstanding any investigation by the Buyer of the affairs of the Sellers and their respective Subsidiaries and notwithstanding any knowledge of the facts determined or determinable by the Buyer pursuant to such investigation, the Buyer has the right to rely fully upon the representations, warranties, covenants and agreements of the Sellers contained in this Agreement.

SECTION 16.2 SUCCESSORS AND ASSIGNS. Except as otherwise provided in this Agreement, no party hereto shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other party hereto and any such attempted assignment without such prior written consent shall be void and of no force and effect; provided, however that the Buyer shall be permitted to assign

some or all of its rights hereunder to one or more of its Affiliates. This Agreement shall inure to the benefit of and shall be binding upon the successors and permitted assigns of the parties hereto.

SECTION 16.3 GOVERNING LAW; JURISDICTION. THIS AGREEMENT SHALL BE CONSTRUED, PERFORMED AND ENFORCED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF. THE PARTIES HERETO IRREVOCABLY ELECT AS THE SOLE JUDICIAL FORUM FOR THE ADJUDICATION OF ANY MATTERS ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT, AND CONSENT TO THE JURISDICTION OF, THE COURTS OF THE SOUTHERN DISTRICT OF NEW YORK.

SECTION 16.4 EXPENSES. In the event the transactions contemplated by this Agreement are consummated, the fees, costs and expenses of each party hereto in connection with this Agreement and the transactions contemplated hereby, including without limitation, any legal fees (both U.S. and foreign), accounting fees, brokers' fees and commissions, fees and expenses of consultants and travel and similar expenses (collectively, the "TRANSACTION EXPENSES"), shall be paid by Holdco 2 LLC as and to the extent provided in the Holdco 2 LLC Agreement and

all of the other Transactional Expenses shall be paid by the party that incurred such expenses. Except as otherwise provided in this Section 16.4, in the event the transactions contemplated by this Agreement are not consummated, each of the parties hereto shall pay its own Transaction Expenses. In the event that this Agreement is terminated by KTI pursuant to Section 15.1(c) due to a breach of this Agreement by Buyer, Buyer shall pay all of the reasonable Transaction Expenses and other reasonable fees, costs and expenses incurred by the Sellers and their Affiliates in connection with this Agreement and the RTG Purchase Agreement, and the transactions contemplated hereby and thereby, promptly (but in no event later than five days) upon delivery by KTI to Buyer of reasonably specific summary or invoice of such Transaction Expenses and other fees, costs expenses. In the event that this Agreement is terminated by Buyer pursuant to Section 15.1(d) due to a breach of this Agreement by Sellers, the Sellers shall pay all of the reasonable Transaction Expenses and other reasonable fees, costs and expenses incurred by the Buyer and its Affiliates in connection with this Agreement and the RTG Purchase Agreement, and the transactions contemplated hereby and thereby, promptly (but in no event later than five days) upon delivery by the Buyer to KTI of reasonably specific summary or invoice of such Transaction Expenses. The Sellers shall pay all recording and filing fees that may be imposed by reason of the sale, transfer, assignment and delivery of the Purchased Equity. In the event of a dispute as to the amount of fees payable pursuant to this Section 16.4, the parties agree to submit such dispute to binding arbitration in front of a single arbitrator in New York, New York designated by both the Buyer and the Sellers, under the commercial arbitration rules of the American Arbitration Association with expedited procedures in effect on the date thereof.; provided, however, if the parties fail to agree upon an arbitrator within 30 days from the date on which such dispute arose, the arbitrator shall be selected in accordance with commercial arbitration rules of the American Arbitration Association. The costs of any such arbitration shall be determined by the arbitrator.

SECTION 16.5 BROKER'S AND CONSULTANT'S FEES. Except as set forth on SCHEDULE 16.5 to this Agreement, each of the parties represents and warrants that it has not dealt with any broker or finder in connection with any of the transactions contemplated by this Agreement and, insofar as it knows, no broker or other Person is entitled to any commission or finder's fee in connection with any of the transactions contemplated hereby.

SECTION 16.6 FURTHER ASSURANCES. The Sellers shall, at any time and from time to time after the Closing Date, upon the request of the Buyer and at the expense of the Sellers, do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, all such further

deeds, assignments, transfers and conveyances as may be required for the better assigning, transferring, granting, conveying and confirming to the Buyer or its successors and assigns, or for aiding and assisting in collecting and reducing to possession, any or all of the Purchased Equity.

SECTION 16.7 PUBLIC ANNOUNCEMENTS. Following the execution and delivery of this Agreement, the Sellers may announce publicly that it has reached an agreement with respect to the transactions contemplated herein; provided, however, such announcement shall have been approved by Buyer in writing prior to being made by Sellers, which approval shall not be unreasonably withheld. Thereafter, prior to the Closing Date, no party hereto shall (and each party hereto shall cause each of its Subsidiaries, Affiliates, successors and assigns not to) furnish any communication (written or oral) to any third party or to the public generally if the subject matter thereof relates to the existence of this Agreement or the other party's involvement herein or to the transactions contemplated hereby without the prior approval of the other party hereto as to the content thereof, which approval may be granted or withheld in the other party's sole discretion; PROVIDED HOWEVER, that the foregoing shall not be deemed to prohibit any disclosure required by any applicable law or Governmental Authority having jurisdiction over such matters, although in any event, the disclosing party shall provide the other party the content of the proposed disclosure and shall reflect all reasonable comments thereon made by the other party. After the Closing Date, the Sellers and the Buyer shall consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to the transactions contemplated by this Agreement, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law or government regulation or decree, court process or by obligations pursuant to any listing agreement with any national

securities exchange.

SECTION 16.8 SEVERABILITY. In the event that any part of this Agreement is declared by any court or other judicial or administrative body to be null, void or unenforceable, said provision shall survive to the extent it is not so declared, and all of the other provisions of this Agreement shall remain in full force and effect.

SECTION 16.9 NOTICES. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) on the date of service if served personally on the party to whom notice is to be given, (b) on the day of transmission if sent via facsimile transmission to the facsimile number given below, (c) on the day after delivery to an overnight courier service, or (d) on the fifth day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid and properly addressed, to the party as follows:

If to the Sellers:

Casella Waste Systems, Inc.
25 Green Hill Lane
Rutland, VT 05701
Attention: Mr. James W. Bohlig
Telecopier: (802) 775-6198

with a copy (which shall not constitute notice) to:

Casella Waste Systems, Inc.
25 Green Hill Lane
Rutland, VT 05701
Attention: Michael Brennan, Esq.
Telecopier: (802) 770-5030

If to the Buyer:

New Heights Holding Corporation
c/o Angelo, Gordon & Co., L.P.
245 Park Avenue, 26th Floor
New York, New York 10167
Attention: Mr. Josh Brain
Telecopier: (212) 599-2920

with a copy (which shall not constitute notice) to:

Duval & Stachenfeld LLP
300 East 42nd Street, 3rd Floor
New York, New York 10017
Attention: Bruce Stachenfeld, Esq.
Telecopier: (212) 883-8883

Any party may change its address for the purpose of this Section 16.9 by giving the other party written notice of its new address in the manner set forth above.

SECTION 16.10 AMENDMENTS; WAIVERS. This Agreement may be amended or modified, and any of the terms, covenants, representations, warranties or conditions hereof may be waived, only by a written instrument executed by the parties hereto, or in the case of a waiver, by the party waiving compliance. Any waiver by any party of any condition, or of the breach of any provision, term, covenant, representation or warranty contained in this Agreement, in any one or more instances, shall not be deemed to be nor construed as a further or continuing waiver of any such condition, or of the breach of any other provision, term, covenant, representation or warranty of this Agreement.

SECTION 16.11 ENTIRE AGREEMENT. This Agreement and the other documents referred to herein contain the entire understanding between the parties hereto with respect to the transactions contemplated hereby and supersede and replace all prior and contemporaneous agreements and understandings, oral or written, with regard to such transactions.

SECTION 16.12 SECTION AND PARAGRAPH HEADINGS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

SECTION 16.13 NO THIRD PARTY BENEFICIARIES. This Agreement does not create and shall not be construed as creating any rights enforceable by any Person who or which is not a party to this Agreement.

SECTION 16.14 GENDER; NUMBER. As used in this Agreement, the masculine shall include the feminine and the neuter, the singular shall include the plural and the plural shall include the singular as the context may require.

SECTION 16.15 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

NEW HEIGHTS HOLDING CORPORATION

By: /s/ Joshua Brain

Name: Joshua Brain
Title: Co-President

KTI, INC.

By: /s/ James W. Bohlig

Name: James W. Bohlig
Title: Vice President

KTI OPERATIONS, INC.

By: /s/ James W. Bohlig

Name James W. Bohlig
Title: Vice President

CASELLA WASTE SYSTEMS, INC.

By: /s/ James W. Bohlig

Name James W. Bohlig
Title: President

Signature Page to Purchase Agreement

GUARANTEE OF BUYER'S OBLIGATIONS

AG Equity Partners, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 40% of all of the obligations of the Buyer set forth in this Agreement and up to 40% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 40% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might

otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG EQUITY PARTNERS, L.P.

By: AG Equity LLC, General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Super Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 23% of all of the obligations of the Buyer set forth in this Agreement and up to 23% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 23% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of

this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG SUPER FUND, L.P.

By: Angelo, Gordon & Co., L.P., General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Super Fund International Partners, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 9% of all of the obligations of the Buyer set forth in this Agreement and up to 9% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 9% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase

Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG SUPER FUND INTERNATIONAL PARTNERS, L.P.

By: Angelo, Gordon & Co., L.P., General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

Nutmeg Partners, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 8% of all of the obligations of the Buyer set forth in this Agreement and up to 8% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's

Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 8% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

NUTMEG PARTNERS, L.P.

By: Angelo, Gordon & Co., L.P., General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

Angelo, Gordon & Co., L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 5% of all of the obligations of the Buyer set forth in this

Agreement and up to 5% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 5% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

ANGELO, GORDON & CO., L.P.

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

PHS Bay Colony Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 3% of all of the obligations of the Buyer set forth in this

Agreement and up to 3% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 3% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

PHS BAY COLONY FUND, L.P.

By: Angelo, Gordon & Co., L.P., General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG CNG Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 3% of all of the obligations of the Buyer set forth in this Agreement and up to 3% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 3% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG CNG FUND, L.P.

By: Angelo, Gordon & Co., L.P., General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG MM, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 3% of all of the obligations of the Buyer set forth in this Agreement and up to 3% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 3% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG MM, L.P.

By: Angelo, Gordon & Co., L.P., Investment Manager

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Super Advantage, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 2% of all of the obligations of the Buyer set forth in this Agreement and up to 2% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 2% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG SUPER ADVANTAGE, L.P.

By: AG Super Advantage GP, LLC
General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

PHS Patriot Fund, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 2% of all of the obligations of the Buyer set forth in this Agreement and up to 2% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 2% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

PHS PATRIOT FUND, L.P.

By: Angelo, Gordon & Co., L.P., General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

GUARANTEE OF BUYER'S OBLIGATIONS

AG Princess, L.P., a Delaware limited partnership (the "BUYER'S PARENT"), hereby unconditionally guarantees the due and punctual payment and performance of up to 2% of all of the obligations of the Buyer set forth in this Agreement and up to 2% of all of the obligations of the RTG Buyer set forth in the RTG Purchase Agreement; PROVIDED, HOWEVER, the obligations of the Buyer's Parent hereunder is limited to, and under no circumstances shall the Buyer's Parent be required to guarantee or pay more than, 2% of the sum of the Purchase Price and the Purchase Price (as defined in the RTG Purchase Agreement). This guarantee is an irrevocable guarantee of payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement, any assumption of any such guaranteed obligation by any other party or any other act or event that might otherwise operate as a legal or equitable discharge of the Buyer's Parent hereunder. This guarantee is in no way conditioned upon any requirement that the Sellers first attempt to collect or enforce any guaranteed obligation from or against the Buyer. So long as any obligation of the Buyer to the Sellers under this Agreement remains unpaid or undischarged, the Buyer's Parent hereby waives (but only with respect to the Buyer and its Affiliates and not as to any other parties) all rights to subrogation arising out of any payment by the Buyer's Parent under this Agreement.

The obligations of the Buyer's Parent hereunder shall be absolute and unconditional irrespective of the validity, legality or enforceability of this Agreement or any other document related hereto, and shall not be affected by or contingent upon (i) the liquidation or dissolution of, or the merger or consolidation of the Buyer with or into any corporation, or any sale or transfer by the Buyer of all or any part of its property or assets, (ii) the bankruptcy, receivership, insolvency, reorganization or similar proceedings involving or affecting the Buyer, (iii) any modification, alteration, amendment or addition of or to this Agreement, or (iv) any disability or any other defense of the Buyer or any other person and any other circumstance whatsoever (with or without notice to or knowledge of the Buyer's Parent) which may or might in any manner or to any extent vary the risks of the Buyer's Parent or might otherwise constitute a legal or equitable discharge of a surety or a guarantor or otherwise.

The Buyer's Parent hereby waives all special suretyship defenses and protest, notice of protest, demand for performance, diligence, notice of any other action at any time taken or omitted by the Sellers and, generally, all demands and notices of every kind in connection with this Agreement and the Buyer's obligations hereby guaranteed, and which the Buyer's Parent may otherwise assert against the Sellers.

The Buyer's Parent acknowledges that each of the waivers set forth above is made with full knowledge of its significance and consequences and under the circumstances the waivers are reasonable and not contrary to public policy. If any of said waivers is determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the extent permitted by law.

This guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment or performance of any of the obligations of the Buyer under this Agreement is rescinded or must otherwise be restored or returned by the Sellers upon the insolvency, bankruptcy or reorganization of the Buyer or otherwise.

The obligations of the Buyer's Parent hereunder shall automatically terminate and be of no force or effect without any action by any Person immediately upon the payment of the Purchase Price to the Sellers.

IN WITNESS WHEREOF, the undersigned has executed this guarantee as of the 17th day of August, 2001.

AG PRINCESS, L.P.

By: Angelo, Gordon & Co., L.P., General Partner

By: /s/ Michael L. Gordon

Name: Michael L. Gordon
Title: Chief Operating Officer

EXHIBIT A

[FORM OF NH INVESTORS LLC AGREEMENT]

EXHIBIT B

[FORM OF HALE AND DORR OPINION]

EXHIBIT C

[FORM OF DUVAL & STACHENFELD LLP OPINION]

EXHIBIT 10.44

CASELLA WASTE SYSTEMS, INC.

FORM OF NON-STATUTORY STOCK OPTION AGREEMENT

1. GRANT OF OPTION. Casella Waste Systems, Inc., a Delaware corporation (the "Company"), hereby grants to [_____] (the "Optionee") an option, to purchase an aggregate of [_____] shares of the Class A Common Stock ("Common Stock") of the Company at a price of $2.00 per share, purchasable as set forth in and subject to the terms and conditions of this option. Except where the context otherwise requires, the term "Company" shall include the parent and all present and future subsidiaries of the Company as defined in Sections 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended or replaced from time to time (the "Code").

2. NON-STATUTORY STOCK OPTION. This option is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

3. EXERCISE OF OPTION AND PROVISIONS FOR TERMINATION.

(a) VESTING SCHEDULE. Except as otherwise provided in this Agreement, this option may be exercised prior to the tenth anniversary of the date of grant (hereinafter the "Expiration Date") at any time in conjunction with or following the closing of: (I) a firm commitment underwritten public offering of shares of the Company's capital stock which offering: (w) shall occur not later than July 31, 1998; (x) shall result in not less than $15,000,000 aggregate net proceeds to the Company; (y) shall have afforded each of BCI Growth III, L.P., The Vermont Venture Capital Fund, L.P. and North Atlantic Ventures, L.P. the opportunity to sell in the offering not less than 25% of the aggregate number of shares of Common Stock issued or issuable to such person upon the exercise of the warrants dated as of July 26, 1993 or May 25, 1994 held by such person (as such warrants have been amended or restated), in each case at the initial public offering price less underwriters' discount, if any, applicable to such shares and such expenses in connection therewith as may be allocated to each of such persons; and (z) shall be at a public offering price per share equal to not less than $8.50 per share (provided, however, that the condition stated in this subparagraph (z) shall not apply if such offering shall have occurred pursuant to the exercise by any such persons of their demand registration rights pursuant to any registration rights agreement then in effect between the

Company and any such persons); or (II) the merger or consolidation of the Company, the sale of all or substantially all of the assets of the Company, or a sale by stockholders of the capital stock of the Company, which such event (i) shall occur not later than July 31, 1998; and (ii) shall have resulted in net proceeds per share of capital stock held by each of BCI Growth III, L.P., The Vermont Venture Capital Fund, L.P. and North Atlantic Ventures, L.P. of at least $8.50, payable in cash or marketable securities (including registered securities of the acquiring entity). Notwithstanding the foregoing, this option shall become exercisable in full at any time after December 31, 2000. This option may not be exercised at any time on or after the Expiration Date, except as otherwise provided in Section 3(e) below.

(b) EXERCISE PROCEDURE. Subject to the conditions set forth in this Agreement, this option shall be exercised by the Optionee's delivery of written notice of exercise to the Treasurer of the Company, specifying the number of shares to be purchased and the purchase price to be paid therefor and accompanied by payment in full in accordance with Section 4. Such exercise shall be effective upon receipt by the Treasurer of the Company of such written notice together with the required payment. The Optionee may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share or for fewer than ten whole shares.

(c) CONTINUOUS RELATIONSHIP WITH THE COMPANY REQUIRED. Except as otherwise provided in this Section 3, this option may not be exercised unless (i) the Optionee, at the time he or she exercises this option, is, and has been at all times since the date of grant of this option, an employee, officer or director of, or consultant or advisor to, the Company (an "Eligible Optionee"); and (ii) the Optionee shall have become a party to, and bound as a Stockholder by, the Amended and Restated Stockholders' Agreement

dated May 25, 1994, as it may be amended and restated from time to time.

(d) TERMINATION OF RELATIONSHIP WITH THE COMPANY. If the Optionee ceases to be an Eligible Optionee for any reason, then, except as provided in paragraphs (e) and (f) below, the right to exercise this option shall terminate three months after such cessation (but in no event after the Expiration Date), PROVIDED THAT this option shall be exercisable only to the extent that the Optionee was entitled to exercise this option on the date

of such cessation. Notwithstanding the foregoing, if the Optionee, prior to the Expiration Date, materially violates the non-competition or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Optionee and the Company, the right to exercise this option shall terminate immediately upon written notice to the Optionee from the Company describing such violation.

(e) EXERCISE PERIOD UPON DEATH OR DISABILITY. If the Optionee dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Expiration Date while he or she is an Eligible Optionee, or if the Optionee dies within three months after the Optionee ceases to be an Eligible Optionee (other than as the result of a termination of such relationship by the Company for "cause" as specified in paragraph (f) below), this option shall be exercisable, within the period of twelve months following the date of death or disability of the Optionee (whether or not such exercise occurs before the Expiration Date), by the Optionee or by the person to whom this option is transferred by will or the laws of descent and distribution, PROVIDED THAT this option shall be exercisable only to the extent that this option was exercisable by the Optionee on the date of his or her death or disability. Except as otherwise indicated by the context, the term "Optionee", as used in this option, shall be deemed to include the estate of the Optionee or any person who acquires the right to exercise this option by bequest or inheritance or otherwise by reason of the death of the Optionee.

(f) DISCHARGE FOR CAUSE. If the Optionee, prior to the Expiration Date, is discharged by the Company for "cause" (as defined below), the right to exercise this option shall terminate immediately upon such cessation of employment. "Cause" shall mean willful misconduct by the Optionee or willful failure to perform his or her responsibilities in the best interests of the Company (including, without limitation, breach by the Optionee of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Optionee and the Company), as determined by the Company, which determination shall be conclusive. The Optionee shall be considered to have been discharged "for cause" if the Company determines, within 30 days after the Optionee's resignation, that discharge for cause was warranted.

4. PAYMENT OF PURCHASE PRICE.

(a) METHOD OF PAYMENT. Payment of the purchase price for shares purchased upon exercise of this option shall be made (i) by delivery to the Company of cash or a check to the order of the Company in an amount equal to the purchase price of such shares, (ii) subject to the consent of the Company, by delivery to the Company of shares of Common Stock of the Company then owned by the Optionee having a fair market value equal in amount to the purchase price of such shares, (iii) as a "cashless exercise", in compliance with applicable laws and regulations, (iv) by any other means determined by the Board of Directors, or (v) by any combination of such methods of payment.

(b) VALUATION OF SHARES OR OTHER NON-CASH CONSIDERATION TENDERED IN PAYMENT OF PURCHASE PRICE. For the purposes hereof, the fair market value of any share of the Company's Common Stock or other non-cash consideration which may be delivered to the Company in exercise of this option shall be determined in good faith by the Board of Directors of the Company.

(c) DELIVERY OF SHARES TENDERED IN PAYMENT OF PURCHASE PRICE. If the Optionee exercises this option by delivery of shares of Common Stock of the Company, the certificate or certificates representing the shares of Common

Stock of the Company to be delivered shall be duly executed in blank by the Optionee or shall be accompanied by a stock power duly executed in blank suitable for purposes of transferring such shares to the Company. Fractional shares of Common Stock of the Company will not be accepted in payment of the purchase price of shares acquired upon exercise of this option.

5. DELIVERY OF SHARES; COMPLIANCE WITH SECURITIES LAWS, ETC.

(a) GENERAL. The Company shall, upon payment of the option price for the number of shares purchased and paid for, make prompt delivery of such shares to the Optionee, provided that if any law or regulation requires the Company to take any action with respect to such shares before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to complete such action.

(b) LISTING, QUALIFICATION, ETC. This option shall be subject to the requirement that if, at any time, counsel to the Company shall determine that the listing, registration or qualification of the shares subject hereto upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, or that the disclosure of non-public information or the satisfaction of any other condition is necessary as a condition of, or in connection with, the issuance or purchase of shares hereunder, this option may not be exercised, in whole or in part, unless such listing, registration, qualification, consent or approval, disclosure or satisfaction of such other condition shall have been effected or obtained on terms acceptable to the Board of Directors. Nothing herein shall be deemed to require the Company to apply for, effect or obtain such listing, registration, qualification or disclosure, or to satisfy such other condition.

6. NONTRANSFERABILITY OF OPTION. This option is personal and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) nor shall any such rights be subject to execution, attachment or similar process, except that this option may be transferred (i) by will or the laws of descent and distribution or (ii) pursuant to a qualified domestic relations order as defined in Section 414(p) of the Code. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this option or of such rights contrary to the provisions hereof, or upon the levy of any attachment or similar process upon this option or such rights, this option and such rights shall, at the election of the Company, become null and void.

7. NO SPECIAL EMPLOYMENT OR SIMILAR RIGHTS. Nothing contained in this option shall be construed or deemed by any person under any circumstances to bind the Company to continue the employment or other relationship of the Optionee with the Company for the period within which this option may be exercised.

8. RIGHTS AS A SHAREHOLDER. The Optionee shall have no rights as a shareholder with respect to any shares which may be purchased by exercise of this option (including, without limitation, any rights to receive dividends or non-cash distributions with respect to such shares) unless and until a certificate representing such shares is duly issued and delivered to the Optionee. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

9. ADJUSTMENT PROVISIONS.

(a) GENERAL. If, through or as a result of any merger, consolidation, sale of all or substantially all of the assets of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar transaction, (i) the outstanding shares of Common Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or (ii) additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Common Stock or other securities, an appropriate and proportionate

adjustment shall be made in (x) the number and kind of shares issuable upon the exercise of this option, and (y) the option price for each share issuable upon the exercise hereof without changing the aggregate purchase price as to which such options remain exercisable.

(b) BOARD AUTHORITY TO MAKE ADJUSTMENTS. Any adjustments under this Section 9 will be made by the Board of Directors, whose determination as to what adjustments, if any, will be made and the extent thereof will be final, binding and conclusive. No fractional shares will be issued pursuant to this option on account of any such adjustments.

10. MERGERS, CONSOLIDATION, DISTRIBUTIONS, LIQUIDATIONS, ETC. In the event of a merger or consolidation or sale of all or substantially all of the assets of the Company in which outstanding shares of Common Stock are exchanged for securities, cash or other property of any other corporation or business entity, or in the event of a liquidation of the Company, prior to the Expiration Date or termination of this option, the Board of Directors of the Company, or the board of directors of any corporation assuming the obligations of the Company, may, in its discretion, take any one or more of the following actions, as to this option: (i) provide that such option shall be assumed, or an equivalent option shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), (ii) upon written notice to the Optionee, provide that this option will terminate immediately prior to the consummation of such transaction unless exercised by the Optionee within a specified period following the date of such notice, (iii) in the event of a merger under the terms of which holders of the Common Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the merger (the "Merger Price"), make or provide for a cash payment to the Optionee equal to the difference between (A) the Merger Price times

the number of shares of Common Stock subject to this option (to the extent then exercisable at prices not in excess of the Merger Price) and (B) the aggregate exercise price of this outstanding option, in exchange for the termination of this option, and (iv) provide that this option shall become exercisable in full immediately prior to such event.

11. WITHHOLDING TAXES. The Company's obligation to deliver shares upon the exercise of this option shall be subject to the Optionee's satisfaction of all applicable federal, state and local income and employment tax withholding requirements.

12. INVESTMENT REPRESENTATIONS; LEGENDS.

(a) REPRESENTATIONS. The Optionee represents, warrants and covenants that:

(i) Any shares purchased upon exercise of this option shall be acquired for the Optionee's account for investment only, and not with a view to, or for sale in connection with, any distribution of the shares in violation of the Securities Act of 1933 (the "Securities Act"), or any rule or regulation under the Securities Act.

(ii) The Optionee has had such opportunity as he or she has deemed adequate to obtain from representatives of the Company such information as is necessary to permit the Optionee to evaluate the merits and risks of his or her investment in the Company.

(iii) The Optionee is able to bear the economic risk of holding such shares acquired pursuant to the exercise of this option for an indefinite period.

(iv) The Optionee understands that (A) the shares acquired pursuant to the exercise of this option will not be registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act; (B) such shares cannot be sold, transferred or otherwise disposed of unless they are subsequently registered under the Securities Act or an exemption from registration is then available; (C) in any event, an exemption from registration under Rule 144 or otherwise under the Securities

Act may not be available for at least two years and even then will not

be available unless a public market then exists for the Common Stock, adequate information concerning the Company is then available to the public, and other terms and conditions of Rule 144 are complied with; and (D) there is now no registration statement on file with the Securities and Exchange Commission with respect to any stock of the Company and the Company has no obligation or current intention to register any shares acquired pursuant to the exercise of this option under the Securities Act.

(v) The Optionee agrees that, if the Company offers any of its Common Stock for sale pursuant to a registration statement under the Securities Act, the Optionee will not, without the prior written consent of the Company, offer, sell, contract to sell or otherwise dispose of, directly or indirectly (a "Disposition"), any shares purchased upon exercise of this option for a period of 90 days after the effective date of such registration statement.

By making payment upon exercise of this option, the Optionee shall be deemed to have reaffirmed, as of the date of such payment, the representations made in this Section 12.

(b) LEGENDS ON STOCK CERTIFICATE. All stock certificates representing shares of Common Stock issued to the Optionee upon exercise of this option shall have affixed thereto legends substantially in the following forms, in addition to any other legends required by applicable state law:

"The shares of stock represented by this certificate have not been registered under the Securities Act of 1933 and may not be transferred, sold or otherwise disposed of in the absence of an effective registration statement with respect to the shares evidenced by this certificate, filed and made effective under the Securities Act of 1933, or an opinion of counsel satisfactory to the Company to the effect that registration under such Act is not required."

"The shares of stock represented by this certificate are subject to certain restrictions on transfer contained in an Option Agreement,

a copy of which will be furnished upon request by the issuer."

13. MISCELLANEOUS.

(a) Except as provided herein, this option may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Optionee.

(b) All notices under this option shall be mailed or delivered by hand to the parties at their respective addresses set forth beneath their names below or at such other address as may be designated in writing by either of the parties to one another.

(c) This option shall be governed by and construed in accordance with the laws of the State of Vermont.

Date of Grant: CASELLA WASTE SYSTEMS, INC.

As of May 25, 1994

By: _____

Title: _____

OPTIONEE'S ACCEPTANCE

The undersigned hereby accepts the foregoing option and agrees to the terms and conditions thereof.

OPTIONEE

_____

ADDRESS: _____

_____

Subsidiaries of the Registrant Exhibit 21.1

NAME	JURISDICTION OF INCORPORATION
All Cycle Waste, Inc.	Vermont
Alternate Energy, Inc.	Massachusetts
American Ash Recycling of Tennessee, Ltd.	Florida
Atlantic Coast Fibers, Inc.	Delaware
B. and C. Sanitation Corporation	New York
Better Bedding Corp.	New York
Blasdell Development Group, Inc.	New York
Bristol Waste Management, Inc.	Vermont
Casella Insurance Company	Vermont
Casella NH Investors Co., LLC	Delaware
Casella NH Power Co., LLC	Delaware
Casella RTG Investors Co., LLC	Delaware
Casella Transportation, Inc.	Vermont
Casella Waste Management of Massachusetts, Inc.	Massachusetts
Casella Waste Management of N.Y., Inc.	New York
Casella Waste Management of Pennsylvania, Inc.	Pennsylvania
Casella Waste Management, Inc.	Vermont
Corning Community Disposal Service, Inc.	New York
Data Destruction Services, Inc.	Maine
Fairfield County Recycling, Inc.	Delaware
FCR Camden, Inc.	Delaware
FCR Florida, Inc.	Delaware
FCR Georgia, Inc.	Delaware
FCR Greensboro, Inc.	Delaware
FCR Greenville, Inc.	Delaware
FCR Morris, Inc.	Delaware
FCR Plastics, Inc.	Delaware
FCR Redemption, Inc.	Delaware
FCR Tennessee, Inc.	Delaware
FCR Virginia, Inc.	Delaware
FCR, Inc.	Delaware
Forest Acquisitions, Inc.	New Hampshire
Grasslands, Inc.	New York
Hakes C & D Disposal, Inc.	New York
Hiram Hollow Regeneration Corp.	New York
Hyland Facility Associates	New York
K-C International, Ltd.	Oregon
KTI Bio Fuels, Inc.	Maine
KTI Energy of Martinsville, Inc.	Virginia
KTI Energy of Virginia, Inc.	Virginia
KTI Environmental Group, Inc.	New Jersey
KTI New Jersey Fibers, Inc.	Delaware
KTI Operations, Inc.	Delaware
KTI Recycling of Illinois, Inc.	Delaware
KTI Recycling of New England, Inc.	Maine
KTI Recycling of New Jersey, Inc.	Delaware
KTI Specialty Waste Services, Inc.	Maine
KTI Transportation Services, Inc.	Maine
KTI, Inc.	New Jersey
Maine Energy Recovery Company LP	Maine
Manner Resins, Inc.	Delaware
Maple City Refuse Corp.	New York
Mecklenburg County Recycling, Inc.	Connecticut
Natural Environmental, Inc.	New York
New England Landfill Solutions, LLC	Massachusetts
New England Waste Service of ME, Inc.	Maine
New England Waste Services of Massachusetts, Inc.	Massachusetts
New England Waste Services of N.Y., Inc.	New York
New England Waste Services of Vermont, Inc.	Vermont
New England Waste Services, Inc.	Vermont
Newbury Waste Management, Inc.	Vermont

North Country Composting Services, Inc.	New Hampshire
North Country Environmental Services, Inc.	Virginia
North Country Trucking, Inc.	New York
Northern Properties Corporation of Plattsburgh	New York
Northern Sanitation, Inc.	New York
PERC Management Company, LP	Maine
PERC, Inc.	Delaware
Pine Tree Waste, Inc.	Maine
Portland C & D Site, Inc.	New York
R.A. Bronson, Inc.	New York
Resource Optimization Technologies	New Hampshire
Resource Recovery of Cape Cod, Inc.	Massachusetts
Resource Recovery Systems of MOSA, Inc.	New York
Resource Recovery Systems of Sarasota, Inc.	Florida
Resource Recovery Systems, Inc.	Delaware
Resource Transfer Services, Inc.	Massachusetts
Resource Waste Systems, Inc.	Massachusetts
Rochester Environmental Park, LLC	Massachusetts
Schultz Landfill, Inc.	New York
Sunderland Waste Management, Inc.	Vermont
Total Waste Management Corp.	New Hampshire
U.S. Fiber, Inc.	North Carolina
Waste-Stream, Inc.	New York
Westfield Disposal Service, Inc.	New York
Winters Brothers, Inc.	Vermont

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-31022, File No. 333-40267, File No. 333-43537, File No. 333-43539, File No. 333-43541, File No. 333-43543, File No. 333-43635, File No. 333-67487, File No. 333-92735), and on Form S-3 (File No. 333-31268, File No. 333-85279, File No. 333-88097 and File No. 333-95841) of Casella Waste Systems, Inc. of our reports dated June 29, 2002 relating to the financial statements and financial statement schedule as of and for the fiscal year ended April 30, 2002, which appear in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Boston, MA
July 9, 2002

QuickLinks

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS