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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2005

OR

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

For the transition period from to

Commission file number 000-23211

CASELLA WASTE SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of August 31 2005:

Class A Common Stock	23,913,103
Class B Common Stock	988,200

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	April 30, 2005	July 31, 2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,578	$ 6,773
Restricted cash	70	71
Accounts receivable - trade, net of allowance for doubtful accounts of $707 and $604	51,726	56,642
Notes receivable - officers/employees	88	87
Refundable income taxes	874	573
Prepaid expenses	4,371	4,104
Inventory	2,538	2,504
Other current assets	1,138	1,179
Total current assets	69,383	71,933
Property, plant and equipment, net of accumulated depreciation and amortization of $324,903 and $341,278	412,753	431,515
Goodwill	157,492	158,264
Intangible assets, net	2,711	2,436
Restricted cash	12,124	12,175
Notes receivable - officers/employees	916	916
Deferred income taxes	3,155	69
Investments in unconsolidated entities	37,699	36,928
Net assets under contractual obligation	1,392	1,078
Other non-current assets	14,829	14,542
	643,071	657,923
	$ 712,454	$ 729,856

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	April 30, 2005	July 31, 2005
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 281	$ 315
Current maturities of capital lease obligations	632	643
Accounts payable	46,107	48,104
Accrued payroll and related expenses	9,688	4,902
Accrued interest	4,818	11,891
Deferred income taxes	1,419	41
Current accrued capping, closure and post-closure costs	5,290	4,064
Other accrued liabilities	24,519	24,529
Total current liabilities	92,754	94,489
Long-term debt, less current maturities	378,436	389,580
Capital lease obligations, less current maturities	1,475	1,310
Accrued capping, closure and post-closure costs, less current maturities	21,338	22,959
Other long-term liabilities	11,705	11,549
COMMITMENTS AND CONTINGENCIES		
Series A redeemable, convertible preferred stock -		
Authorized - 55,750 shares, issued and outstanding - 53,750 shares, liquidation preference of $1,000 per share plus accrued but unpaid dividends	67,964	68,814
STOCKHOLDERS' EQUITY:		
Class A common stock -		
Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 23,860,000 and 23,873,000 shares as of April 30, 2005 and July 31, 2005, respectively	239	239
Class B common stock -		
Authorized - 1,000,000 shares, $0.01 par value, 10 votes per share, issued and outstanding - 988,000 shares	10	10
Accumulated other comprehensive income	767	740
Additional paid-in capital	274,088	273,381
Accumulated deficit	(136,322)	(133,215)
Total stockholders' equity	138,782	141,155
	$ 712,454	$ 729,856

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

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

	Three Months Ended July 31, 2004	Three Months Ended July 31, 2005
Revenues	$ 123,672	$ 132,000
Operating expenses:		
Cost of operations	78,277	85,587
General and administration	15,515	17,218
Depreciation and amortization	17,223	16,134
	111,015	118,939
Operating income	12,657	13,061
Other expense/(income), net:		
Interest income	(58)	(167)
Interest expense	7,146	7,517
Loss from equity method investment	68	70
Other expense	530	51
Other expense, net	7,686	7,471
Income from continuing operations before income taxes and discontinued operations	4,971	5,590
Provision for income taxes	2,209	2,483
Income from continuing operations before discontinued operations	2,762	3,107
Income from discontinued operations (net of income tax provision of $56)	81	—
Net income	2,843	3,107
Preferred stock dividend	838	850
Net income available to common stockholders	$ 2,005	$ 2,257

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
(Unaudited)
(in thousands, except for per share data)

	Three Months Ended July 31, 2004		Three Months Ended July 31, 2005	
Earnings Per Share:				
Basic:				
Income from continuing operations before discontinued operations available to common stockholders	$	0.08	$	0.09
Income from discontinued operations, net		—		—
Net income per common share available to common stockholders	$	0.08	$	0.09
Basic weighted average common shares outstanding		24,492		24,852
Diluted:				
Income from continuing operations before discontinued operations available to common stockholders	$	0.08	$	0.09
Income from discontinued operations, net		—		—
Net income per common share available to common stockholders	$	0.08	$	0.09
Diluted weighted average common shares outstanding		25,092		25,218

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Three Months Ended July 31, 2004	Three Months Ended July 31, 2005
Cash Flows from Operating Activities:		
Net income	$ 2,843	$ 3,107
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	17,223	16,134
Depletion of landfill operating lease obligations	1,347	1,428
Loss from equity method investment	68	70
Loss on sale of equipment	276	99
Deferred income taxes	1,755	1,721
Changes in assets and liabilities, net of effects of acquisitions and divestitures -		
Accounts receivable	(3,347)	(4,924)
Accounts payable	458	1,997
Other assets and liabilities	(910)	2,989
	16,870	19,514
Net Cash Provided by Operating Activities	19,713	22,621
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(3,582)	(1,044)
Additions to property, plant and equipment - growth	(5,309)	(14,941)
- maintenance	(17,599)	(19,675)
Payments on landfill operating lease contracts	(9,363)	(428)
Proceeds from sale of equipment	188	324
Proceeds from assets under contractual obligation	579	314
Net Cash Used In Investing Activities	(35,086)	(35,450)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	44,850	35,955
Principal payments on long-term debt	(34,306)	(24,931)
Proceeds from exercise of stock options	240	—
Net Cash Provided by Financing Activities	10,784	11,024
Net decrease in cash and cash equivalents	(4,589)	(1,805)
Cash and cash equivalents, beginning of period	8,007	8,578
Cash and cash equivalents, end of period	$ 3,418	$ 6,773

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)
(in thousands)

	Three Months Ended July 31, 2004	Three Months Ended July 31, 2005
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for -		
Interest	$ 2,558	$ 276
Income taxes, net of refunds	$ 117	$ 528
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Summary of entities acquired in purchase business combinations -		
Fair value of assets acquired	$ 3,704	$ 1,129
Cash paid, net	(3,582)	(1,044)
Liabilities assumed and holdbacks to seller	$ 122	$ 85

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

1. ORGANIZATION

The consolidated balance sheets of Casella Waste Systems, Inc. (the "Parent") and Subsidiaries (the "Company") as of April 30, 2005 and July 31, 2005, the consolidated statements of operations for the three months ended July 31, 2004 and 2005 and the consolidated statements of cash flows for the three months ended July 31, 2004 and 2005 are unaudited. In the opinion of management, such financial statements include all adjustments (which include normal recurring and nonrecurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The consolidated financial statements presented herein should be read in conjunction with the Company's audited consolidated financial statements as of and for the twelve months ended April 30, 2005. These were included as part of the Company's Annual Report on Form 10-K for the year ended April 30, 2005 (the "Annual Report"). The results for the three months ended July 31, 2005 may not be indicative of the results that may be expected for the fiscal year ending April 30, 2006.

2. RECLASSIFICATIONS

The Company divested the assets of Data Destruction Services, Inc. ("Data Destruction") during the quarter ended October 31, 2004. The transaction required discontinued operations treatment under SFAS No. 144, therefore the operating results of Data Destruction have been reclassified from continuing to discontinued operations for the three months ended July 31, 2004.

Effective November 1, 2004 the Eastern region was divided into the North Eastern and South Eastern regions because of a change in the Company's internal reporting structure. Therefore, segment data for the three months ended July 31, 2004 has been revised to reflect changes in the Company's segment classifications.

3. BUSINESS COMBINATIONS

During the three months ended July 31, 2005, the Company acquired three solid waste hauling operations. The Company also recorded additional expenditures related to landfill development for a landfill closure project acquired in the fourth quarter of fiscal year 2005. These transactions were in exchange for total consideration of $1,062 including $1,044 in cash and $18 in liabilities assumed. During the three months ended July 31, 2004, the Company acquired four solid waste hauling operations. These transactions were in exchange for total consideration of $3,704 including $3,582 in cash and $122 in liabilities assumed. The operating results of these businesses are included in the consolidated statements of operations from the dates of acquisition. The purchase prices have been allocated to the net assets acquired based on their fair values at the dates of acquisition including the value of non-compete agreements with the residual amounts allocated to goodwill.

The following unaudited pro forma combined information shows the results of the Company's operations as though each of the acquisitions made in the three months ended July 31, 2004 and 2005 had been completed as of May 1, 2004.

	Three Months Ended July 31,	
	2004	2005
Revenue	$ 123,868	$ 132,115
Income from continuing operations before discontinued operations	$ 2,780	$ 3,117
Net income	$ 2,861	$ 3,117
Diluted net income per common share	$ 0.08	$ 0.09

The foregoing pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisitions taken place as of May 1, 2004 or the results of future operations of the Company. Furthermore, such pro forma results do not give effect to all cost savings or incremental costs that may occur as a result of the integration and consolidation of the completed acquisitions.

4. GOODWILL AND INTANGIBLE ASSETS

The following table shows the activity and balances related to goodwill from April 30, 2005 through July 31, 2005:

	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling	Total
Balance, April 30, 2005	$ 25,340	$ 31,645	$ 30,158	$ 53,450	$ 16,899	$ 157,492
Acquisitions	—	—	31	741	—	772
Balance, July 31, 2005	$ 25,340	$ 31,645	$ 30,189	$ 54,191	$ 16,899	$ 158,264

Intangible assets at April 30, 2005 and July 31, 2005 consist of the following:

	Covenants not to compete	Customer lists	Total
Balance, April 30, 2005			
Intangible assets	$ 16,299	$ 688	$ 16,987
Less accumulated amortization	(13,670)	(606)	(14,276)
	$ 2,629	$ 82	$ 2,711
Balance, July 31, 2005			
Intangible assets	$ 16,344	$ 688	$ 17,032
Less accumulated amortization	(13,967)	(629)	(14,596)
	$ 2,377	$ 59	$ 2,436

Amortization expense for the three months ended July 31, 2004 and 2005 was $401 and $323, respectively. The intangible amortization expense estimated as of July 31, 2005, for the five years following 2005 is as follows:

2006	2007	2008	2009	2010
$ 1,030	$ 770	$ 398	$ 236	$ 121

5. NEW ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS 123R, *Share-Based Payment*. SFAS 123R replaces SFAS 123 and supersedes APB Opinion No. 25 requiring public companies to recognize compensation expense for the cost of awards of equity instruments. This compensation cost will be measured as the fair value of the award on the grant date estimated using an option-pricing model. SFAS 123R was originally issued with implementation required for interim and annual periods beginning after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission ("SEC") amended the effective date to the beginning of the first fiscal year after June 15, 2005. The Company is evaluating the various transition provisions under SFAS 123R and will adopt SFAS 123R effective May 1, 2006, which is expected to result in increased compensation expense in future periods.

6. LEGAL PROCEEDINGS

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

The New Hampshire Superior Court in Grafton, NH ruled on February 1, 1999 that the Town of Bethlehem, NH could not enforce an ordinance purportedly prohibiting expansion of the Company's landfill subsidiary North Country Environmental Services, Inc. ("NCES"), 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 2001 ruling, the Town continued to assert jurisdiction to conduct unqualified site plan review with respect to Stage III and has further stated that the Town's height ordinance and building permit process may apply to Stage III. On September 12, 2001, the Company filed a petition for, among other things, declaratory relief. On December 4, 2001, the Town filed an answer to the Company's petition asserting counterclaims seeking, among other things, authorization to assert site plan review over Stage III, which commenced operation in December 2000, as well as the methane gas utilization/leachate handling facility operating in Stage III, and also an order declaring that an ordinance prohibiting landfills applies to Stage IV expansion. The trial related to the Town's jurisdiction was held in December 2002 and on April 24, 2003, the Grafton Superior Court upheld the Town's 1992 ordinance preventing the location or expansion of any landfill, ruling that the ordinance may be applied to any part of Stage IV that goes beyond the 51 acres; ruling that the Town's height ordinance is valid within the 51 acres; upholding the Town's right to require Site Plan Review, except that there are certain areas within the Town's Site Plan Review regulation that are preempted; and ruling that the methane gas utilization/leachate handling facility is not subject to the Town's ordinance forbidding incinerators. On May 27, 2003, NCES appealed the Court ruling to the New Hampshire Supreme Court. On March 1, 2004, the Supreme Court issued an opinion affirming that NCES has all of the local approvals that it needs to operate within the 51 acres. If successful in obtaining state permits for development and operation within the 51 acres, NCES expects to be able to provide from three to five years of disposal capacity. The Supreme Court's opinion left open for further review the question of whether the Town's 1992 ordinance can prevent expansion of the facility outside the 51 acres, remanding to the Superior Court two legal claims raised by NCES as grounds for invalidating the 1992 ordinance. An interlocutory appeal to the Supreme Court by NCES regarding a Superior Court judge's denial of a motion to recuse herself was denied on November 18, 2004. The parties have filed numerous motions for summary judgment before the trial court. On April 19, 2005, the Superior Court judge granted NCES' partial motion for summary judgment, ruling that the 1992 ordinance is invalid because it distinguishes between "users" of land rather than "uses" of land, and that the state statute preempts the Town's ability to issue a building permit for the methane gas utilization/leachate handling facility to the extent the Town's regulations relate to design, installation, construction, modification or operation. A remand trial will be scheduled for the remaining issues not resolved by summary judgment. Such unresolved issues include whether the Town can impose site plan review requirements outside the 51 acres, and whether the 1992 ordinance contravenes the general welfare of the community. Prior to the remand trial, the court held a mandatory mediation on August 12, 2005, which resulted in settlement discussions that remain ongoing.

On March 10, 2005, the Zoning Enforcement Officer (ZEO) for the Town of Hardwick, Massachusetts rendered an opinion that a portion of the current Phase II footprint of the Company's Hardwick Landfill is on land that is not properly zoned. On April 7, 2005, the Company appealed the opinion to the Hardwick Zoning Board of Appeals (ZBA). On July 13, 2005, the ZBA denied the Company's appeal. On August 1, 2005, the Company appealed the ZBA's decision to the State's Land Court. The Company proposed a plan to implement an interim closure of the affected lot which included relocation of waste from an unlined area on a lot unaffected by the decision to the affected lot. The ZEO issued a letter prohibiting the Company from relocating waste onto the affected lot. The Company has appealled the ZEO decision to the ZBA. The Company hopes to enter into settlement discussions with the Town in an effort to settle all appeals. The Company and the Town executed a Host Community Agreement on June 7, 2005, which provides the Town with certain immediate benefits and will provide certain deferred benefits upon receipt of approvals for the rezoning of the existing landfill area and an expansion area, which the Company expects to apply for in the future.

On May 25, 2005, the Company was served with an antitrust summons by the Office of the Attorney General of the State of Maine pursuant to their investigation of whether the Company and the City of Lewiston have entered into an agreement to operate a municipal landfill in restraint of trade or commerce and whether such an agreement would constitute an acquisition of assets that may substantially lessen competition or tend to create a monopoly. The summons seeks the production of documents related to the Company's operations in the State of Maine. In July, 2005, the Maine Department of Environmental Protection (MEDEP) expressed additional concerns with the Operating Services Agreement related to whether or not it violates a Maine statute prohibiting the development of commercial landfills. The Company is negotiating with both the Attorney General's office and the MEDEP. The Company believes it has meritorious defenses to these claims.

On June 23, 2005, the Company was advised that the State's Attorney for Chittenden County, Vermont has initiated a formal investigation through the State's Inquest process to determine if there is any criminal culpability in connection with the fatality on January 28, 2005 of a driver of the Company's subsidiary All Cycle Waste, Inc. that occurred on the job when the driver's rear-loader trash truck rolled over him when he was behind it. The Company is cooperating with the investigation. On July 21, 2005, the Company settled with the Vermont Occupational Safety and Health Administration, which was conducting a separate investigation of potential safety violations, by agreeing to pay a penalty in the amount of $28 in connection with four alleged general duty clause violations in connection with the accident.

On July 12, 2005, NCES received notice from the Attorney General of the State of New Hampshire that it has commenced an official investigation into allegations that asbestos was delivered to the NCES landfill by a third party and disposed there on several occasions between 1999 and 2002. NCES is cooperating with the investigation.

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

7. ENVIRONMENTAL LIABILITIES

The Company is subject to liability for any environmental damage, including personal injury and property damage, that its solid waste, recycling and power generation facilities may cause to neighboring property owners, particularly as a result of the contamination of drinking water sources or soil, possibly including damage resulting from conditions existing before the Company acquired the facilities. The Company may also be subject to liability for similar claims arising from off-site environmental contamination caused by pollutants or hazardous substances if the Company or its predecessors arrange to transport, treat or dispose of those materials. Any substantial liability incurred by the Company arising from environmental damage could have a material adverse effect on the Company's business, financial condition and results of operations. The Company is not presently aware of any situations that it expects would have a material adverse impact on the results of operations or financial condition.

8. EARNINGS PER SHARE

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

	Three Months Ended July 31,	
	2004	2005
Numerator:		
Income from continuing operations before discontinued operations	$ 2,762	$ 3,107
Less: preferred stock dividends	(838)	(850)
Income from continuing operations before discontinued operations available to common stockholders	$ 1,924	$ 2,257
Denominator:		
Number of shares outstanding, end of period:		
Class A common stock	23,524	23,873
Class B common stock	988	988
Effect of weighted average shares outstanding during period	(20)	(9)
Weighted average number of common shares used in basic EPS	24,492	24,852
Impact of potentially dilutive securities:		
Dilutive effect of options and contingent stock	600	366
Weighted average number of common shares used in diluted EPS	25,092	25,218

For the three months ended July 31, 2004 and 2005, 6,250 and 6,843 common stock equivalents related to options and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

9. COMPREHENSIVE INCOME

Comprehensive income is defined as the change in net assets of a business enterprise during a period from transactions generated from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive income included in the accompanying balance sheets consists of changes in the fair value of the Company's interest rate swap and commodity hedge agreements as well as the cumulative effect of the change in accounting principle due to the adoption of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. Also included in accumulated other comprehensive income is the change in fair value of certain securities classified as available for sale as well as the Company's portion of the change in the fair value of commodity hedge agreements of the Company's equity method investment, US GreenFiber. Comprehensive income for the three months ended July 31, 2004 and 2005 is as follows:

	Three Months Ended July 31, 2004	Three Months Ended July 31, 2005
Net income	$ 2,843	$ 3,107
Other comprehensive (loss) income	111	(26)
Comprehensive income	$ 2,954	$ 3,081

The components of other comprehensive income for the three months ended July 31, 2004 and 2005 are shown as follows:

	Three Months Ended July 31,					
	2004			2005		
	Gross	Tax effect	Net of Tax	Gross	Tax effect	Net of Tax
Changes in fair value of marketable securities during the period	$ —	$ —	$ —	$ (49)	$ (17)	$ (32)
Change in fair value of interest rate swaps and commodity hedges during period	187	76	111	227	84	143
Reclassification to earnings for interest rate swap contracts	—	—	—	(137)	—	(137)
	$ 187	$ 76	$ 111	$ 41	$ 67	$ (26)

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company's strategy to hedge against fluctuations in the commodity prices of recycled paper is to enter into hedges to mitigate the variability in cash flows generated from the sales of recycled paper at floating prices, resulting in a fixed price being received from these sales. The Company is party to thirty-one commodity hedge contracts as of July 31, 2005. These contracts expire between August 2005 and April 2008. The Company has evaluated these hedges and believes that these instruments qualify for hedge accounting pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. As of July 31, 2005 the fair value of these hedges was an obligation of $644, with the net amount (net of taxes of $261) recorded as an unrealized loss in accumulated other comprehensive income.

On May 9, 2005, the Company entered into three separate interest rate swap agreements with three banks for a notional amount of $75,000. The contracts are forward starting contracts that will effectively fix the interest index rate on the entire notional amount at 4.4% from May 4, 2006 through May 5, 2008. These agreements will be specifically designated to interest payments under the revolving credit facility and will be accounted for as effective cash flow hedges pursuant to SFAS No. 133. As of July 31, 2005, the fair value of these swaps was $73, with the net amount (net of taxes of $29) recorded as an unrealized gain in accumulated other comprehensive income.

11. STOCK BASED COMPENSATION PLANS

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

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. In addition, the Company has adopted the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure.*

In accordance with SFAS No. 123 and SFAS No. 148, the Company has computed, for pro forma disclosure purposes, the value as of the grant date of all options granted using the Black-Scholes option pricing model as prescribed by SFAS No. 123, using the following weighted average assumptions for grants in the three months ended July 31, 2004 and 2005.

	Three Months Ended July 31, 2004	**Three Months Ended July 31, 2005**
Risk free interest rate	3.95% - 3.97%	3.63% - 3.76%
Expected dividend yield	N/A	N/A
Expected life	5 Years	5 Years
Expected volatility	45.88%	40.35%

The total value of options granted 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 and net income per share would have changed as reflected in the following pro forma amounts:

	Three Months Ended July 31,	
	2004	**2005**
Net income available to common stockholders, as reported	$ 2,005	$ 2,257
Deduct: Total stock-based compensation expense determined under fair value based method, net	376	432
Net income available to common stockholders, pro forma	$ 1,629	$ 1,825
Basic income per common share:		
As reported	$ 0.08	$ 0.09
Pro forma	$ 0.07	$ 0.07
Diluted income per common share:		
As reported	$ 0.08	$ 0.09
Pro forma	$ 0.06	$ 0.07

12. SEGMENT REPORTING

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments in financial statements. In general, SFAS No. 131 requires that business entities report selected information about operating segments in a manner consistent with that used for internal management reporting. Effective November 1, 2004 the Eastern region was divided into the North Eastern and South Eastern regions because of a change in the Company's internal reporting structure. Segment data for the three months ended July 31, 2004 has been revised to reflect changes in the Company's segment classifications.

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

Three Months Ended July 31, 2004 (1)	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 23,415	$ 23,882	$ 28,692	$ 23,978	$ 19,599
Depreciation and amortization	5,042	4,043	3,546	3,167	925
Operating income	1,003	(621)	5,924	3,818	2,839
Total assets	$ 171,815	$ 129,563	$ 119,911	$ 136,550	$ 55,165

Three Months Ended July 31, 2004 (1)	Other	Total
Outside revenues	$ 4,106	$ 123,672
Depreciation and amortization	500	17,223
Operating income	(306)	12,657
Total assets	$ 73,263	$ 686,267

Three Months Ended July 31, 2005	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 27,596	$ 24,397	$ 29,511	$ 25,522	$ 20,499
Depreciation and amortization	4,740	2,910	3,745	3,217	1,088
Operating income	1,866	523	4,682	3,380	3,005
Total assets	$ 177,078	$ 139,203	$ 128,812	$ 154,108	$ 65,676

Three Months Ended July 31, 2005	Other	Total
Outside revenues	$ 4,475	$ 132,000
Depreciation and amortization	434	16,134
Operating income	(395)	13,061
Total assets	$ 64,979	$ 729,856

(1) Effective in fiscal year 2006, the Company has modified its internal reporting of the measurement of segment profit or loss. Segment data for the three months ended July 31, 2004 has been conformed to reflect this modification.

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

	Three Months Ended July 31, 2004 (1)	Three Months Ended July 31, 2005
Collection	$ 61,690	$ 65,267
Landfill/disposal facilities	20,434	23,263
Transfer	11,596	11,649
Recycling	29,952	31,821
Total revenues	$ 123,672	$ 132,000

(1) Revenue attributable to services provided for the three months ended July 31, 2004 has been revised to conform with the classification of revenue attributable to services provided in the current fiscal year.

13. NET ASSETS UNDER CONTRACTUAL OBLIGATION

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

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

The Company has not accounted for this transaction as a sale based on an assessment that the risks and other incidents of ownership have not sufficiently transferred to the buyer. The net assets of the operations are disclosed in the balance sheet as “net assets under contractual obligation”, and are being reduced as payments are made.

Net assets under contractual obligation amounted to $1,392 and $1,078 at April 30, 2005 and July 31, 2005, respectively.

Effective August 1, 2005, the Company transferred certain recycling operations to a former employee who had been responsible for managing those businesses.

Consideration for this transaction was in the form of a note receivable amounting up to $1,435 which is payable within six years of the anniversary date of the transaction to the extent of free cash flow generated from the operations.

Net assets of these businesses amounted to $283 and $399 at April 30, 2005 and July 31, 2005, respectively.

14. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company’s senior subordinated notes due 2013 are guaranteed jointly and severally, fully and unconditionally by the Company’s significant wholly-owned subsidiaries. The Company is the issuer and non-guarantor of the senior subordinated notes. The information which follows presents the condensed consolidating financial position as of April 30, 2005 and July 31, 2005, and the condensed consolidating results of operations for the three months ended July 31, 2004 and 2005 and the condensed consolidating statements of cash flows for the three months ended July 31, 2004 and 2005 of (a) the Parent, (b) the combined guarantors (“the Guarantors”), each of which is 100% wholly-owned by the Parent, (c) the combined non-guarantors (“the Non-Guarantors”), (d) eliminating entries and (e) the Company on a consolidated basis.

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF APRIL 30, 2005
(In thousands, except for share and per share data)

ASSETS	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$ (2,383)	$ 10,146	$ 815	$ —	$ 8,578
Restricted cash	—	70	—	—	70
Accounts receivable - trade, net of allowance for doubtful accounts	76	50,998	652	—	51,726
Refundable income taxes	874	—	—	—	874
Inventory	—	2,538	—	—	2,538
Other current assets	596	4,161	840	—	5,597
Total current assets	(837)	67,913	2,307	—	69,383
Property, plant and equipment, net of accumulated depreciation and amortization	2,928	411,506	(1,681)	—	412,753
Goodwill	—	157,492	—	—	157,492
Deferred income taxes	3,155	—	—	—	3,155
Investment in subsidiaries	(18,424)	—	—	18,424	—
Net assets under contractual obligation	—	1,392	—	—	1,392
Other non-current assets	25,430	36,287	10,941	(4,379)	68,279
	13,089	606,677	9,260	14,045	643,071
Intercompany receivable	587,569	(589,512)	(2,436)	4,379	—
	$ 599,821	$ 85,078	$ 9,131	$ 18,424	$ 712,454

LIABILITIES AND STOCKHOLDERS' EQUITY	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
CURRENT LIABILITIES:					
Current maturities of long-term debt	$ —	$ 281	$ —	$ —	$ 281
Accounts payable	1,425	44,654	28	—	46,107
Accrued payroll and related expenses	2,243	7,320	125	—	9,688
Accrued interest	4,816	2	—	—	4,818
Deferred income taxes	1,419	—	—	—	1,419
Current accrued closure and post-closure costs	—	4,748	542	—	5,290
Other current liabilities	3,975	10,474	10,702	—	25,151
Total current liabilities	13,878	67,479	11,397	—	92,754
Long-term debt, less current maturities	377,760	676	—	—	378,436
Other long-term liabilities	1,437	30,085	2,996	—	34,518
COMMITMENTS AND CONTINGENCIES					
Series A redeemable, convertible preferred stock, authorized - 55,750, issued and outstanding - 53,750, liquidation preference of $1,000 per share plus accrued but unpaid dividends	67,964	—	—	—	67,964
STOCKHOLDERS' EQUITY:					
Class A common stock -					
Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 23,860,000 shares	239	101	100	(201)	239
Class B common stock -					
Authorized - 1,000,000 shares, $0.01 par value, 10 votes per share, issued and outstanding - 988,000 shares	10	—	—	—	10
Accumulated other comprehensive income	767	1,276	(53)	(1,223)	767
Additional paid-in capital	274,088	48,035	2,596	(50,631)	274,088
Accumulated deficit	(136,322)	(62,574)	(7,905)	70,479	(136,322)
Total stockholders' equity	138,782	(13,162)	(5,262)	18,424	138,782
	$ 599,821	$ 85,078	$ 9,131	$ 18,424	$ 712,454

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JULY 31, 2005
(Unaudited)
(In thousands, except for share and per share data)

ASSETS	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$ (2,019)	$ 8,337	$ 455	$ —	$ 6,773
Restricted cash	—	71	—	—	71
Accounts receivable - trade, net of allowance for doubtful accounts	46	55,700	896	—	56,642
Refundable income taxes	573	—	—	—	573
Other current assets	216	6,801	857	—	7,874
Total current assets	(1,184)	70,909	2,208	—	71,933
Property, plant and equipment, net of accumulated depreciation and amortization	2,882	429,946	(1,313)	—	431,515
Goodwill	—	158,264	—	—	158,264
Deferred income taxes	69	—	—	—	69
Investment in subsidiaries	(12,694)	—	—	12,694	—
Other non-current assets	25,053	35,109	12,292	(4,379)	68,075
	15,310	623,319	10,979	8,315	657,923
Intercompany receivable	604,155	(606,585)	(1,949)	4,379	—
	$ 618,281	$ 87,643	$ 11,238	$ 12,694	$ 729,856

LIABILITIES AND STOCKHOLDERS' EQUITY	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
CURRENT LIABILITIES:					
Accounts payable	$ 1,389	$ 46,655	$ 60	$ —	$ 48,104
Accrued payroll and related expenses	1,269	3,626	7	—	4,902
Accrued interest	11,888	3	—	—	11,891
Deferred income taxes	41	—	—	—	41
Other current liabilities	3,338	13,273	12,940	—	29,551
Total current liabilities	17,925	63,557	13,007	—	94,489
Long-term debt, less current maturities	388,980	600	—	—	389,580
Other long-term liabilities	1,407	31,092	3,319	—	35,818
COMMITMENTS AND CONTINGENCIES					
Series A redeemable, convertible preferred stock, authorized - 55,750, issued and outstanding - 53,750, liquidation preference of $1,000 per share plus accrued but unpaid dividends	68,814	—	—	—	68,814
STOCKHOLDERS' EQUITY:					
Class A common stock -					
Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 23,873,000 shares	239	101	100	(201)	239
Class B common stock -					
Authorized - 1,000,000 shares, $0.01 par value, 10 votes per share, issued and outstanding - 988,000 shares	10	—	—	—	10
Accumulated other comprehensive income	740	860	(85)	(775)	740
Additional paid-in capital	273,381	48,506	2,596	(51,102)	273,381
Accumulated deficit	(133,215)	(57,073)	(7,699)	64,772	(133,215)
Total stockholders' equity	141,155	(7,606)	(5,088)	12,694	141,155
	$ 618,281	$ 87,643	$ 11,238	$ 12,694	$ 729,856

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

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
Revenues	$ —	$ 122,540	$ 3,874	$ (2,742)	$ 123,672
Operating expenses:					
Cost of operations	97	78,003	2,919	(2,742)	78,277
General and administration	(173)	15,434	254	—	15,515
Depreciation and amortization	441	14,987	1,795	—	17,223
	365	108,424	4,968	(2,742)	111,015
Operating income (loss)	(365)	14,116	(1,094)	—	12,657
Other expense/(income), net:					
Interest income	(7,003)	(16)	(39)	7,000	(58)
Interest expense	7,373	6,735	38	(7,000)	7,146
Loss (income) from equity method investments	(5,858)	68	—	5,858	68
Other expense/(income), net:	26	506	(2)	—	530
Other expense, net	(5,462)	7,293	(3)	5,858	7,686
Income (loss) from continuing operation before income taxes and discontinued operations	5,097	6,823	(1,091)	(5,858)	4,971
Provision (benefit) for income taxes	2,254	(56)	11	—	2,209
Income (loss) from continuing operations before discontinued operations	2,843	6,879	(1,102)	(5,858)	2,762
Income from discontinued operations, net	—	81	—	—	81
Net income (loss)	2,843	6,960	(1,102)	(5,858)	2,843
Preferred stock dividend	838	—	—	—	838
Net income (loss) available to common stockholders	$ 2,005	$ 6,960	$ (1,102)	$ (5,858)	$ 2,005

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JULY 31, 2005
(Unaudited)
(In thousands)

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
Revenues	$ —	$ 131,112	$ 3,073	$ (2,185)	$ 132,000
Operating expenses:					
Cost of operations	3	85,197	2,572	(2,185)	85,587
General and administration	(84)	17,051	251	—	17,218
Depreciation and amortization	370	15,644	120	—	16,134
	289	117,892	2,943	(2,185)	118,939
Operating income (loss)	(289)	13,220	130	—	13,061
Other expense/(income), net:					
Interest income	(7,612)	(60)	(106)	7,611	(167)
Interest expense	7,931	7,173	24	(7,611)	7,517
Loss (income) from equity method investments	(6,178)	70	—	6,178	70
Other expense/(income), net:	(13)	64	—	—	51
Other expense/(income), net	(5,872)	7,247	(82)	6,178	7,471
Income (loss) before income taxes	5,583	5,973	212	(6,178)	5,590
Provision for income taxes	2,476	—	7	—	2,483
Net income (loss)	3,107	5,973	205	(6,178)	3,107
Preferred stock dividend	850	—	—	—	850
Net income (loss) available to common stockholders	$ 2,257	$ 5,973	$ 205	$ (6,178)	$ 2,257

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ 1,129	$ 16,984	$ 1,600	$ —	$ 19,713
Cash Flows from Investing Activities:					
Acquisitions, net of cash acquired	—	(3,582)	—	—	(3,582)
Additions to property, plant and equipment	(289)	(21,843)	(776)	—	(22,908)
Acquisitions of landfill operating lease contracts	—	(9,363)	—	—	(9,363)
Other	—	767	—	—	767
Net Cash Used In Investing Activities	(289)	(34,021)	(776)	—	(35,086)
Cash Flows from Financing Activities:					
Proceeds from long-term borrowings	44,850	—	—	—	44,850
Principal payments on long-term debt	(31,314)	(2,667)	(325)	—	(34,306)
Proceeds from exercise of stock options	240	—	—	—	240
Intercompany borrowings	(23,607)	23,515	92	—	—
Net Cash Provided by Financing Activities	(9,831)	20,848	(233)	—	10,784
Net decrease in cash and cash equivalents	(8,991)	3,811	591	—	(4,589)
Cash and cash equivalents, beginning of period	7,805	(196)	398	—	8,007
Cash and cash equivalents, end of period	$ (1,186)	$ 3,615	$ 989	$ —	$ 3,418

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED JULY 31, 2005
(Unaudited)
(In thousands)

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ 5,505	$ 16,632	$ 484	$ —	$ 22,621
Cash Flows from Investing Activities:					
Acquisitions, net of cash acquired	—	(1,044)	—	—	(1,044)
Additions to property, plant and equipment	(324)	(34,051)	(241)	—	(34,616)
Payments on landfill operating lease contracts	—	(428)	—	—	(428)
Other	—	638	—	—	638
Net Cash Used In Investing Activities	(324)	(34,885)	(241)	—	(35,450)
Cash Flows from Financing Activities:					
Proceeds from long-term borrowings	35,955	—	—	—	35,955
Principal payments on long-term debt	(24,747)	(184)	—	—	(24,931)
Intercompany borrowings	(16,025)	16,628	(603)	—	—
Net Cash Provided by (Used in) Financing Activities	(4,817)	16,444	(603)	—	11,024
Net (decrease) increase in cash and cash equivalents	364	(1,809)	(360)	—	(1,805)
Cash and cash equivalents, beginning of period	(2,383)	10,146	815	—	8,578
Cash and cash equivalents, end of period	$ (2,019)	$ 8,337	$ 455	$ —	$ 6,773

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

Casella Waste Systems, Inc. and Subsidiaries (the "Company") is a vertically integrated regional solid waste services company that provides collection, transfer, disposal and recycling services to residential, industrial and commercial customers, primarily throughout the eastern region of the United States. As of August 31 2005, the Company owned and/or operated eight Subtitle D landfills, two landfills permitted to accept construction and demolition materials, 38 solid waste collection operations, 34 transfer stations, 36 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.

The Company's revenues increased from $123.7 million for the quarter ended July 31, 2004 to $132.0 million for the quarter ended July 31, 2005. From May 1, 2002 through April 30, 2005, the Company acquired 29 solid waste collection, transfer, disposal and recycling operations. Between May 1, 2005 and July 31, 2005 the Company acquired three solid waste hauling operations. The Company also recorded additional expenditures related to landfill development for a landfill closure project acquired in the fourth quarter of fiscal year 2005. Under the rules of purchase accounting, the acquired companies' revenues and results of operations have been included from the date of acquisition and affect the period-to-period comparisons of the Company's historical results of operations.

Forward Looking Statements

This Form 10-Q and other reports, proxy statements, and other communications to stockholders, as well as oral statements by the Company's officers or its agents, may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, with respect to, among other things, the Company's future revenues, operating income, or earnings per share. Without limiting the foregoing, any statements contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements, and the words "believes", "anticipates", "plans", "expects", and similar expressions are intended to identify forward-looking statements. There are a number of important factors of which the Company is aware that may cause the Company's actual results to vary materially from those forecasted or projected in any such forward-looking statement, certain of which are beyond the Company's control. These factors include, without limitation, those outlined below in the section entitled "Certain Factors That May Affect Future Results". The Company's failure to successfully address any of these factors could have a material adverse effect on the Company's results of operations.

General

Revenues

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

The Company's cellulose insulation business is conducted through a 50/50 joint venture with Louisiana-Pacific, and accordingly, the Company recognizes half of the joint venture's net income on the equity method in the Company's results of operations. Also, in the "Other" segment, the Company has ancillary revenues including major customer accounts and earnings from the aforementioned joint venture.

The Company's revenues are shown net of inter-company eliminations. The Company typically establishes its inter-company transfer pricing based upon prevailing market rates. The table below shows, for the periods indicated, the percentage of the Company's revenues attributable to services provided. Collection revenues as a percentage of total revenue in the three months ended July 31, 2005 were lower compared to the prior year, despite an increase in the absolute dollar amounts, mainly because of the increase in landfill revenue dollars. Higher collection revenues were recognized in the South Eastern region attributable to higher volumes as well as acquisition activity. Landfill/disposal revenues as a percentage of total revenues increased in the three months ended July 31, 2005 due to higher landfill volumes in the North Eastern and Western regions. Recycling revenues as a percentage of total revenue in the three months ended July 31, 2005 were lower compared to the prior year, despite an increase in the absolute dollar amounts, mainly because of the increase in landfill revenue dollars. The increase in recycling revenue dollars is primarily attributable to higher volumes at FCR along with slightly higher commodity pricing.

	Three Months Ended July 31,	
	2004 (1)	**2005**
Collection	49.9%	49.5%
Landfill/disposal facilities	16.5	17.6
Transfer	9.4	8.8
Recycling	24.2	24.1
Total revenues	100.0%	100.0%

(1) Percentage of revenues attributable to services provided for the three months ended July 31, 2004 have been revised to conform with the classification of revenue attributable to services provided in the current fiscal year.

Operating Expenses

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

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

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

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

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

Results of Operations

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

	Three Months Ended July 31,	
	2004	2005
Revenues	100.0%	100.0%
Cost of operations	63.3	64.8
General and administration	12.6	13.0
Depreciation and amortization	13.9	12.2
Operating income	10.2	10.0
Interest expense, net	5.7	5.6
Loss from equity method investment	0.1	0.1
Other expense	0.4	0.0
Provision for income taxes	1.8	1.9
Income from continuing operations before discontinued operations	2.2%	2.4%

Three Months Ended July 31, 2005 versus July 31, 2004

Revenues. Revenues increased $8.3 million, or 6.7% to $132.0 million in the quarter ended July 31, 2005 from $123.7 million in the quarter ended July 31, 2004. Revenues from the rollover effect of acquired businesses accounted for $1.8 million of the increase, primarily tuck-in hauling acquisitions in the Central, Western and South Eastern regions along with a newly acquired landfill closure project in the South Eastern region. The revenue increase is also attributable to an increase in solid waste revenues of $5.6 million, due primarily to higher landfill volumes in the North Eastern and Western regions along with higher composting volumes in the North Eastern Region. FCR revenue increased $0.9 million in the quarter ended July 31, 2005 compared to the quarter ended July 31, 2004 due to an increase in volume as well as a slight increase in commodity pricing.

Cost of operations. Cost of operations increased $7.3 million, or 9.3% to $85.6 million in the quarter ended July 31, 2005 from $78.3 million in the quarter ended July 31, 2004. As a percentage of revenues, cost of operations increased to 64.8% in the quarter ended July 31, 2005 compared to 63.3% in the prior year period. The dollar and percentage increase in cost of operations expense is primarily due to higher fuel costs as well as higher transportation costs.

General and administration. General and administration expenses increased $1.7 million, or 11.0% to $17.2 million in the quarter ended July 31, 2005 from $15.5 million in the quarter ended July 31, 2004, and increased as a percentage of revenues to 13.0% in the quarter ended July 31, 2005 from 12.6% in the prior year comparable period. The dollar and percentage increase in general and administration expense was due to higher compensation costs, increased costs related to compliance with the Sarbanes Oxley Act as well as higher communications and training costs.

Depreciation and amortization. Depreciation and amortization expense decreased $1.1 million, or 6.4%, to $16.1 million in the quarter ended July 31, 2005 from $17.2 million in the quarter ended July 31, 2004. Depreciation expense was up $0.2 million between periods and landfill amortization expense decreased $1.3 million primarily due to lower volumes in the South Eastern region resulting from the Brockton project approaching completion. Depreciation and amortization expense as a percentage of revenue decreased as a percentage of revenue to 12.2% for the quarter ended July 31, 2005 from 13.9% in the quarter ended July 31, 2004.

Operating income. Operating income increased $0.4 million, or 3.1 %, to $13.1 million in the quarter ended July 31, 2005 from $12.7 million in the quarter ended July 31, 2004 and decreased as a percentage of revenues to 10.0% in the quarter ended July 31, 2005 from 10.2% in the quarter ended July 31, 2004. Higher revenues were partially offset by higher operating costs as described above. The North Eastern region's operating income increased in the quarter ended July 31, 2005 compared to the quarter ended July 31, 2004 due primarily to lower operating costs at the Maine Energy facility. The South Eastern region's operating income increased in the quarter ended July 31, 2005 compared to the quarter ended July 31, 2004 due primarily to higher collection volumes as well as lower landfill amortization at the Brockton landfill closure project as mentioned above. The Central region's operating income decreased in the quarter ended July 31, 2005 compared to the quarter ended July 31, 2004 due primarily to higher landfill costs. The Western region's operating income decreased in the quarter ended July 31, 2005 compared to the quarter ended July 31, 2004 due primarily to higher operating costs.

Interest expense, net. Net interest expense increased $0.3 million, or 4.2% to $7.4 million in the quarter ended July 31, 2005 from $7.1 million in the quarter ended July 31, 2004. This increase is attributable to higher average interest rates along with higher average borrowings in the current fiscal quarter compared to the prior year period. Net interest expense, as a percentage of revenues, decreased to 5.6% in the quarter ended July 31, 2005 from 5.7% in the quarter ended July 31, 2004.

Loss from equity method investment. The loss from equity method investment of $0.1 million for the quarters ended July 31, 2005 and 2004, respectively, was solely from the Company's 50% joint venture interest in US GreenFiber ("GreenFiber").

Other expense. Other expense in the quarter ended July 31, 2005 was $0.1 million compared to other expense of $0.5 million in the quarter ended July 31, 2004. Other expense in the quarter ended July 31, 2005 consisted primarily of losses on the sale of equipment. Other expense in the quarter ended July 31, 2004 consisted of a loss on the retirement of fixed assets as well as costs of winding down the operations of the New Heights power plant.

Provision for income taxes. Provision for income taxes increased $0.3 million to $2.5 million for the quarter ended July 31, 2005 from $2.2 million for the quarter ended July 31, 2004 due to higher income, as the effective tax rate remained largely unchanged at 44.4%.

Income from continuing operations before discontinued operations. Income from continuing operations before discontinued operations increased $0.3 million, or 10.7 % to $3.1 million for the quarter ended July 31, 2005 from $2.8 million in the quarter ended July 31, 2004. Operating income increased $0.4 million to $13.1 million in the quarter ended July 31, 2005 from $12.7 million in the quarter ended July 31, 2004 as described above. Higher interest expense was offset by lower other expense as described above.

Income from discontinued operations. In fiscal year 2005, the Company completed the sale of the assets of Data Destruction for cash sale proceeds of $3.0 million. This shredding operation had been historically accounted for as a component of continuing operations up until its sale. The business' historical income from operations has been reclassified from continuing operations to discontinued operations for the quarter ended July 31 2004.

Liquidity and Capital Resources

The Company's business is capital intensive. The Company's capital requirements include acquisitions, fixed asset purchases and capital expenditures for landfill development and cell construction, as well as site and cell closure. The Company had a net working capital deficit of $29.3 million at July 31, 2005 compared to a net working capital deficit of $31.9 million at April 30, 2005. Net working capital comprises current assets, excluding cash and cash equivalents, minus current liabilities. The net increase in working capital was due to an increase in trade receivables associated with higher revenues, which increase was partially offset by higher accrued interest on the Company's senior subordinated notes which was payable on August 1, 2005 and lower levels of accruals for payroll and related expenses.

On April 29, 2005, the Company entered into a new senior credit facility with a group of banks for which Bank of America is acting as agent. The new facility consists of a senior secured revolving credit facility in the amount of $350.0 million. Under certain circumstances the Company has the option of increasing the credit facility by an additional $100.0 million provided that the Company is not in default at the time of the increase, and subject to the receipt of commitments from lenders for such additional amount. This credit facility is secured by all of our assets, including the Company's interest in the equity securities of the Company's subsidiaries. The new revolving credit facility matures April 2010. The initial borrowings under the credit facility were used to repay all outstanding indebtedness under the old term loan and the old revolver. Further advances were available under the new revolver in the amount of $129.1 million and $140.4 million as of July 31, 2005 and April 30, 2005, respectively. These available amounts are net of outstanding irrevocable letters of credit totaling $32.3 million as of July 31, 2005 and April 30, 2005, at which dates no amounts had been drawn.

On May 9, 2005, the Company entered into three separate interest rate swap agreements with three banks for a notional amount of $75.0 million. The contracts are forward starting contracts that will effectively fix the interest index rate on the entire notional amount at 4.4% from May 4, 2006 through May 5, 2008. These agreements will be specifically designated to interest payments under the revolving credit facility and will be accounted for as effective cash flow hedges pursuant to SFAS No. 133.

The new senior revolving credit facility agreement contains covenants that may limit our activities, including covenants that restrict dividends on common stock, limit capital expenditures, and set minimum net worth and interest coverage and leverage ratios. As of July 31, 2005, we were in compliance with all covenants.

As of July 31, 2005, the Company had outstanding $195.0 million of 9.75% senior subordinated notes (the ''notes'') which mature in January 2013. The senior subordinated note agreement contains covenants that restrict dividends, stock repurchases and other payments, and limits the incurrence of debt and issuance of preferred stock. The notes are guaranteed jointly and severally, fully and unconditionally by the Company's significant wholly-owned subsidiaries.

Net cash provided by operating activities amounted to $22.6 million for the three months ended July 31, 2005 compared to $19.7 million for the same period of the prior fiscal year. Changes in assets and liabilities, net of effects of acquisitions and divestitures, increased $3.7 million from the prior year. The increase in accounts receivable during the three months ended July 31, 2005 associated with higher revenues resulted in a $4.9 million reduction compared with a reduction of $3.3 million in the prior period. The increase in accounts payable during the three months ended July 31, 2005, associated with higher operating activity, amounted to $2.0 million compared with $0.5 million in the prior period. Changes in other assets and liabilities increased $3.9 million from the prior year. This is due primarily to lower prepaid expenses in the current fiscal year amounting to $1.9 million, higher interest accruals in the current fiscal year amounting to $2.9 million and larger increases in capping, closure and post-closure accruals amounting to $1.1 million which is attributable to lower cash payments in the three months ended July 31, 2005 compared to the three months ended July 31, 2004. The increase in changes in other assets and liabilities was partially offset by larger reductions in accrued payroll and related expenses amounting to $1.8 million in the three months ended July 31, 2005 compared to the three months ended July 31, 2004 and by lower depreciation and amortization expense of $1.1 million for the three months ended July 31, 2005 compared to the same period of the prior fiscal year. This is due to lower landfill amortization associated with the Brockton project approaching completion.

Net cash used in investing activities was $35.5 million for the three months ended July 31, 2005 compared to $35.1 million used in investing activities in the same period of the prior fiscal year. The increase in cash used in investing activities was due to an $11.7 million increase in capital expenditures in the current fiscal year, offset by a decrease in payments on landfill operating lease contracts of $8.9 million and a decrease in acquisition activity by $2.5 million in the current year.

Net cash provided by financing activities was $11.0 million for the three months ended July 31, 2005 compared to $10.8 million in the same period of the prior fiscal year. The increase in cash provided by financing activities is primarily due to higher net borrowings.

The Company generally meets liquidity needs from operating cash flow and its credit facility. These liquidity needs are primarily for capital expenditures for vehicles, containers and landfill development, debt service costs and capping, closure and post-closure expenditures. It is the Company's intention to continue to grow organically and through acquisitions.

The Company has filed a universal shelf registration statement with the SEC. The Company could from time to time issue securities thereunder in an amount of up to $250.0 million. However, the Company's ability and willingness to issue securities pursuant to this registration statement will depend on market conditions at the time of any such desired offering and therefore the Company may not be able to issue such securities on favorable terms, if at all.

Inflation and Prevailing Economic Conditions

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

The Company's business is located mainly in the eastern United States. Therefore, the Company's business, financial condition and results of operations are susceptible to downturns in the general economy in this geographic region and other factors affecting the region, such as state regulations and severe weather conditions. The Company is unable to forecast or determine the timing and /or the future impact of a sustained economic slowdown.

Certain Factors That May Affect Future Results

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

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

The Company's has substantial indebtedness. The payment of interest and principal due under this indebtedness has reduced, and may continue to reduce, funds available for other business purposes, including capital expenditures and acquisitions. In addition, the aggregate amount of indebtedness has limited and may continue to limit the Company's ability to incur additional indebtedness, and thereby may limit its acquisition program.

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

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

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

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

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

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

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

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

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

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

The Company has historically grown and intends to continue to grow through acquisitions, and the Company has tried and will continue to try to evaluate and limit environmental risks and liabilities presented by businesses to be acquired prior to the acquisition. 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 the Company becomes legally responsible to address it. Some of the legal sanctions to which the Company could become subject could cause the Company to lose a needed permit, or prevent the Company from or delay the Company in obtaining or renewing permits to operate the Company's facilities or harm the Company's reputation.

The Company's operating program depends on the Company's ability to operate and expand the landfills the Company owns and leases and to develop new landfill sites. Localities where the Company operates generally seek to regulate some or all landfill operations, including siting and expansion of operations. The laws adopted by municipalities in which the Company's landfills are located may limit or prohibit the expansion of the landfill as well as the amount of waste that the Company can accept at the landfill on a daily, quarterly or annual basis and any effort to acquire or expand landfills typically involves a significant amount of time and expense. For example, expansion at the Company's North County Environmental Services landfill, outside the original 51 acres, will be prohibited as a result of a recent decision by the New Hampshire Supreme Court unless the Company prevails in certain remanded issues under zoning laws or the Town revises its local ordinance prohibiting expansions. In addition, operation of the Templeton landfill will require repeal of a town by-law prohibiting the acceptance of out-of-town waste. The Company may not be successful in obtaining new landfill sites or expanding the permitted capacity of any of the Company's current landfills once their remaining disposal capacity has been consumed. If the Company is unable to develop additional disposal capacity, the Company's ability to achieve economies from the internalization of the Company's wastestream will be limited and the Company will be required to utilize the disposal facilities of the Company's competitors.

In addition to the costs of complying with environmental laws and regulations, the Company incurs costs defending against environmental litigation brought by governmental agencies and private parties. The Company is, and also may be in the future, a defendant in lawsuits brought by parties alleging environmental damage, personal injury, and/or property damage.

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

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

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

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

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

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

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

Under the terms of waste handling agreements among the Biddeford-Saco Waste Handling Committee, the cities of Biddeford and Saco, Maine, and the Company's subsidiary Maine Energy, Maine Energy will be required, following the date on which the bonds that financed Maine Energy and certain limited partner loans to Maine Energy are paid in full, to pay a residual cancellation payment to the respective municipalities party to those agreements equal to a certain percentage 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 the applicable percentage of such amount. The obligation has been estimated by management at $9.7 million. Management believes the possibility of material loss in excess of this amount is remote. The Company's estimate of the fair market value of Maine Energy may not prove to be accurate, and in the event the Company has underestimated the value of Maine Energy, the Company could be required to recognize unanticipated charges, in which case the Company's operating results could be harmed.

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

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

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

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

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

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

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

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

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

The price and supply of fuel is unpredictable and fluctuates based on events beyond the Company's control, including among others, geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regional production patterns. Because fuel is needed to run the Company's fleet of trucks, price escalations for fuel increase the Company's operating expenses. In the quarter ended July 31, 2005, the Company used approximately 1.8 million gallons of diesel fuel in the Company's solid waste operations. Effective May 1, 2003, the Company implemented a fuel surcharge program, based on a fuel index, to recover fuel cost increases arising from price volatility. This program was revised effective May 1, 2005 to cover oil and lubricants as well as fuel. The surcharge has been passed on to all customers where their contracts permit.

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

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

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

Any write-off of capitalized costs or intangible assets reduces the Company's earnings and, consequently, could affect the market price of the Company's Class A common stock. In accordance with generally accepted accounting principles, the Company capitalizes certain expenditures and advances relating to the Company's acquisitions, pending acquisitions, landfills and development projects. From time to time in future periods, the Company may be required to incur a charge against earnings in an amount equal to any unamortized capitalized expenditures and advances, net of any portion thereof that the Company 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 Company's revenues and the Company's operating income experience seasonal fluctuations.

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

- the volume of waste relating to construction and demolition activities decreases substantially during the winter months in the North Eastern United States; and

- decreased tourism in Vermont, Maine and eastern New York during the winter months tends to lower the volume of waste generated by commercial and restaurant customers, which is partially offset by increased volume from the winter ski industry.

Since certain of our 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 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 March and April due to lower retail activity.

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

Labor unions regularly make attempts to organize the Company's employees, and these efforts will likely continue in the future. Certain groups of the Company's employees have chosen to be represented by unions, and the Company has negotiated collective bargaining agreements with these groups. The negotiation of collective bargaining agreements could divert management attention and result in increased operating expenses and lower net income. If the Company is unable to negotiate acceptable collective bargaining agreements, the Company might have to wait through ‘‘cooling off’’ periods, which are often followed by union-initiated work stoppages, including strikes. Depending on the type and duration of any labor disruptions, the Company’s revenues could decrease and the Company’s operating expenses could increase, which could adversely affect the Company’s financial condition, results of operations and cash flows. As of August 31, 2005, approximately 4.2% of the Company’s employees involved in collection, transfer, disposal, recycling or other operations, including the Company’s employees at the Company’s Maine Energy waste-to-energy facility, were represented by unions.

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

The holders of the Company’s Class B common stock are entitled to ten votes per share and the holders of the Company’s Class A common stock are entitled to one vote per share. At August 31, 2005, an aggregate of 988,200 shares of the Company’s Class B common stock, representing 9,882,000 votes, were outstanding, all of which were beneficially owned by John W. Casella, the Company’s Chairman and Chief Executive Officer, or by his brother, Douglas R. Casella, a member of the Company’s Board of Directors. Based on the number of shares of common stock and Series A redeemable convertible preferred stock outstanding on August 31, 2005, the shares of the Company’s Class A common stock and Class B common stock beneficially owned by John W. Casella and Douglas R. Casella represent approximately 29.0% of the aggregate voting power of the Company’s stockholders. Consequently, John W. Casella and Douglas R. Casella are able to substantially influence all matters for stockholder consideration.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate volatility

The Company had interest rate risk relating to approximately $188.7 million of long-term debt at July 31, 2005. The interest rate on the variable rate portion of long-term debt was approximately 5.36% at July 31, 2005. Should the average interest rate on the variable rate portion of long-term debt change by 100 basis points, it would have an approximate interest expense change of $0.5 million for the quarter reported.

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

Commodity price volatility

The Company is subject to commodity price fluctuations related to the portion of our sales of recyclable commodities that are not under floor or flat pricing arrangements. As of July 31, 2005, to minimize the Company’s commodity exposure, the Company was party to thirty-one commodity hedging agreements. If commodity prices were to have changed by 10% in the quarter ended July 31, 2005, the impact on the Company’s operating income is estimated at $0.8 million, without considering the Company’s hedging agreements. The effect of the hedge position would reduce the impact by approximately $0.2 million. The Company does not use financial instruments for trading purposes and is not a party to any leveraged derivatives.

ITEM 4. CONTROLS AND PROCEDURES

a) *Evaluation of disclosure controls and procedures***.** The Company’s management, with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of July 31, 2005. Based on this evaluation, the Company's chief executive officer and chief financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective to provide reasonable assurance that: (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms: and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

b) *Changes in internal controls.* During the period covered by this Quarterly Report on Form 10-Q, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) that have materially affected or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

The New Hampshire Superior Court in Grafton, NH ruled on February 1, 1999 that the Town of Bethlehem, NH could not enforce an ordinance purportedly prohibiting expansion of the Company's landfill subsidiary North Country Environmental Services, Inc. ("NCES"), 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 2001 ruling, the Town continued to assert jurisdiction to conduct unqualified site plan review with respect to Stage III and has further stated that the Town's height ordinance and building permit process may apply to Stage III. On September 12, 2001, the Company filed a petition for, among other things, declaratory relief. On December 4, 2001, the Town filed an answer to the Company's petition asserting counterclaims seeking, among other things, authorization to assert site plan review over Stage III, which commenced operation in December 2000, as well as the methane gas utilization/leachate handling facility operating in Stage III, and also an order declaring that an ordinance prohibiting landfills applies to Stage IV expansion. The trial related to the Town's jurisdiction was held in December 2002 and on April 24, 2003, the Grafton Superior Court upheld the Town's 1992 ordinance preventing the location or expansion of any landfill, ruling that the ordinance may be applied to any part of Stage IV that goes beyond the 51 acres; ruling that the Town's height ordinance is valid within the 51 acres; upholding the Town's right to require Site Plan Review, except that there are certain areas within the Town's Site Plan Review regulation that are preempted; and ruling that the methane gas utilization/leachate handling facility is not subject to the Town's ordinance forbidding incinerators. On May 27, 2003, NCES appealed the Court ruling to the New Hampshire Supreme Court. On March 1, 2004, the Supreme Court issued an opinion affirming that NCES has all of the local approvals that it needs to operate within the 51 acres. If successful in obtaining state permits for development and operation within the 51 acres, NCES expects to be able to provide from three to five years of disposal capacity. The Supreme Court's opinion left open for further review the question of whether the Town's 1992 ordinance can prevent expansion of the facility outside the 51 acres, remanding to the Superior Court two legal claims raised by NCES as grounds for invalidating the 1992 ordinance. An interlocutory appeal to the Supreme Court by NCES regarding a Superior Court judge's denial of a motion to recuse herself was denied on November 18, 2004. The parties have filed numerous motions for summary judgment before the trial court. On April 19, 2005, the Superior Court judge granted NCES' partial motion for summary judgment, ruling that the 1992 ordinance is invalid because it distinguishes between "users" of land rather than "uses" of land, and that the state statute preempts the Town's ability to issue a building permit for the methane gas utilization/leachate handling facility to the extent the Town's regulations relate to design, installation, construction, modification or operation. A remand trial will be scheduled for the remaining issues not resolved by summary judgment. Such unresolved issues include whether the Town can impose site plan review requirements outside the 51 acres, and whether the 1992 ordinance contravenes the general welfare of the community. Prior to the remand trial, the court held a mandatory mediation on August 12, 2005, which resulted in settlement discussions that remain ongoing.

On March 10, 2005, the Zoning Enforcement Officer (ZEO) for the Town of Hardwick, Massachusetts rendered an opinion that a portion of the current Phase II footprint of the Company's Hardwick Landfill is on land that is not properly zoned. On April 7, 2005, the Company appealed the opinion to the Hardwick

Zoning Board of Appeals (ZBA). On July 13, 2005, the ZBA denied the Company's appeal. On August 1, 2005, the Company appealed the ZBA's decision to the State's Land Court. The Company proposed a plan to implement an interim closure of the affected lot which included relocation of waste from an unlined area on a lot unaffected by the decision to the affected lot. The ZEO issued a letter prohibiting the Company from relocating waste onto the affected lot. The Company has appealled the ZEO decision to the ZBA. The Company hopes to enter into settlement discussions with the Town in an effort to settle all appeals. The Company and the Town executed a Host Community Agreement on June 7, 2005, which provides the Town with certain immediate benefits and will provide certain deferred benefits upon receipt of approvals for the rezoning of the existing landfill area and an expansion area, which the Company expects to apply for in the future.

On May 25, 2005, the Company was served with an antitrust summons by the Office of the Attorney General of the State of Maine pursuant to their investigation of whether the Company and the City of Lewiston have entered into an agreement to operate a municipal landfill in restraint of trade or commerce and whether such an agreement would constitute an acquisition of assets that may substantially lessen competition or tend to create a monopoly. The summons seeks the production of documents related to the Company's operations in the State of Maine. In July, 2005, the Maine Department of Environmental Protection (MEDEP) expressed additional concerns with the Operating Services Agreement related to whether or not it violates a Maine statute prohibiting the development of commercial landfills. The Company is negotiating with both the Attorney General's office and the MEDEP. The Company believes it has meritorious defenses to these claims.

On June 23, 2005, the Company was advised that the State's Attorney for Chittenden County, Vermont has initiated a formal investigation through the State's Inquest process to determine if there is any criminal culpability in connection with the fatality on January 28, 2005 of a driver of the Company's subsidiary All Cycle Waste, Inc. that occurred on the job when the driver's rear-loader trash truck rolled over him when he was behind it. The Company is cooperating with the investigation. On July 21, 2005, the Company settled with the Vermont Occupational Safety and Health Administration, which was conducting a separate investigation of potential safety violations, by agreeing to pay a penalty in the amount of $28,000 in connection with four alleged general duty clause violations in connection with the accident.

On July 12, 2005, NCES received notice from the Attorney General of the State of New Hampshire that it has commenced an official investigation into allegations that asbestos was delivered to the NCES landfill by a third party and disposed there on several occasions between 1999 and 2002. NCES is cooperating with the investigation.

The Company offers no prediction on the outcome of any of the proceedings to which it is subject. The Company is vigorously defending this lawsuit. However, there can be no guarantee the Company will prevail or that any judgments against the Company, if sustained on appeal, will not have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

SIGNATURE

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

Casella Waste Systems, Inc.

Date: September 9, 2005

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

Exhibit Index

10.1	Summary of compensation arrangements for non-employee directors.
31.1	Certification of John W. Casella, Chairman of the Board of Directors and Chief Executive Officer required by Rule 13a-14(a) or Rule 15(d)–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
31.2	Certification of Richard A. Norris, Senior Vice President and Chief Financial Officer required by Rule 13a-14(a) or Rule 15(d)–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. S 1350 of John W. Casella, Chairman of the Board of Directors and Chief Executive Officer, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. S 1350 of Richard A. Norris, Senior Vice President and Chief Financial Officer, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002.

EXHIBIT 10.1

Summary of Compensation Arrangements for Non-Employee Directors

The compensation payable to the non-employee directors for service on the board is as follows: (i) the annual retainer paid to each non-employee director for service on the Board of Directors is $25,000, (ii) the fee paid to each non-employee director for attendance at each meeting of the Board of Directors is $1,500; (iii) the fee paid to each non-employee director for attendance at each meeting of a committee of the Board of Directors is $1,000, (iv) the annual fee paid to each chairman of a committee of the Board is $3,000; and (iv) the additional annual retainer paid to the lead outside director is $75,000. Each non-employee director receives an option to purchase 7,500 shares of Class A common stock upon the non-employee director's initial election to the board of directors. In addition, each incumbent non-employee director receives an additional option to purchase 7,500 shares of Class A common stock at the time of each annual meeting of stockholders of the company, other than directors who were initially elected to the board of directors at an annual meeting or, if previously, at any time after the prior year's annual meeting of stockholders.

EXHIBIT 31.1

CERTIFICATIONS

I, John W. Casella, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Casella Waste Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2005

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

EXHIBIT 31.2

CERTIFICATIONS

I, Richard A. Norris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Casella Waste Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2005

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

EXHIBIT 32.1

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Casella Waste Systems, Inc. (the “Company”) for the period ended July 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, John W. Casella, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2005

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

EXHIBIT 32.2

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Casella Waste Systems, Inc. (the “Company”) for the period ended July 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Richard A. Norris, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2005

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