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 October 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 November 30, 2005:

Class A Common Stock	24,014,107
Class B Common Stock	988,200

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	April 30, 2005	October 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,578	$ 7,579
Restricted cash	70	71
Accounts receivable - trade, net of allowance for doubtful accounts of $707 and $764	51,726	57,832
Notes receivable - officers/employees	88	90
Refundable income taxes	874	—
Prepaid expenses	4,371	5,392
Inventory	2,538	2,912
Deferred income taxes	—	1,220
Other current assets	1,138	1,650
Total current assets	69,383	76,746
Property, plant and equipment, net of accumulated depreciation and amortization of $324,903 and $357,765	412,753	453,628
Goodwill	157,492	169,610
Intangible assets, net	2,711	3,308
Restricted cash	12,124	12,253
Notes receivable - officers/employees	916	916
Deferred income taxes	3,155	—
Investments in unconsolidated entities	37,699	37,691
Net assets under contractual obligation	1,392	1,369
Other non-current assets	14,829	14,285
	643,071	693,060
	$ 712,454	$ 769,806

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)

	April 30, 2005	October 31, 2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 281	$ 769
Current maturities of capital lease obligations	632	1,025
Accounts payable	46,107	43,700
Accrued payroll and related expenses	9,688	6,630
Accrued interest	4,818	7,166
Deferred income taxes	1,419	—
Current accrued capping, closure and post-closure costs	5,290	2,621
Other accrued liabilities	24,519	25,850
Total current liabilities	92,754	87,761
Long-term debt, less current maturities	378,436	425,479
Capital lease obligations, less current maturities	1,475	2,274
Accrued capping, closure and post-closure costs, less current portion	21,338	24,623
Deferred income taxes	—	3,374
Other long-term liabilities	11,705	11,428
COMMITMENTS AND CONTINGENCIES		
Series A redeemable, convertible preferred stock - Authorized - 55,750 shares, issued and outstanding - 53,750 and 53,000 shares as of April 30, 2005 and October 31, 2005, respectively, liquidation preference of $1,000 per share plus accrued but unpaid dividends	67,964	68,702
STOCKHOLDERS' EQUITY:		
Class A common stock - Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 23,860,000 and 24,014,000 shares as of April 30, 2005 and October 31, 2005, respectively	239	240
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	774
Additional paid-in capital	274,088	274,198
Accumulated deficit	(136,322)	(129,057)
Total stockholders' equity	138,782	146,165
	$ 712,454	$ 769,806

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 October 31, 2004	Three Months Ended October 31, 2005	Six Months Ended October 31, 2004	Six Months Ended October 31, 2005
Revenues	$ 126,381	$ 136,795	$ 250,053	$ 268,795
Operating expenses:				
Cost of operations	79,385	88,043	157,663	173,630
General and administration	16,370	18,132	31,885	35,350
Depreciation and amortization	17,575	16,914	34,798	33,047
Deferred costs	295	—	295	—
	113,625	123,089	224,641	242,027
Operating income	12,756	13,706	25,412	26,768
Other expense/(income), net:				
Interest income	(112)	(184)	(170)	(350)
Interest expense	7,352	8,005	14,497	15,522
Income from equity method investment	(994)	(1,513)	(927)	(1,443)
Other (income)/expense	220	(133)	751	(83)
Other expense, net	6,466	6,175	14,151	13,646
Income from continuing operations before income taxes and discontinued operations	6,290	7,531	11,261	13,122
Provision for income taxes	2,805	3,374	5,014	5,857
Income from continuing operations before discontinued operations	3,485	4,157	6,247	7,265
Discontinued Operations:				
Income from discontinued operations (net of income taxes of $40 and $96)	59	—	140	—
Loss on disposal of discontinued operations (net of income taxes of $645)	(150)	—	(150)	—
Net income	3,394	4,157	6,237	7,265
Preferred stock dividend	832	854	1,670	1,704
Net income available to common stockholders	$ 2,562	$ 3,303	$ 4,567	$ 5,561

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 October 31, 2004	Three Months Ended October 31, 2005	Six Months Ended October 31, 2004	Six Months Ended October 31, 2005
Earnings Per Share:				
Basic:				
Income from continuing operations before discontinued operations available to common stockholders	$ 0.11	$ 0.13	$ 0.19	$ 0.22
Income from discontinued operations, net	—	—	0.01	—
Loss on disposal of discontinued operations, net	(0.01)	—	(0.01)	—
Net income per common share available to common stockholders	$ 0.10	$ 0.13	$ 0.19	$ 0.22
Basic weighted average common shares outstanding	24,614	24,925	24,553	24,889
Diluted:				
Income from continuing operations before discontinued operations available to common stockholders	$ 0.11	$ 0.13	$ 0.18	$ 0.22
Income from discontinued operations, net	—	—	0.01	—
Loss on disposal of discontinued operations, net	(0.01)	—	(0.01)	—
Net income per common share available to common stockholders	$ 0.10	$ 0.13	$ 0.18	$ 0.22
Diluted weighted average common shares outstanding	25,003	25,358	25,040	25,277

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

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

	Six Months Ended October 31, 2004	Six Months Ended October 31, 2005
Cash Flows from Operating Activities:		
Net income	$ 6,237	$ 7,265
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	34,798	33,047
Depletion of landfill operating lease obligations	2,588	2,974
Loss on disposal of discontinued operations, net	150	—
Income from equity method investment	(927)	(1,443)
Deferred costs	295	—
Loss on sale of equipment	113	41
Deferred income taxes	3,701	3,993
Changes in assets and liabilities, net of effects of acquisitions and divestitures -	(5,112)	(5,735)
Accounts receivable		
Accounts payable	93	(2,820)
Other assets and liabilities	(6,090)	(718)
	29,609	29,339
Net Cash Provided by Operating Activities	35,846	36,604
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(5,040)	(15,507)
Additions to property, plant and equipment - growth	(10,289)	(25,878)
- maintenance	(32,144)	(39,021)
Payments on landfill operating lease contracts	(17,326)	(5,869)
Proceeds from divestitures	3,050	—
Proceeds from sale of equipment	887	762
Proceeds from assets under contractual obligation	659	429
Net Cash Used In Investing Activities	(60,203)	(85,084)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	83,950	111,672
Principal payments on long-term debt	(63,052)	(64,807)
Proceeds from exercise of stock options	224	616
Net Cash Provided by Financing Activities	21,122	47,481
Net decrease in cash and cash equivalents	(3,235)	(999)
Cash and cash equivalents, beginning of period	8,007	8,578
Cash and cash equivalents, end of period	$ 4,772	$ 7,579

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)

	Six Months Ended October 31,			
	2004		2005	
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for -				
Interest	$	13,940	$	12,823
Income taxes, net of refunds	$	709	$	1,059
Supplemental Disclosures of Non-Cash Investing and Financing Activities:				
Summary of entities acquired in purchase business combinations -				
Fair value of net assets acquired	$	5,698	$	17,482
Cash paid, net		(5,040)		(15,507)
Liabilities assumed and holdbacks to seller	$	658	$	1,975

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 October 31, 2005, the consolidated statements of operations for the three and six months ended October 31, 2004 and 2005 and the consolidated statements of cash flows for the six months ended October 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 and six months ended October 31, 2005 may not be indicative of the results that may be expected for the fiscal year ending April 30, 2006.

2. RECLASSIFICATIONS

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 and six months ended October 31, 2004 has been revised to reflect changes in the Company's segment classifications.

3. BUSINESS COMBINATIONS

On September 19, 2005 the Company acquired the entire membership interest in Blue Mountain Recycling, LLC which has two single-stream recycling facilities in Philadelphia and Montgomeryville, Pennsylvania and a small recyclable material transfer station in Upper Dublin, Pennsylvania. Blue Mountain also has a processing agreement with RecycleBank LLC, an incentive-based recycling service that gives homeowners credits for recycling which can be used with participating merchants. The Company acquired Blue Mountain for $15,286 including $13,428 in cash and $1,858 in capital leases and other debt assumed. The acquisition of Blue Mountain includes contingent consideration based on the attainment of Blue Mountain's future operating results and the free cash flow generated from the RecycleBank processing agreement. Future consideration will be allocated to goodwill as contingencies are met. On a preliminary basis, the Company has allocated the purchase price to the tangible and intangible assets acquired, with the residual amount allocated to goodwill. The Company has not yet finalized the Blue Mountain purchase price allocation as the valuations of certain tangible and intangible assets are not yet complete. The Company does not believe that the final purchase price allocation will materially impact the operating results reflected herein.

During the six months ended October 31, 2005, the Company also acquired seven solid waste hauling operations and recorded additional expenditures for a landfill closure project acquired in the fourth quarter of fiscal year 2005. These transactions were in exchange for total consideration of $2,196 including $2,079 in cash and $117 in other liabilities assumed. During the six months ended October 31, 2004, the Company acquired six solid waste hauling operations. These transactions were in exchange for total consideration of $5,540 including $5,040 in cash and $500 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 six months ended October 31, 2004 and 2005 had been completed as of May 1, 2004.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2004	2005	2004	2005
Revenue	$ 129,076	$ 138,168	$ 255,672	$ 273,054
Income from continuing operations before discontinued operations	$ 3,613	$ 4,193	$ 6,621	$ 7,408
Net income	$ 3,522	$ 4,193	$ 6,611	$ 7,408
Diluted net income per common share	$ 0.11	$ 0.13	$ 0.20	$ 0.23

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.

In late September 2005 the Company commenced operations at the Chemung County Landfill, after executing a twenty-five year operation, management and lease agreement with Chemung County, New York. The landfill is permitted to accept 120 tons per year of municipal solid waste. The Company has also assumed operations of the solid waste transfer station and recycling facility. The Company made initial payments of $4,931 related to this transaction.

4. GOODWILL AND INTANGIBLE ASSETS

The following table shows the activity and balances related to goodwill from April 30, 2005 through October 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	—	—	393	857	10,947	12,197
Divestitures	—	—	(79)	—	—	(79)
Balance, October 31, 2005	$ 25,340	$ 31,645	$ 30,472	$ 54,307	$ 27,846	$ 169,610

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

	Covenants not to compete	Customer lists	Licensing Agreements	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, October 31, 2005				
Intangible assets	$ 16,476	$ 688	$ 1,000	$ 18,164
Less accumulated amortization	(14,205)	(651)	—	(14,856)
	$ 2,271	$ 37	$ 1,000	$ 3,308

Amortization expense for the three months ended October 31, 2004 and 2005 was $385 and $326, respectively. Amortization expense for the six months ended October 31, 2004 and 2005 was $786 and $649, respectively. The intangible amortization expense estimated as of October 31, 2005, for the five years following 2005 is as follows:

2006	2007	2008	2009	2010
$ 1,307	$ 839	$ 560	$ 328	$ 216

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.

On March 2, 2005, the Company's subsidiary Casella Waste Management of Pennsylvania, Inc. ("CWMPA") was issued an Administrative Order by the Pennsylvania Department of Environmental Protection ("DEP") revoking CWMPA's transfer station permit for its 75-ton-per-day transfer station located in Wellsboro, Pennsylvania and ordering that the site be closed. The DEP based its decision on certain alleged violations related to recordkeeping and site management over a five-year period. On March 10, 2005, CWMPA appealed the Order to the State's Environmental Hearing Board ("EHB"). The Pennsylvania Attorney General's Office is also conducting a criminal investigation of the allegations. On March 17, 2005, CWMPA and the DEP mutually agreed to a Supersedeas Order approved by the EHB which superseded the

March 2, 2005 DEP Order, stating that CWMPA agreed to (i) voluntarily cease operations at the transfer station until May 16, 2005; (ii) relocate its hauling company before May 16, 2005; and (iii) develop a Management and Operation Plan for the transfer station by May 16, 2005. On May 17, 2005, the EHB judge extended the Supersedeas Order until June 10, 2005 and authorized the transfer station to resume operations upon completion of the relocation of the hauling company and receipt of a permit modification related to the weighing of bag waste from individual customers. CWMPA satisfied the conditions and recommenced operations at the transfer station on May 20, 2005. On June 9, 2005, CWMPA and the DEP filed a stipulation with the EHB withdrawing and voiding the March 2, 2005 Order revoking the permit, while reserving the DEP's right to seek civil penalties and the Company's right to defend against any such penalties. The Company is currently engaged in settlement negotiations with the DEP and discussions with the Attorney General's office regarding their investigation. However, at this stage it is impossible to predict whether a settlement with the DEP and closure of the Attorney General's investigation will be reached.

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 appealed the ZEO decision to the ZBA and the ZBA denied the appeal on November 29, 2005. The Company intends to appeal the ZBA decision to the Land Court and have it consolidated with the other appeal filed with the Land Court. On October 25, 2005, the Town voted to approve new general bylaw articles which, among other things, prohibit the use of construction and demolition debris as grading, shaping or closure materials. Such articles may have an adverse impact on the Company's ability to relocate some or all of the waste onto the affected lot. The articles have been forwarded to the Attorney General for approval. The Company will petition the Attorney General to disapprove the articles because they are inconsistent with the state statutory provisions concerning solid waste disposal facilities. 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 March 14, 2005, the Company and the Company's subsidiary New England Waste Services of ME, Inc. ("NEWSME") were served with a complaint filed by the Environmental Exchange in the State of Maine Superior Court alleging restraint of trade, and conspiracy to monopolize trade. The plaintiff claims that the Company's ownership of NEWSME, which in turn owns the New England Organics line of business and the Pine Tree Landfill, allegedly enabled NEWSME to obtain favorable tipping fees at Pine Tree Landfill thereby excluding the plaintiff from competitively bidding on a contract with Indeck Maine Energy LLC to haul and dispose of fly ash. Plaintiff alleges that the Company and NEWSME lessened competition and monopolized trade. On April 4, 2005, the Company and NEWSME filed a motion to dismiss. Subsequently, the plaintiff filed a motion to amend its complaint to allege a count of conspiracy to monopolize and a count of attempting to monopolize. On October 24, 2005 the Court granted plaintiff's motion to amend but dismissed the conspiracy to monopolize count, leaving only the attempt to monopolize count. The Company believes it has meritorious defenses to this claim.

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 its 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 sought 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. On October 12, 2005, the Office of the Attorney General rendered its decision that the proposed transaction violates the ban on commercial landfills because of the Attorney General's belief that the overall effect of the contract constitutes a transfer of meaningful control from the City of Lewiston to the Company. The transaction is on hold pending review of the Attorney General's decision.

On December 2, 2005, the Company was served with a petition filed in the Supreme Court of the State of New York by a group of approximately 100 residents of Chemung County, New York seeking to vacate and set aside the Operating, Management and Lease Agreement between Chemung County and the Company pertaining to the Company's operation of the Chemung County Landfill; the Host Community Benefit Agreement between the Town of Chemung and the Company; as well as certain resolutions adopted by the County and the Town authorizing such transactions. The Company believes that it has meritorious defenses to these claims.

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 October 31,		Six Months Ended October 31,	
	2004	2005	2004	2005
Numerator:				
Income from continuing operations before discontinued operations	$ 3,485	$ 4,157	$ 6,247	$ 7,265
Less: preferred stock dividends	(832)	(854)	(1,670)	(1,704)
Income from continuing operations before discontinued operations available to common stockholders	$ 2,653	$ 3,303	$ 4,577	$ 5,561
Denominator:				
Number of shares outstanding, end of period:				
Class A common stock	23,707	24,014	23,707	24,014
Class B common stock	988	988	988	988
Effect of weighted average shares outstanding during period	(81)	(77)	(142)	(113)
Weighted average number of common shares used in basic EPS	24,614	24,925	24,553	24,889
Impact of potentially dilutive securities:				
Dilutive effect of options and contingent stock	389	433	487	388
Weighted average number of common shares used in diluted EPS	25,003	25,358	25,040	25,277

For the three and six months ended October 31, 2004, 6,951 and 6,456 common stock equivalents related to options and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

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

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 and six months ended October 31, 2004 and 2005 is as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2004	2005	2004	2005
Net income	$ 3,394	$ 4,157	$ 6,237	$ 7,265
Other comprehensive income (loss)	(76)	34	33	7
Comprehensive income	$ 3,318	$ 4,191	$ 6,270	$ 7,272

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

	Three Months Ended October 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	$ —	$ —	$ —	$ (37)	$ (13)	$ (24)
Change in fair value of interest rate swaps and commodity hedges during period	(130)	(54)	(76)	325	132	193
Reclassification to earnings for interest rate swap contracts	—	—	—	(135)	—	(135)
	$ (130)	$ (54)	$ (76)	$ 153	$ 119	$ 34

	Six Months Ended October 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	$ —	$ —	$ —	$ (86)	$ (30)	$ (56)
Change in fair value of interest rate swaps and commodity hedges during period	57	24	33	552	217	335
Reclassification to earnings for interest rate swap contracts	—	—	—	(272)	—	(272)
	$ 57	$ 24	$ 33	$ 194	$ 187	$ 7

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 twenty-one commodity hedge contracts as of October 31, 2005. These contracts expire between May 2006 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 October 31, 2005 the fair value of these hedges was $13, with the net amount (net of taxes of $5) recorded as an unrealized gain 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 October 31, 2005, the fair value of these swaps was $491, with the net amount (net of taxes of $199) 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 six months ended October 31, 2004 and 2005.

	Six Months Ended October 31, 2004	Six Months Ended October 31, 2005
Risk free interest rate	3.39% - 3.97%	3.63% - 4.23%
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 October 31,		Six Months Ended October 31,	
	2004	2005	2004	2005
Net income available to common stockholders, as reported	$ 2,562	$ 3,303	$ 4,567	$ 5,561
Deduct: Total stock-based compensation expense determined under fair value based method, net	461	687	837	992
Net income available to common stockholders, pro forma	$ 2,101	$ 2,616	$ 3,730	$ 4,569
Basic income per common share:				
As reported	$ 0.10	$ 0.13	$ 0.19	$ 0.22
Pro forma	$ 0.09	$ 0.10	$ 0.15	$ 0.18
Diluted income per common share:				
As reported	$ 0.10	$ 0.13	$ 0.18	$ 0.22
Pro forma	$ 0.08	$ 0.10	$ 0.15	$ 0.18

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 and six months ended October 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 October 31, 2004 (1)	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 23,796	$ 24,608	$ 29,143	$ 24,703	$ 20,246
Depreciation and amortization	4,768	4,155	3,863	3,402	914
Operating income	2,497	(1,721)	5,336	3,794	3,269
Total assets	$ 172,022	$ 136,680	$ 122,213	$ 146,976	$ 55,112

Three Months Ended October 31, 2004 (1)	Other	Total
Outside revenues	$ 3,885	$ 126,381
Depreciation and amortization	473	17,575
Operating income	(419)	12,756
Total assets	$ 67,944	$ 700,947

Three Months Ended October 31, 2005	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 28,065	$ 23,925	$ 31,239	$ 26,817	$ 22,138
Depreciation and amortization	4,687	3,206	4,068	3,369	1,126
Operating income	2,702	484	5,199	3,041	2,845
Total assets	$ 180,783	$ 142,616	$ 134,196	$ 161,060	$ 86,501

Three Months Ended October 31, 2005	Other	Total
Outside revenues	$ 4,611	$ 136,795
Depreciation and amortization	458	16,914
Operating income	(565)	13,706
Total assets	$ 64,650	$ 769,806

Six Months Ended October 31, 2004 (1)	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 47,211	$ 48,489	$ 57,835	$ 48,682	$ 39,845
Depreciation and amortization	9,810	8,198	7,409	6,568	1,839
Operating income	3,500	(2,343)	11,260	7,612	6,108
Total assets	$ 172,022	$ 136,680	$ 122,213	$ 146,976	$ 55,112

Six Months Ended October 31, 2004 (1)	Other	Total
Outside revenues	$ 7,991	$ 250,053
Depreciation and amortization	974	34,798
Operating income	(725)	25,412
Total assets	$ 67,944	$ 700,947

Six Months Ended October 31, 2005	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 55,661	$ 48,322	$ 60,750	$ 52,339	$ 42,637
Depreciation and amortization	9,427	6,116	7,813	6,586	2,215
Operating income	4,568	1,006	9,881	6,421	5,850
Total assets	$ 180,783	$ 142,616	$ 134,196	$ 161,060	$ 86,501

Six Months Ended October 31, 2005	Other	Total
Outside revenues	$ 9,086	$ 268,795
Depreciation and amortization	890	33,047
Operating income	(958)	26,768
Total assets	$ 64,650	$ 769,806

(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 and six months ended October 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 October 31,		Six Months Ended October 31,	
	2004 (1)	2005	2004 (1)	2005
Collection	$ 62,156	$ 66,152	$ 123,846	$ 131,419
Landfill/disposal facilities	22,091	26,498	42,525	49,761
Transfer	11,520	11,913	23,116	23,562
Recycling	30,614	32,232	60,566	64,053
Total revenues	$ 126,381	$ 136,795	$ 250,053	$ 268,795

(1) Revenue attributable to services provided for the three and six months ended October 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.

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

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

Net assets under contractual obligation amounted to $1,392 and $1,369 at April 30, 2005 and October 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 Parent is the issuer and non-guarantor of the senior subordinated notes. The information which follows presents the condensed consolidating financial position as of April 30, 2005 and October 31, 2005, and the condensed consolidating results of operations for the three and six months ended October 31, 2004 and 2005 and the condensed consolidating statements of cash flows for the six months ended October 31, 2004 and 2005 of (a) the Parent company only, (b) the combined guarantors ("the Guarantors"), each of which is 100% wholly-owned by the Parent, (c) the combined non-guarantors ("the Non-Guarantors"), (d) eliminating entries and (e) the Company on a consolidated basis.

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

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
ASSETS					
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

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
LIABILITIES AND STOCKHOLDERS' EQUITY					
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 OCTOBER 31, 2005
(Unaudited)
(In thousands, except for share and per share data)

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (3,352)	$ 10,130	$ 801	$ —	$ 7,579
Accounts receivable - trade, net of allowance for doubtful accounts	75	58,207	1,071	(1,521)	57,832
Deferred taxes	350	—	870	—	1,220
Other current assets	2,104	8,011	—	—	10,115
Total current assets	(823)	76,348	2,742	(1,521)	76,746
Property, plant and equipment, net of accumulated depreciation and amortization	2,693	451,970	(1,035)	—	453,628
Goodwill	—	169,610	—	—	169,610
Investment in subsidiaries	(3,755)	—	—	3,755	—
Other non-current assets	24,800	37,031	12,370	(4,379)	69,822
	23,738	658,611	11,335	(624)	693,060
Intercompany receivable	636,579	(639,254)	(1,704)	4,379	—
	$ 659,494	$ 95,705	$ 12,373	$ 2,234	$ 769,806

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Current maturities of capital lease obligations	$ 118	$ 907	$ —	$ —	$ 1,025
Accounts payable	2,573	42,510	138	(1,521)	43,700
Accrued payroll and related expenses	1,525	5,089	16	—	6,630
Accrued interest	7,164	2	—	—	7,166
Accrued closure and post-closure costs, current portion	—	2,957	(336)	—	2,621
Other current liabilities	3,299	9,639	13,681	—	26,619
Total current liabilities	14,679	61,104	13,499	(1,521)	87,761
Long-term debt, less current maturities	425,197	282	—	—	425,479
Capital lease obligations, less current maturities	187	2,087	—	—	2,274
Deferred income taxes	3,374	—	—	—	3,374
Other long-term liabilities	1,190	31,177	3,684	—	36,051
COMMITMENTS AND CONTINGENCIES					
Series A redeemable, convertible preferred stock, authorized - 55,750, issued and outstanding - 53,000 liquidation preference of $1,000 per share plus accrued but unpaid dividends	68,702	—	—	—	68,702
STOCKHOLDERS' EQUITY:					
Class A common stock - Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 24,014,000 shares	240	101	100	(201)	240
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	774	415	(109)	(306)	774
Additional paid-in capital	274,198	48,616	2,596	(51,212)	274,198
Accumulated deficit	(129,057)	(48,077)	(7,397)	55,474	(129,057)
Total stockholders' equity	146,165	1,055	(4,810)	3,755	146,165
	$ 659,494	$ 95,705	$ 12,373	$ 2,234	$ 769,806

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

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
Revenues	$ —	$ 125,619	$ 4,164	$ (3,402)	$ 126,381
Operating expenses:					
Cost of operations	(195)	80,007	2,975	(3,402)	79,385
General and administration	207	15,872	291	—	16,370
Depreciation and amortization	415	15,203	1,957	—	17,575
Impairment charge	—	295	—	—	295
	427	111,377	5,223	(3,402)	113,625
Operating income (loss)	(427)	14,242	(1,059)	—	12,756
Other expense/(income), net:					
Interest income	—	(7,247)	(92)	7,227	(112)
Interest expense	463	14,080	36	(7,227)	7,352
(Income) loss from equity method investments	(7,099)	(994)	—	7,099	(994)
Other expense, net:	38	181	1	—	220
Other expense/(income), net	(6,598)	6,020	(55)	7,099	6,466
Income (loss) from continuing operations before income taxes and discontinued operations	6,171	8,222	(1,004)	(7,099)	6,290
Provision for income taxes	2,777	—	28	—	2,805
Income (loss) from continuing operations before discontinued operations	3,394	8,222	(1,032)	(7,099)	3,485
Discontinued operations:					
Income from discontinued operations, net	—	59	—	—	59
Loss on disposal of discontinued operations, net	—	(150)	—	—	(150)
Net income (loss)	3,394	8,131	(1,032)	(7,099)	3,394
Preferred stock dividend	832	—	—	—	832
Net income (loss) available to common stockholders	$ 2,562	$ 8,131	$ (1,032)	$ (7,099)	$ 2,562

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

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
Revenues	$ —	$ 135,971	$ 3,093	$ (2,269)	$ 136,795
Operating expenses:					
Cost of operations	3	87,776	2,533	(2,269)	88,043
General and administration	(18)	17,988	162	—	18,132
Depreciation and amortization	396	16,416	102	—	16,914
	381	122,180	2,797	(2,269)	123,089
Operating income (loss)	(381)	13,791	296	—	13,706
Other expense/(income), net:					
Interest income	(7,392)	(63)	(114)	7,385	(184)
Interest expense	8,665	6,714	11	(7,385)	8,005
Income (loss) from equity method investments	(9,146)	(1,513)	—	9,146	(1,513)
Other expense/(income), net:	(28)	(105)	—	—	(133)
Other expense/(income), net	(7,901)	5,033	(103)	9,146	6,175
Income (loss) before income taxes	7,520	8,758	399	(9,146)	7,531
Provision for income taxes	3,363	—	11	—	3,374
Net income (loss)	4,157	8,758	388	(9,146)	4,157
Preferred stock dividend	854	—	—	—	854
Net income (loss) available to common stockholders	$ 3,303	$ 8,758	$ 388	$ (9,146)	$ 3,303

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

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
Revenues	$ —	$ 248,260	$ 8,038	$ (6,245)	$ 250,053
Operating expenses:					
Cost of operations	(98)	158,112	5,894	(6,245)	157,663
General and administration	34	31,306	545	—	31,885
Depreciation and amortization	856	30,189	3,753	—	34,798
Impairment charge	—	295	—	—	295
	792	219,902	10,192	(6,245)	224,641
Operating income (loss)	(792)	28,358	(2,154)	-	25,412
Other expense/(income), net:					
Interest income	(4)	(14,245)	(131)	14,210	(170)
Interest expense	836	27,797	74	(14,210)	14,497
(Income) loss from equity method investments	(12,900)	(927)	—	12,900	(927)
Other expense/(income), net:	64	689	(2)	—	751
Other expense/(income), net	(12,004)	13,314	(59)	12,900	14,151
Income (loss) from continuing operations before income taxes and discontinued operations	11,212	15,044	(2,095)	(12,900)	11,261
Provision for income taxes	4,975	—	39	—	5,014
Income (loss) from continuing operations before discontinued operations	6,237	15,044	(2,134)	(12,900)	6,247
Discontinued operations:					
Income from discontinued operations, net	—	140	—	—	140
Loss on disposal of discontinued operations, net	—	(150)	—	—	(150)
Net income (loss)	6,237	15,034	(2,134)	(12,900)	6,237
Preferred stock dividend	1,670	—	—	—	1,670
Net income (loss) available to common stockholders	$ 4,567	$ 15,034	$ (2,134)	$ (12,900)	$ 4,567

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

	Parent	Guarantors	Non - Guarantors	Elimination	Consolidated
Revenues	$ —	$ 267,083	$ 6,166	$ (4,454)	$ 268,795
Operating expenses:					
Cost of operations	6	172,973	5,105	(4,454)	173,630
General and administration	(102)	35,039	413	—	35,350
Depreciation and amortization	766	32,059	222	—	33,047
	670	240,071	5,740	(4,454)	242,027
Operating income (loss)	(670)	27,012	426	—	26,768
Other expense/(income), net:					
Interest income	(15,003)	(123)	(219)	14,995	(350)
Interest expense	16,595	13,887	35	(14,995)	15,522
Loss (income) from equity method investments	(15,323)	(1,443)	—	15,323	(1,443)
Other expense/(income), net:	(43)	(40)	—	—	(83)
Other expense/(income), net	(13,774)	12,281	(184)	15,323	13,646
Income (loss) before income taxes	13,104	14,731	610	(15,323)	13,122
Provision for income taxes	5,839	—	18	—	5,857
Net income (loss)	7,265	14,731	592	(15,323)	7,265
Preferred stock dividend	1,704	—	—	—	1,704
Net income (loss) available to common stockholders	$ 5,561	$ 14,731	$ 592	$ (15,323)	$ 5,561

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ 32	$ 33,686	$ 2,128	$ —	$ 35,846
Cash Flows from Investing Activities:					
Acquisitions, net of cash acquired	—	(5,040)	—	—	(5,040)
Additions to property, plant and equipment	(907)	(39,758)	(1,768)	—	(42,433)
Payments on landfill operating lease contracts	—	(17,326)	—	—	(17,326)
Proceeds from divestitures	—	3,050	—	—	3,050
Other	—	1,546	—	—	1,546
Net Cash Used In Investing Activities	(907)	(57,528)	(1,768)	—	(60,203)
Cash Flows from Financing Activities:				—	
Proceeds from long-term borrowings	83,950	—	—	—	83,950
Principal payments on long-term debt	(60,833)	(1,564)	(655)	—	(63,052)
Proceeds from exercise of stock options	224	—	—	—	224
Intercompany borrowings	(31,717)	31,467	250	—	—
Net Cash Provided by (Used in) Financing Activities	(8,376)	29,903	(405)	—	21,122
Net (decrease) increase in cash and cash equivalents	(9,251)	6,061	(45)	—	(3,235)
Cash and cash equivalents, beginning of period	7,805	(196)	398	—	8,007
Cash and cash equivalents, end of period	$ (1,446)	$ 5,865	$ 353	$ —	$ 4,772

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

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ (208)	$ 35,362	$ 1,450	$ —	$ 36,604
Cash Flows from Investing Activities:					
Acquisitions, net of cash acquired	—	(15,507)	—	—	(15,507)
Additions to property, plant and equipment	(528)	(63,975)	(396)	—	(64,899)
Payments on landfill operating lease contracts	—	(5,869)	—	—	(5,869)
Other	—	1,191	—	—	1,191
Net Cash Used In Investing Activities	(528)	(84,160)	(396)	—	(85,084)
Cash Flows from Financing Activities:				—	
Proceeds from long-term borrowings	111,672	—	—	—	111,672
Principal payments on long-term debt	(64,258)	(549)	—	—	(64,807)
Proceeds from exercise of stock options	616	—	—	—	616
Intercompany borrowings	(48,263)	49,331	(1,068)	—	—
Net Cash Provided by (Used in) Financing Activities	(233)	48,782	(1,068)	—	47,481
Net decrease in cash and cash equivalents	(969)	(16)	(14)	—	(999)
Cash and cash equivalents, beginning of period	(2,383)	10,146	815	—	8,578
Cash and cash equivalents, end of period	$ (3,352)	$ 10,130	$ 801	$ —	$ 7,579

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 November 30, 2005, the Company owned and/or operated nine Subtitle D landfills, two landfills permitted to accept construction and demolition materials, 40 solid waste collection operations, 36 transfer stations, 39 recycling facilities and one waste-to-energy facility, as well as a 50% interest in a joint venture that manufactures, markets and sells cellulose insulation made from recycled fiber.

The Company's revenues increased from $126.4 million for the quarter ended October 31, 2004 to $136.8 million for the quarter ended October 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 October 31, 2005 the Company acquired seven solid waste hauling and one recycling operation. 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. In late September 2005 the Company commenced operations at the Chemung County Landfill, after executing a twenty-five year operation, management and lease agreement with Chemung County, New York. The landfill is permitted to accept 120,000 tons per year of municipal solid waste. The Company has also assumed operations of the solid waste transfer station and recycling facility. The Company made initial payments of $4.9 million related to this transaction.

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 collection and disposal, 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 and six months ended October 31, 2005 were lower compared to the prior year, mainly because of the increase in landfill revenue dollars, despite an increase in the absolute dollar amounts. Higher volumes and prices drove collection revenue increases in the North Eastern and South Eastern regions. Landfill/disposal revenues as a percentage of total revenues increased in the three and six months ended October 31, 2005 due to higher landfill volumes and prices in the North Eastern and Western regions as well as the addition of a new closure project in the South Eastern region. Recycling revenues as a percentage of total revenue in the three and six months ended October 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 and commodity pricing as well as acquisition activity in the FCR region.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2004 (1)	2005	2004 (1)	2005
Collection	49.2%	48.4%	49.5%	48.9%
Landfill/disposal facilities	17.5	19.4	17.0	18.5
Transfer	9.1	8.7	9.3	8.8
Recycling	24.2	23.5	24.2	23.8
Total revenues	100.0%	100.0%	100.0%	100.0%

(1) Percentage of revenues attributable to services provided for the three and six months ended October 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 owned or operated 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 October 31,		Six Months Ended October 31,	
	2004	2005	2004	2005
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of operations	62.8	64.4	63.1	64.6
General and administration	13.0	13.2	12.8	13.1
Depreciation and amortization	13.9	12.4	13.9	12.3
Deferred costs	0.2	—	0.1	—
Operating income	10.1	10.0	10.1	10.0
Interest expense, net	5.7	5.7	5.7	5.6
Income from equity method investment	(0.8)	(1.1)	(0.4)	(0.5)
Other expense/(income), net	0.2	(0.1)	0.3	0.0
Provision for income taxes	2.2	2.5	2.0	2.2
Income from continuing operations before discontinued operations	2.8%	3.0%	2.5%	2.7%

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

Revenues. Revenues increased $10.4 million, or 8.2% to $136.8 million in the quarter ended October 31, 2005 from $126.4 million in the quarter ended October 31, 2004. Revenues from the rollover effect of acquired businesses accounted for $4.0 million of the increase, including tuck-in hauling acquisitions in the Central and Western regions, a newly acquired landfill closure project in the South Eastern region, the acquisition of three recycling facilities in the FCR region and a new contract to operate a landfill, transfer and recycling facility in the Western region. The effect of acquisitions was partially offset by $0.5 million in the quarter as a result of the transfer of a Canadian recycling operation The revenue increase is also attributable to an increase in solid waste revenues of $5.8 million, due to higher prices and landfill volumes in the North Eastern and Western regions. FCR revenue increased $1.1 million in the quarter ended October 31, 2005 compared to the quarter ended October 31, 2004 due to increases in volume and commodity pricing.

Cost of operations. Cost of operations increased $8.6 million, or 10.8% to $88.0 million in the quarter ended October 31, 2005 from $79.4 million in the quarter ended October 31, 2004. As a percentage of revenues, cost of operations increased to 64.4% in the quarter ended October 31, 2005 compared to 62.8% 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 10.4% to $18.1 million in the quarter ended October 31, 2005 from $16.4 million in the quarter ended October 31, 2004, and increased as a percentage of revenues to 13.2% in the quarter ended October 31, 2005 from 13.0% in the prior year comparable period. The dollar and percentage increase in general and administration expense was due to higher compensation cost, as well as higher legal and consulting costs associated with software development.

Depreciation and amortization. Depreciation and amortization expense decreased $0.7 million, or 4.0%, to $16.9 million in the quarter ended October 31, 2005 from $17.6 million in the quarter ended October 31, 2004. Depreciation expense was up $0.5 million between periods and landfill amortization expense decreased $1.2 million primarily due to lower volumes in the South Eastern region resulting from the Brockton project approaching completion amounting to a $1.9 million decrease offset by $0.9 million associated with the startup of the Worcester closure project. For the same reason, depreciation and amortization expense as a percentage of revenue decreased as a percentage of revenue to 12.4% for the quarter ended October 31, 2005 from 13.9% in the quarter ended October 31, 2004.

Operating income. Operating income increased $1.0 million, or 7.9 %, to $13.7 million in the quarter ended October 31, 2005 from $12.7 million in the quarter ended October 31, 2004 and decreased slightly as a percentage of revenues to 10.0% in the quarter ended October 31, 2005. Higher revenues were partially offset by higher operating costs as described above. The South Eastern region's operating income increased in the quarter ended October 31, 2005 compared to the quarter ended October 31, 2004 due primarily to higher collection volumes and pricing as well as lower landfill amortization as mentioned above. The Western region's operating income decreased in the quarter ended October 31, 2005 compared to the quarter ended October 31, 2004 due primarily to higher operating costs. The FCR region's operating income decreased in the quarter ended October 31, 2005 compared to the quarter ended October 31, 2004 due to higher operating costs and the effect of the divestiture of a Canadian recycling operation.

Interest expense, net. Net interest expense increased $0.6 million, or 8.3% to $7.8 million in the quarter ended October 31, 2005 from $7.2 million in the quarter ended October 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, remained consistent at 5.7% for the quarters ended October 31, 2005 and 2004.

Income from equity method investment. The income from equity method investment of $1.5 million and $1.0 million for the quarters ended October 31, 2005 and 2004, respectively, was solely from the Company's 50% joint venture interest in US GreenFiber ("GreenFiber").

Other expense, net. Other income in the quarter ended October 31, 2005 was $0.1 million compared to other expense of $0.2 million in the quarter ended October 31, 2004. Other income in the quarter ended October 31, 2005 consisted primarily of gains on the sale of equipment. Other expense in the quarter ended October 31, 2004 consisted of the cost of winding down the operations of the New Heights power plant, partially offset by gains on the sale of equipment.

Provision for income taxes. Provision for income taxes increased $0.6 million to $3.4 million for the quarter ended October 31, 2005 from $2.8 million for the quarter ended October 31, 2004. The effective tax rate remained largely unchanged, increasing to 44.8% in the three months ended October 31, 2005 from 44.6% in the three months ended October 31, 2004.

Income from continuing operations before discontinued operations. Income from continuing operations before discontinued operations increased $0.7 million, or 20.0 % to $4.2 million for the quarter ended October 31, 2005 from $3.5 million in the quarter ended October 31, 2004. Higher operating income and income from equity method investment along with lower other expenses were offset by higher interest expense in the current fiscal quarter compared to the prior year period.

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 October 31, 2004.

Six Months Ended October 31, 2005 versus October 31, 2004

Revenues. Revenues increased $18.7 million, or 7.5% to $268.8 million in the six months ended October 31, 2005 from $250.1 million in the six months ended October 31, 2004. Revenues from the rollover effect of acquired businesses accounted for $5.8 million of the increase, including tuck-in hauling acquisitions in the Central and Western regions, a newly acquired landfill closure project in the South Eastern region, the acquisition of three recycling facilities in the FCR region and a new contract to operate a landfill and transfer station in the Western region. The effect of acquisitions was partially offset by $0.5 million in the second fiscal quarter as a result of the transfer of a Canadian recycling operation The revenue increase is also attributable to an increase in solid waste revenues of $11.3 million, due to higher prices and to higher landfill volumes in the North Eastern and Western regions. FCR revenue increased $2.0 million in the six months ended October 31, 2005 compared to the six months ended October 31, 2004 due to increases in volume and commodity pricing.

Cost of operations. Cost of operations increased $15.9 million or 10.1% to $173.6 million in the six months ended October 31, 2005 from $157.7 million in the six months ended October 31, 2004. Cost of operations as a percentage of revenues increased to 64.6% in the six months ended October 31, 2005 from 63.1% in the prior year. 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 $3.4 million, or 10.7% to $35.3 million in the six months ended October 31, 2005 from $31.9 million in the six months ended October 31, 2004, and increased as a percentage of revenues to 13.1% in the six months ended October 31, 2005 from 12.8% in the six months ended October 31, 2004. The dollar increase in general and administration expenses was due to higher compensation cost as well as higher legal cost, communications and training costs, consulting costs related to software development and expenses related to compliance with the Sarbanes Oxley Act.

Deferred costs. A charge of $0.3 million was recorded in the six months ended October 31, 2004 to reflect the write-off of deferred development costs associated with unsuccessful negotiations to operate and develop a landfill located in McKean County, Pennsylvania.

Depreciation and amortization. Depreciation and amortization expense decreased $1.8 million, or 5.2%, to $33.0 million in the six months ended October 31, 2005 from $34.8 million in the six months ended October 31, 2004. While depreciation expense increased by $0.6 million between periods, landfill amortization expense decreased by $2.4 million primarily due to lower volumes in the South Eastern region resulting from the Brockton project approaching completion amounting to a $3.5 million decrease offset by $1.3 million associated with the startup of the Worcester closure project. Depreciation and amortization expense as a percentage of revenue decreased to 12.3% for the six months ended October 31, 2005 from 13.9% for the six months ended October 31, 2004.

Operating income. Operating income increased $1.4 million, or 5.5 %, to $26.8 million in the six months ended October 31, 2005 from $25.4 million in the quarter ended October 31, 2004 and decreased slightly as a percentage of revenues to 10.0% in the six months ended October 31, 2005. Higher revenues were partially offset by higher operating costs as described above. The North Eastern region's operating income increased in the six months ended October 31, 2005 compared to the prior year due to higher collection volumes and pricing and higher operating income at the Maine Energy facility due to higher power production. The South Eastern region's operating income increased in the six months ended October 31, 2005 compared to the six months ended October 31, 2004 due primarily to higher collection volumes and prices as well as lower landfill amortization as mentioned above. The Central and Western region's operating income decreased in the six months ended October 31, 2005 compared to the six months ended October 31, 2004 due primarily to higher operating costs. The FCR region's operating income decreased in the six months ended October 31, 2005 compared to the prior year due to higher operating costs and the effect of the divestiture of a Canadian recycling operation.

Interest expense, net. Net interest expense increased $0.9 million, or 6.3% to $15.2 million in the six months ended October 31, 2005 from $14.3 million in the six months ended October 31, 2004. This increase is attributable to higher average interest rates along with higher average borrowings in the six months ended October 31, 2005 compared to the prior year period. Net interest expense, as a percentage of revenues, decreased to 5.6% for the six months ended October 31, 2005 from 5.7% for the six months ended October 31, 2004.

Income from equity method investment. The income from equity method investment of $1.4 million and $0.9 million for the six months ended October 31, 2005 and 2004, respectively, was solely from the Company's 50% joint venture interest in GreenFiber.

Other expense/(income), net. Other income in the six months ended October 31, 2005 was $0.1 million compared to other expense of $0.8 million in the six months ended October 31, 2004. Other expense in the six months ended October 31, 2004 consisted of the costs of winding down the operations of the New Heights power plant and a loss on retirement of fixed assets, partially offset by gains on the sale of equipment.

Provision for income taxes. Provision for income taxes increased $0.9 million in the six months ended October 31, 2005 to $5.9 million from $5.0 million in the six months ended October 31, 2004. The effective tax rate remained largely unchanged, increasing to 44.6% in the six months ended October 31, 2005 from 44.5% in the six months ended October 31, 2004.

Income from continuing operations before discontinued operations. Income from continuing operations before discontinued operations increased $1.0 million, or 16.1% to $7.3 million for the six months ended October 31, 2005 from $6.2 million in the quarter ended October 31, 2004. Higher operating income and income from equity method investment along with lower other expenses were offset by higher interest expense in the six months ended October 31, 2005 compared to the prior year period.

Income from discontinued operations/Loss on disposal of discontinued operations. In the second quarter of 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 (loss) from operations has been reclassified from continuing operations to discontinued operations for the six months ended October 31, 2004. Also in connection with the discontinued accounting treatment, the loss (net of tax) from the sale has been recorded and classified as a loss on disposal of discontinued operations.

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's capital expenditures are broadly defined as pertaining to either growth or maintenance activities. Growth capital expenditures are defined as costs related to development of new airspace, permit expansions, new recycling contracts along with incremental costs of equipment and infrastructure added to further such activities. Growth capital expenditures include the cost of equipment added directly as a result of new business as well as expenditures associated with increasing infrastructure to increase throughput at transfer stations and recycling facilities. Growth capital expenditures also include those outlays associated with acquiring landfill operating leases, which do not meet the operating lease payment definition, but which were included as a commitment in the successful bid. Maintenance capital expenditures are defined as landfill cell construction costs not related to expansion airspace, costs for normal permit renewals and replacement costs for equipment due to age or obsolescence.

The Company had a net working capital deficit of $18.6 million at October 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, lower trade payables, lower levels of accruals for payroll and related expenses as well as lower current accrued capping, closure and post-closure costs. These were partially offset by higher accrued interest associated primarily with the Company's senior credit facility.

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 $92.9 million and $140.4 million as of October 31, 2005 and April 30, 2005, respectively. These available amounts are net of outstanding irrevocable letters of credit totaling $32.1 million and $32.3 million as of October 31, 2005 and April 30, 2005, respectively, 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 October 31, 2005, we were in compliance with all covenants.

As of October 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 $36.6 million for the six months ended October 31, 2005 compared to $35.8 million for the same period of the prior fiscal year. An increase in net income of $1.0 million in the six months ended October 31, 2005 compared to the six months ended October 31, 2004 was offset by lower depreciation and amortization expense of $1.8 million for the six months ended October 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 offset by the startup of the Worcester closure project. Changes in assets and liabilities, net of effects of acquisitions and divestitures, increased $1.8 million from the prior year. The increase in accounts receivable during the six months ended October 31, 2005, which is associated with higher revenues, resulted in a $5.7 million reduction compared with a reduction of $5.1 million in the prior period. The decrease in accounts payable during the six months ended October 31, 2005, amounted to a $2.8 million reduction compared with an increase of $0.1 million in the prior period. This is due primarily to higher accruals at April 30, 2005 versus the prior year. Changes in other assets and liabilities increased $5.3 million from the prior year due primarily to the following: (1) lower prepaid expenses in the current fiscal year amounting to a $0.5 million increase, (2) higher interest accruals in the current fiscal year amounting to a $2.6 million increase related to the senior credit facility, (3) higher capping, closure and post-closure accruals amounting to $4.5 million, attributable to lower cash payments in the six months ended October 31, 2005 and (4) these increases were offset by reductions in accrued payroll and related expenses amounting to $1.8 million in the six months ended October 31, 2005 compared to the six months ended October 31, 2004.

Net cash used in investing activities was $85.1 million for the six months ended October 31, 2005 compared to $60.2 million used in investing activities in the same period of the prior fiscal year. The increase in cash used in investing activities was due to a $22.5 million increase in capital expenditures as well higher acquisition activity amounting to an increase of $10.5 million in the current fiscal year, offset by a decrease in payments on landfill operating lease contracts of $11.5 million in the current year.

Net cash provided by financing activities was $47.5 million for the six months ended October 31, 2005 compared to $21.1 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 senior 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 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 or subordinated notes 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 its operations depends in part on cash flow from operations and the Company's access to capital. The Company currently funds its 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 $5.3 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 owned or operated 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 seven 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 six months ended October 31, 2005, the Company used approximately 3.7 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 November 30, 2005, approximately 4.0% of the Company's employees involved in collection, transfer, disposal, recycling, waste-to-energy or other operations 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 November 30, 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 November 30, 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 $225.0 million of long-term debt at October 31, 2005. The interest rate on the variable rate portion of long-term debt was approximately 5.76% at October 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 $0.6 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 October 31, 2005, to minimize the Company's commodity exposure, the Company was party to twenty-one commodity hedging agreements. If commodity prices were to have changed by 10% in the quarter ended October 31, 2005, the impact on the Company's operating income is estimated at $1.1 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. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a 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, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of October 31, 2005, the Company's chief executive officer and chief financial officer have concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

b) *Changes in internal controls.* No change in the Company's internal control over financial reporting occurred during the fiscal quarter ended October 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control 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.

On March 2, 2005, the Company's subsidiary Casella Waste Management of Pennsylvania, Inc. ("CWMPA") was issued an Administrative Order by the Pennsylvania Department of Environmental Protection ("DEP") revoking CWMPA's transfer station permit for its 75-ton-per-day transfer station located in Wellsboro, Pennsylvania and ordering that the site be closed. The DEP based its decision on certain alleged violations related to recordkeeping and site management over a five-year period. On March 10, 2005, CWMPA appealed the Order to the State's Environmental Hearing Board ("EHB"). The Pennsylvania Attorney General's Office is also conducting a criminal investigation of the allegations. On March 17, 2005, CWMPA and the DEP mutually agreed to a Supersedeas Order approved by the EHB which superseded the March 2, 2005 DEP Order, stating that CWMPA agreed to (i) voluntarily cease operations at the transfer station until May 16, 2005; (ii) relocate its hauling company before May 16, 2005; and (iii) develop a Management and Operation Plan for the transfer station by May 16, 2005. On May 17, 2005, the EHB judge extended the Supersedeas Order until June 10, 2005 and authorized the transfer station to resume operations upon completion of the relocation of the hauling company and receipt of a permit modification related to the weighing of bag waste from individual customers. CWMPA satisfied the conditions and recommenced operations at the transfer station on May 20, 2005. On June 9, 2005, CWMPA and the DEP filed a stipulation with the EHB withdrawing and voiding the March 2, 2005 Order revoking the permit, while reserving the DEP's right to seek civil penalties and the Company's right to defend against any such penalties. The Company is currently engaged in settlement negotiations with the DEP and discussions with the Attorney General's office regarding their investigation. However, at this stage it is impossible to predict whether a settlement with the DEP and closure of the Attorney General's investigation will be reached.

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 appealed the ZEO decision to the ZBA and the ZBA denied the appeal on November 29, 2005. The Company intends to appeal the ZBA decision to the Land Court and have it consolidated with the earlier appeal filed with the Land Court. On October 25, 2005, the Town voted to approve new general bylaw articles which, among other things, prohibit the use of construction and demolition debris as grading, shaping or closure materials. Such articles may have an adverse impact on the Company's ability to relocate some or all of the waste onto the affected lot. The articles have been forwarded to the Attorney General for approval. The Company will petition the Attorney General to disapprove the articles because they are inconsistent with the state statutory provisions concerning solid waste disposal facilities. 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 March 14, 2005, the Company and the Company's subsidiary New England Waste Services of ME, Inc. ("NEWSME") were served with a complaint filed by the Environmental Exchange in the State of Maine Superior Court alleging restraint of trade, and conspiracy to monopolize trade. The plaintiff claims that the Company's ownership of NEWSME, which in turn owns the New England Organics line of business and the Pine Tree Landfill, allegedly enabled NEWSME to obtain favorable tipping fees at Pine Tree Landfill thereby excluding the plaintiff from competitively bidding on a contract with Indeck Maine Energy LLC to haul and dispose of fly ash. Plaintiff alleges that the Company and NEWSME lessened competition and monopolized trade. On April 4, 2005, the Company and NEWSME filed a motion to dismiss. Subsequently, the plaintiff filed a motion to amend its complaint to allege a count of conspiracy to monopolize and a count of attempting to monopolize. On October 24, 2005 the Court granted plaintiff's motion to amend but dismissed the conspiracy to monopolize count, leaving only the attempt to monopolize count. The Company believes it has meritorious defenses to this claim.

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 its 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. On October 12, 2005, the Office of the Attorney General rendered its decision that the proposed transaction violates the ban on commercial landfills because of the Attorney General's belief that the overall effect of the contract constitutes a transfer of meaningful control from the City of Lewiston to the Company. The transaction is on hold pending review of the Attorney General's decision.

On December 2, 2005, the Company was served with a petition filed in the Supreme Court of the State of New York by a group of approximately 100 residents of Chemung County, New York seeking to vacate and set aside the Operating, Management and Lease Agreement between Chemung County and the Company pertaining to the Company's operation of the Chemung County Landfill; the Host Community Benefit Agreement between the Town of Chemung and the Company; as well as certain resolutions adopted by the County and the Town authorizing such transactions. The Company believes that it has meritorious defenses to these claims.

The Company offers no prediction on the outcome of any of the proceedings to which it is subject. 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

At the Company's annual meeting of stockholders held on October 6, 2005, two proposals were submitted to a vote of the Company's stockholders. The proposals and results of voting were as follows:

PROPOSAL I.

Proposal to elect, as Class II directors, Messrs. James W. Bohlig, Joseph G. Doody and Gregory B. Peters.

James W. Bohlig:	Votes For:	27,555,180
	Withheld:	7,663,648
Joseph G. Doody:	Votes For:	35,023,204
	Withheld:	195,624
Gregory B. Peters:	Votes For:	34,892,541
	Withheld:	326,287

Other directors whose terms of office continued in effect after the annual meeting are John W. Casella, Douglas R. Casella, James F. Callahan, Jr., John F. Chapple III and James P. McManus.

PROPOSAL II.

Proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's auditors for the fiscal year ending April 30, 2006.

Votes For:	35,188,178
Votes Against:	22,860
Abstentions:	7,790

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: December 9, 2005

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

Exhibit Index

31.1	Certification of John W. Casella, Chairman of the Board of Directors and Chief Executive Officer required by Rule 13a-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 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: December 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: December 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 October 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: December 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 October 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: December 9, 2005

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