

CASELLA WASTE SYSTEMS, INC.

Prospectus Supplement No. 2, dated September 18, 1998

(To Prospectus dated July 21, 1998, as supplemented by  
Prospectus Supplement No. 1 dated September 10, 1998)

On September 4, 1998, Casella Waste Systems, Inc. filed with the Securities and Exchange Commission the attached Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 1998.

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 AND EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND 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 the number of shares outstanding of each of the issuer's classes of common stock, as of August 21, 1998:

Class A Common Stock	12,922,027
Class B Common Stock	988,200

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 ASSETS  
 (In thousands)

	April 30, 1998	July 31, 1998 (Unaudited)
-----		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 1,946	\$ 2,471
Accounts Receivable-trade, net of allowance for doubtful accounts of \$1,123 and \$1,261	17,112	19,925
Other Current Assets	3,536	3,622
	-----	
Total Current Assets	22,594	26,018
	-----	
Property, Plant and Equipment, net of accumulated depreciation and amortization of \$36,780 and \$41,206	81,684	92,709
Intangible Assets, net	78,939	83,125
Other Assets	5,816	5,431
	-----	
	\$189,033	\$207,283
	=====	

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 LIABILITIES and STOCKHOLDERS' EQUITY  
 (In thousands, except for share data)

	April 30, 1998	July 31, 1998 (Unaudited)
-----		
CURRENT LIABILITIES:		
Current Maturities of Long-Term Debt	\$ 2,595	\$ 2,290
Current Maturities of Capital Lease Obligations	481	374
Accounts Payable	10,141	14,150
Other Accrued Liabilities	5,559	8,028
	-----	
Total Current Liabilities	18,776	24,842
	-----	
Long-Term Debt, Less Current Maturities	73,748	27,557
	-----	

Capital Lease Obligations, Less Current Maturities	1,085	1,097
Other Long-Term Liabilities	13,564	14,076
COMMITMENTS AND CONTINGENCIES:		
STOCKHOLDERS' EQUITY (DEFICIT):		
Class A Common Stock -	105	129
Authorized - 30,000,000 Shares, \$.01 par value		
Issued and Outstanding - 10,523,387 and		
12,908,049 shares		
Class B Common Stock -	10	10
Authorized - 1,000,000 Shares, \$.01 par value;		
10 Votes per Share		
Issued and Outstanding - 988,200 and		
988,200 shares		
Additional Paid-In Capital	95,901	151,595
Accumulated Deficit	(14,156)	(12,023)
Total Stockholders' Equity	81,860	139,711
	\$189,033	\$207,283

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except for per share information)

	Three Months Ended	
	July 31, 1997 (Restated)	July 31, 1998 (Unaudited)
Revenues	\$28,298	\$36,717
Operating Expenses:		
Cost of Operations	16,907	20,851
General and Administrative	3,970	5,361
Depreciation and Amortization	4,014	5,323
	24,891	31,535
Operating Income	3,407	5,182
Other (Income) Expenses		
Interest Income	(49)	(55)
Interest Expense	1,824	1,572
Other Expense (Income), net	205	(44)
	1,980	1,473
Income Before Provision for Income Taxes and Extraordinary Items	1,427	3,709
Provision for Income Taxes	643	1,576
Net Income	\$784	\$ 2,133
Accretion of Preferred Stock and Put Warrants	(2,115)	0
Net Income (Loss) Applicable to Common Stockholders	(\$1,331)	\$ 2,133

Basic Earnings (Loss) per Share of Common Stock	(\$0.30)	\$0.18
Basic Weighted Average Common Stock Shares Outstanding	4,461	11,653
Diluted Earnings (Loss) per Share	(\$0.30)	\$0.17
Diluted Weighted Average Common Stock and Common Stock Equivalent Shares Outstanding	4,461	12,717

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

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

	Three Months Ended	
	July 31, 1997 (Restated)	July 31, 1998 (Unaudited)
Cash Flows from Operating Activities:		
Net Income	\$ 784	\$ 2,133
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities-		
Depreciation and Amortization	4,014	5,323
(Gain) Loss on Sale of Equipment	(6)	7
Changes in Assets and Liabilities, net of Effects of Acquisitions -		
Accounts Receivable	(2,006)	(2,776)
Accounts Payable	1,427	4,009
Other Current Assets/Liabilities	(898)	4,072
	2,531	10,635
Net Cash Provided by Operating Activities	3,315	12,768
Cash Flows from Investing Activities:		
Acquisitions, net of Cash Acquired	(4,708)	(10,088)
Additions to Property and Equipment	(4,626)	(9,857)
Proceeds from Sale of Equipment	23	134
Other Assets/Liabilities	(139)	374
Net Cash Used in Investing Activities	(9,450)	(19,437)
Cash Flows from Financing Activities:		
Proceeds from Issuance of Common Stock	12	54,209
Deferred Debt Acquisition Costs	(94)	0
Proceeds from Long-Term Borrowings	8,686	11,565
Principal Payments on Long-Term Debt	(1,791)	(58,580)
Net Cash Provided by Financing Activities	6,813	7,194
Net Increase in Cash and Cash Equivalents	678	525
Cash and Cash Equivalents, Beginning of Period	1,349	1,946
Cash and Cash Equivalents, End of Period	\$ 2,027	\$ 2,471

The accompanying notes are an integral part of these consolidated financial

statements.

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

	Three months ended	
	July 31, 1997 (Restated)	July 31, 1998 (Unaudited)
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Period for -		
Interest	\$2,013	\$ 1,734
Income Taxes	\$ 20	\$ 59
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Summary of Entities Acquired -		
Fair Market Value of Assets Acquired	\$6,325	\$10,856
Cash Paid	(4,708)	(10,088)
Liabilities Assumed and Notes Payable to Sellers	\$1,617	\$ 768

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

The condensed consolidated balance sheet of Casella Waste Systems, Inc. and Subsidiaries (the "Company") as of July 31, 1998, the consolidated statement of operations for the three months ended July 31, 1998, and the consolidated statement of cash flows for the three months ended July 31, 1998 are unaudited. In the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations, and cash flows for the periods presented. The condensed consolidated balance sheet of the Company as of April 30, 1998 is based on audited financial statements that have been condensed in accordance with Article 10 of Regulation S-X governing interim financial reporting. The Company has restated the previously issued audited consolidated statement of operations and audited consolidated statement of cash flows for the three months ended July 31, 1997 to reflect the merger with All Cycle Waste, Inc. and Winters Brothers, Inc. ("All Cycle") consummated on December 19, 1997, accounted for using the pooling of interests method of accounting. The consolidated financial statements presented herein should be read in connection with the Company's audited consolidated financial statements for the twelve months ended April 30, 1998. These were included as part of the Company's Annual Report on Form 10-K (the "Annual Report").

1. BUSINESS COMBINATIONS

Transaction Recorded as a Pooling of Interests

On December 19, 1997, the Company completed its merger with All Cycle Waste, Inc. and Winters Brothers, Inc. (together - "All Cycle") in a business combination recorded as a pooling of interests and accordingly the accompanying

consolidated statements of operations and cash flows for the three months ended July 31, 1997 have been restated to include the accounts and operations of All Cycle. The two businesses acquired were under common control, and the transaction was considered to be and accounted for as a single acquisition. All Cycle Waste, Inc. is a solid waste collection and transfer operation in Chittenden County, Vermont. Winters Brothers, Inc. owns the real estate that All Cycle Waste Inc. operates out of in Williston, Vermont. The Company issued 416,103 shares of its Class A Common Stock for all of the outstanding stock of All Cycle Waste, Inc. and 187,244 shares of its Class A Common Stock for all of the outstanding stock of Winters Brothers, Inc.

Prior to December 19, 1997, Casella Waste Systems, Inc. incurred disposal expense and All Cycle Waste, Inc. earned disposal revenue through the normal operations of the acquired company's waste transfer station. In addition, Winters Brothers, Inc. earned rental income and All Cycle Waste, Inc. incurred rental expense on the acquired company's facility in Williston, Vermont. These transactions have been eliminated in the accompanying financial statements.

Following is a reconciliation of the amounts (in thousands) of revenues and net income previously reported for the three months ended July 31, 1997:

	Three Months ended 7/31/97
Revenues:	
As previously reported	\$26,429
Acquired companies	3,097
Elimination of intercompany revenue	(1,228)
As restated	\$28,298
Net income:	
As previously reported	\$ 759
Acquired companies	25
As restated	\$ 784

#### Transactions Recorded as Purchases

During the year ended April 30, 1998, the Company completed 33 acquisitions of solid and liquid waste hauling operations, exclusive of the All Cycle transaction described above, for approximately \$35.8 million in cash, \$5.2 million in notes to sellers and liabilities assumed and 103,132 shares of class A common stock issued. These transactions were accounted for as purchases.

During the three months ended July 31, 1998, the Company acquired nine solid and liquid waste hauling operations and one private solid waste landfill in transactions accounted for as purchases. These transactions were in exchange for consideration of approximately \$10.1 million in cash, and \$0.8 million in notes to sellers and liabilities assumed. The operating results of these businesses are included in the Consolidated Statement of Operations from the dates of acquisition. The purchase prices have been allocated to the net assets acquired based on fair values at the dates of acquisition with the residual amounts allocated to goodwill.

The following unaudited pro forma combined information (rounded to thousands except for per share data) shows the results of the Company's operations as though each of the completed acquisitions had occurred as of May 1, 1997:

Three Months Ended July 31, 1997	Three Months Ended July 31, 1998
-----	-----

Revenues	\$37,184	\$37,291
Operating Income	3,817	5,096
Net Income	488	2,014
Pro forma income (loss) per share - diluted	\$ 0.05	\$ 0.16
Weighted average common stock shares outstanding - diluted	9,230	12,717

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisitions taken place as of May 1, 1997 or the results of future operations of the Company. Furthermore, the pro forma results do not give effect to all cost savings or incremental costs that may occur as a result of the integration and consolidation of the completed acquisitions.

## 2. COMMITMENTS AND CONTINGENCIES

On or about October 30, 1997, Mr. Matthew M. Freeman commenced a civil lawsuit against the Company and two of the Company's officers and directors in the Rutland Superior Court, Rutland County, State of Vermont. In the Complaint, Mr. Freeman seeks compensation for services allegedly performed by him prior to 1995. Mr. Freeman is seeking a three-percent equity interest in the Company or the monetary equivalent thereof, as well as punitive damages. The Company and the officers and directors have answered the Complaint, denied Mr. Freeman's allegations of wrongdoing, and asserted various defenses. In order to facilitate the completion of the initial public offering of the Company's Class A Common Stock in November, 1997, certain stockholders of the Company agreed to indemnify the Company for any settlement by the Company or any award against the Company in excess of \$350,000 (but not legal fees paid by or on behalf of the Company or any other third party). The Company accrued a \$215,000 reserve for this claim during the year ended April 30, 1998.

On May 12, 1998, the Company filed suit in New York Supreme Court, Allegany County against the Town of Angelica, New York seeking a temporary restraining order and preliminary injunctive relief against the Town's enforcement of a recently-enacted local law which would prohibit the expansion of the Hyland landfill, would require the landfill and the operator thereof to receive an additional permit from the Town of Angelica to continue to operate, would prevent the disposal of yard waste, may preclude the disposal of certain types of industrial waste and would impose certain other restrictions on the landfill. A temporary restraining order was granted by the court on May 14, 1998 in favor of the Company, and by a decision dated July 13, 1998, the court granted the Company's motion for a preliminary injunction. If the Company is not successful in its lawsuit, and if the Town of Angelica seeks to enforce the law by its terms, then the Company would be required to obtain an additional permit from the Town of Angelica to operate the Hyland landfill, the expansion of the landfill beyond the current permitted capacity would be prohibited, and the Company would be unable to dispose of yard waste and may be precluded from disposing of industrial waste at the landfill. There can be no assurance that such limitations would not have a material adverse effect on the Company's business, financial condition and results of operations. The Company began accepting waste at the Hyland facility on July 22, 1998.

The Company is a party to various other litigation matters arising in the ordinary course of business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

In the normal course of business and as a result of the extensive government regulation of the solid waste industry, the Company periodically may become subject to various judicial and administrative proceedings and investigations involving federal, state, or local agencies. To date, the Company has not been required to pay any material fine or had a judgment entered against it for violation of any environmental law. From time to time, the Company also may be subjected to actions brought by citizens groups in connection with the permitting of landfills or transfer stations, or alleging violations of the permits pursuant to which the Company operates. From time to time, the Company is also subject to claims for personal injury or property damage arising out of accidents involving its vehicles or other equipment.

## 3. ENVIRONMENTAL LIABILITIES

The continuing business in which the Company is engaged is intrinsically connected with the protection of the environment. As such, a significant portion of the Company's operating costs and capital expenditures could be characterized as costs of environmental protection. While the Company is faced, in the normal course of business, with the need to expend funds for environmental protection and remediation, it does not expect such expenditures to have a material adverse effect on its financial condition or results of operations because its business is based upon compliance with environmental laws and regulations and its services are priced accordingly. In addition, as part of its ongoing operations, the Company provides for estimated closure and post-closure monitoring costs over the life of disposal sites as airspace is consumed. While all these costs may increase in the future as a result of legislation or regulation, the Company believes that in general it tends to benefit when government regulation increases, since this may increase the demand for its services. Furthermore, the Company believes it has the resources and experience to manage environmental risk.

#### 4. CHANGES IN STOCKHOLDERS EQUITY

In July 1998 the Company completed a follow-on public offering of 2,060,587 shares of its Class A Common Stock at \$27.25 per share. In addition, as part of this same offering, 1,470,580 shares of the Company's Class A Common Stock were sold by certain selling shareholders at \$27.25 per share. The Company's proceeds of the offering, net of underwriters' discounts and issuance costs were \$52,704,356. The proceeds were used for debt reduction, acquisitions and other general corporate purposes. As part of the registration statement relating to this offering, the Company registered 2,000,000 shares of its Class A Common Stock to be issued at a later date, in connection with its acquisition program.

#### 5. PROVISION FOR INCOME TAXES

The difference in federal income taxes at the statutory rate of 34% and the provision for income taxes for the three month periods ended July 31, 1998 and 1997 is primarily due to non-deductible goodwill costs and state and local taxes.

The Company records non-current deferred tax liabilities for the excess of depreciation expense recorded for income taxes purposes over that recognized for financial accounting purposes. In addition, adjustments are made in the deferred tax liability for business combinations that are accorded a different treatment under the Internal Revenue Code than under generally accepted accounting principles.

#### 6. EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share". This statement supersedes Accounting Principal Board Opinion No. 15. SFAS No. 128 is effective for interim and annual periods ending after December 15, 1997 and requires restatement of previously recorded amounts.

Primary EPS is replaced by Basic EPS, which is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Basic common shares no longer include common equivalents such as convertible preferred shares. In addition, Fully Diluted EPS is replaced with Diluted EPS, which gives effect to all common shares that would have been outstanding if all dilutive potential common shares (relating to such things as the exercise of stock warrants and convertible preferred stock) had been issued. The treasury stock method used to compute the number of potentially-dilutive shares that would be repurchased with the proceeds of potential stock issuances has been changed. The treasury stock method now requires use of the average share price for the period instead of the greater of the ending share price or the average share price.

The following is a reconciliation of the ending number of shares outstanding with the number of shares used in the calculation of basic and diluted earnings per share (in thousands):

	Three months ended 7/31/97	Three months ended 7/31/98
Number of shares outstanding, end of period:		
Class A common stock	3,477	12,908
Class B common stock	1,000	988
Effect of weighting the average shares outstanding during the period	(16)	(2,243)
Basic shares outstanding	4,461	11,653
Potentially dilutive shares	-0-	1,064
Fully diluted shares outstanding:	4,461	12,717

Diluted earnings per share are not presented for the three months ended July 31, 1997 because they are anti-dilutive. The number of potentially dilutive shares excluded from the earnings per share calculation for this period was 4,768,504.

#### 6. RECENT ACCOUNTING PRONOUNCEMENTS

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("Statement 130"). Statement 130 establishes standards for reporting and presentation of comprehensive income and its components. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company adopted Statement 130 effective May 1, 1998 and there was no effect on the Company's financial statements upon adoption.

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("Statement 131"). Statement 131 establishes standards for reporting information about operating segments in annual financial statements that requires that those enterprises report selected information about operating segments in the interim financial reports issued to shareholders. Statement 131 is effective for fiscal years beginning after December 15, 1997. Adoption is not required for interim periods in the initial year of application. The Company believes that the adoption of Statement 131 will not have a material effect on the Company's Financial Statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"). Statement 133 establishes accounting, and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. Statement 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Statement 133 is effective for fiscal years beginning after June 15, 1999. A company may also implement Statement 133 as of the beginning of any fiscal quarter after issuance (that is, fiscal quarters beginning June 16, 1998 and thereafter). The Company has yet to quantify the impacts of adopting Statement 133 on its financial statements and has not determined the timing or method of adoption. However, Statement 133 could increase volatility in earnings and other comprehensive income.

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

##### Overview

The Company is a regional, integrated solid waste services company that provides collection, transfer, disposal and recycling services in Vermont, New Hampshire, Maine, upstate New York and northern Pennsylvania. The Company's objective is to continue to grow by expanding its services in markets where it can be one of the largest and most profitable fully-integrated solid waste services companies.

The Company's revenues have increased from \$28.3 million for the three months ended July 31, 1997 to \$36.7 million for the three months ended July 31, 1998.

From May 1, 1997 through April 30, 1998, the Company acquired 34 solid waste collection, transfer and disposal operations. Between May 1 and July 31, 1998, the Company acquired an additional 10 such businesses, including the Hyland landfill, a Subtitle D landfill in western upstate New York. All but one of these acquisitions were accounted for under the purchase method of accounting for business combinations. Under the rules of purchase accounting, the acquired companies' revenues and results of operations have been included together with those of Casella Waste Systems, Inc. from the actual dates of the acquisitions and will materially affect the period-to-period comparisons of the Company's historical results of operations. In December 1997 the Company acquired a waste collection and transfer operation in a transaction recorded as a pooling of interests. Under the rules governing poolings of interest, the prior period financial statements of the Company have been restated to reflect the financial position, results of operations and cash flows of the merged entities as if they had been one company for all periods presented in the accompanying financial statements.

This Quarterly Report 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, 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 Quarterly Report 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 factors of which the Company is aware that may cause the Company's actual results to vary materially from those forecast 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

The Company's revenues are attributable primarily to fees charged to customers for solid and liquid waste collection, landfill, 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 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 landfill and transfer customers are under one-year to ten-year disposal contracts, with most having clauses for annual cost of living increases. Recycling revenues consist of revenues from the sale of recyclable commodities and from the sale of tire derived fuel. Other revenues consist primarily of revenue from septic/liquid waste operations and other sources. The Company's revenues are shown net of intercompany eliminations. The Company typically establishes its intercompany 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. The increase in the Company's collection revenues as a percentage of revenues in the current fiscal quarter is primarily attributable to the impact of the Company's acquisition of collection businesses during fiscal 1998 and during the first quarter of fiscal 1999, as well as to internal growth through price and business volume increases. The decrease in the Company's landfill revenues and in the Company's transfer revenues as a percentage of revenues in the current fiscal year is mainly due to a proportionately greater increase in collection revenues occurring as the result of acquisitions in that area; also, as the Company acquires collection businesses from which it previously had derived transfer or disposal revenues, the acquired revenues are recorded by the Company as collection revenues. The increase in recycling revenue is due primarily to an increase in revenue from tire-derived fuel at the Company's T.I.R.E.S. facility. The increase in liquid waste and other revenues as a percentage of revenues in the current fiscal year is primarily due to the impact of acquisitions of septic/liquid waste operations since the first quarter of fiscal 1998.

	% of Revenue	
	Three months ended	
	7/31/97	7/31/98
Collection	69.2%	74.4%
Landfill	14.5	9.9
Transfer	7.5	5.3
Recycling	6.0	6.5
Liquid Waste & Other	2.8	3.9
Total Revenue	100.0%	100.0%

Cost of operations includes labor, tipping fees paid to third party disposal facilities, fuel, maintenance and repair of vehicles and equipment, worker's compensation and vehicle insurance, the cost of purchasing materials to be

recycled, third party transportation expense, district and state taxes, host community fees and royalties. Landfill operating expenses also include a provision for closure and post-closure expenditures anticipated to be incurred in the future, and leachate treatment and disposal costs.

General and administrative expenses include management, clerical and administrative compensation and overhead, professional services and costs associated with the Company's marketing and sales force and community relations expense.

Depreciation and amortization expense includes depreciation of fixed assets over the estimated useful life of the assets using the straight line method, amortization of landfill airspace assets under the units-of-production method, and the amortization of goodwill and other intangible assets using the straight line method. The amount of landfill amortization expense related to airspace consumption can vary materially from landfill to landfill depending upon the purchase price and landfill site and cell development costs. The Company depreciates all fixed and intangible assets, excluding non-depreciable land, down to a \$0 net book value, and does not apply a salvage value to any of its fixed assets.

Certain direct landfill development costs, such as engineering, permitting, legal, construction and other costs directly associated with expansion of existing landfills, are capitalized by the Company. Additionally, the Company also capitalizes certain third party expenditures related to pending acquisitions, such as legal and engineering. The Company will have material financial obligations relating to closure and post-closure costs of its existing landfills and any disposal facilities which it may own or operate in the future. The Company has provided and will in the future provide accruals for future financial obligations relating to closure and post-closure costs of its landfills (generally for a term of 30 years after final closure of a landfill) based on engineering estimates of consumption of permitted landfill airspace over the useful life of any such landfill. There can be no assurance that the Company's financial obligations for closure or post-closure costs will not exceed the amount accrued and reserved or amounts otherwise receivable pursuant to trust funds. The Company routinely evaluates all such capitalized costs, and expenses those costs related to projects not likely to be successful. Internal and indirect landfill development and acquisition costs, such as executive and corporate overhead, public relations and other corporate services, are expensed as incurred.

#### Results of Operations

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

	% of Revenue	
	Three months ended	
	7/31/97	7/31/98

Revenues	100.0%	100.0%
Cost of operation	59.8	56.8
General and administrative	14.0	14.6
Depreciation and amortization	14.2	14.5
	-----	-----
Operating income	12.0	14.1
Interest expense, net	6.3	4.1
Other (income) expense	0.7	(0.1)
Provision for income taxes	2.2	4.3
	-----	-----
Net income	2.8	5.8
EBITDA*	26.2	28.6

\* See discussion and computation of EBITDA below.

Revenues. Revenues increased \$8.4 million, or 29.8%, to \$36.7 million in fiscal 1999 from \$28.3 million in fiscal 1998. Approximately \$6.3 million of the increase was attributable to the impact of businesses acquired throughout fiscal 1997 and the first quarter of fiscal 1998. The balance of the increase of approximately \$2.1 million was attributable to internal volume and price growth.

Cost of Operations. Cost of operations increased approximately \$3.9 million, or 23.3%, to \$20.9 million in the quarter ended July 31, 1998 from \$16.9 million in the same quarter of the prior fiscal year, an increase corresponding primarily to the Company's revenue growth described above. Cost of operations as a percentage of revenues decreased to 56.8% in the current fiscal year from 59.8% in the prior year. The decrease was primarily the result of: (i) productivity improvements in the Company's collection operations as a result of better route density from acquisitions, routing efficiencies through route audits and front-end loader vehicle conversions completed throughout fiscal 1998 and the first quarter of fiscal 1999; and (ii) margin improvements because of price increases in fiscal 1998 and the first quarter of fiscal 1999.

General and Administrative. General and administrative expenses increased approximately \$1.4 million, or 35.1%, to \$5.4 million in the first quarter of fiscal 1999 from \$4.0 million in the same quarter of fiscal 1998. General and administrative expenses as a percentage of revenues increased from 14.0% in fiscal 1998 to 14.6% in fiscal 1999. Certain general and administrative expenses were previously classified by the Company as costs of operations in fiscal 1998. This amounted to approximately \$234,000 of reclassified expenses during the first quarter of fiscal 1999. If the Company had not made this reclassification, general and administrative expense as a percentage of revenues would have been flat at 14.0% during the first quarter of fiscal 1999.

Depreciation and Amortization. Depreciation and amortization expense increased \$1.3 million, or 32.6%, to \$5.3 million in the first quarter of fiscal 1999 from \$4.0 million in the same quarter of the prior fiscal year. As a percentage of revenues, depreciation and amortization expense increased from 14.2% in fiscal 1998 to 14.5% in fiscal 1999. The Company benefited from low cost landfill airspace at Clinton County's unlined landfill during the first quarter of last year (fiscal 1998) which significantly lowered landfill amortization expense in the first quarter of fiscal 1998. Clinton County's unlined landfill was permanently closed on July 15, 1997.

Interest expense, net. Net interest expense decreased approximately \$259 thousand, or 14.6% to \$1.5 million in the quarter ended July 31, 1998 from \$1.8 million in the same quarter of the prior fiscal year. This decrease primarily reflects the reduction of the outstanding balance under the Company's acquisition line of credit and other notes payable from the proceeds of the Company's public stock offerings in November, 1997 and July, 1998.

Other (income) expense, net. Net other (income) expense has not historically been material to the Company's results of operations.

Provision for income taxes. Provision for income taxes increased approximately \$0.9 million, or 145.2%, to \$1.6 million in the current fiscal year from \$643

thousand in fiscal 1998. This increase reflects the Company's increase in profits in the current fiscal year over to the prior year. The combined effective tax rate used by the Company in recording taxes for interim periods has been decreased from 45% for the quarter ended July 31, 1997 to 42.5% for the same quarter of the current fiscal year. This reflects the decreased relative effect of various fixed non-deductible expenses compared to the Company's increased pre-tax income.

#### 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, cell construction, and site and cell closure. The Company had positive net working capital of \$3.8 million at April 30, 1998 and positive net working capital of \$1.2 million at July 31, 1998.

The Company has a \$150 million revolving line of credit with a group of banks for which BankBoston, N.A. is acting as agent. This line of credit is secured by all assets of the Company, including the Company's interest in the equity securities of its subsidiaries. This revolving line of credit matures in January, 2003. Funds available to the Company under this line of credit were \$124.9 million at July 31, 1998.

In July 1998 the Company completed a follow-on public offering of 2,060,587 shares of its Class A Common Stock at \$27.25 per share. In addition, as part of this same offering, 1,470,580 shares of the Company's Class A Common Stock were sold by certain selling shareholders at \$27.25 per share. The Company's proceeds of the offering, net of underwriters' discounts and issuance costs were \$52,704,356. The proceeds were used for debt reduction, acquisitions and other general corporate purposes. As part of the registration of this offering, the Company registered 2,000,000 shares of its Class A Common Stock to be issued at a later date, in connection with its acquisition program.

The Company believes that its cash provided internally from operations together with the Company's available credit facilities should enable it to meet its needs for working capital for the next twelve months.

Net cash provided by operating activities for the first quarters of fiscal 1998 and fiscal 1999 was \$3.3 million and \$12.8 million, respectively. The increase was primarily due to the increase in the Company's net income for the quarter ended July 31, 1998 over the prior fiscal year, together with an increase in depreciation and amortization and increases in accrued payroll taxes and deferred revenues.

Cash used in investing activities increased \$10.0 million from \$9.5 million to \$19.4 million in the quarter ended July 31, 1998 over the same quarter of the prior fiscal year. The increase in investing activities reflects the Company's capital expenditure and capital needs for acquisitions, reflecting the Company's rapid growth by acquisition and development of revenue producing assets. The Company's cash needs to fund investing activities are expected to increase further as the Company continues to complete acquisitions.

Net cash provided by financing activities was \$7.2 million in the quarter ended July 31, 1998 compared to \$6.8 million for the same quarter of the prior year. The net cash provided by financing activities in the current fiscal year reflects the net proceeds of the follow-on offering and borrowings on the Company's credit facility, offset by repayments. Net cash provided by financing activities in the comparable period of the prior year reflects primarily bank borrowings and seller subordinated notes, less principal payments on debt.

#### Seasonality

The Company's 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: (i) the volume of waste relating to construction and demolition activities decreases substantially during the winter months in the northeastern United States; and (ii) 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 the winter ski industry. Since certain of the Company's operating and fixed costs remain constant throughout the fiscal

year, operating income results are therefore impacted by a similar seasonality. In addition, particularly harsh weather conditions could result in increased operating costs to certain of the Company's operations.

The Company's quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. The Company establishes its expenditure levels based on its expectations as to future revenues, and, if revenue levels are below expectations, expenses can be disproportionately high. Due to a variety of factors including general economic conditions, governmental regulatory action, acquisitions, capital expenditures and other costs related to the expansion of operations and services and pricing changes, it is possible that in some future quarter, the Company's operating results will be below the expectations of public market analysts and investors. In such events, the Company's Class A Common Stock price would likely be materially and adversely affected.

#### 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 in the northeastern 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.

#### Year 2000 Issues

The Company uses well-regarded nationally known software vendors for both its general accounting applications and industry-specific customer information and billing systems. The Company has been informed that the general accounting package which the Company uses is fully year 2000 compatible, and the provider of the solid waste industry customer information and billing system has made available a year-2000 compatible version of its software which the Company has installed and tested.

The Company's banking arrangements are with an international banking institution which has informed the Company that it is taking all necessary steps to insure its customers' uninterrupted service throughout applicable Year 2000 time frames. The Company's payroll is performed out-of-house by the largest provider of 3rd party payroll services in the country, which has made a commitment of uninterrupted service to their customers throughout applicable Year 2000 time frames.

The Company is currently in the early stages of reviewing and evaluating the potential effect of this issue on its personal computer applications, including weight-measurement applications, and on its equipment and suppliers of data communications and other services.

None of the Company's customers individually represents a large enough share of the Company's revenues to materially affect overall Company revenues in the event of an individual customer experiencing year 2000 problems. The Company believes that the same is true of any of the Company's suppliers of goods and services, aside from those discussed above. However, the Company is continuing to evaluate its exposure to year 2000 issues, including on its information technologies and non-information technology systems.

#### EBITDA

EBITDA represents operating income (earnings before interest and taxes, or "EBIT") plus depreciation and amortization expense. EBITDA is not a measure of financial performance under generally accepted accounting principles, but is provided because the Company understands that certain investors use this

information when analyzing the financial position and performance of the Company.

Amounts in thousands:

	Three months ended	
	7/31/97	7/31/98
Operating income	\$3,407	\$ 5,182
Depreciation and amortization	4,014	5,323
EBITDA	\$7,422	\$10,505
EBITDA as a percentage of revenue	26.2%	28.6%

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

#### 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 Quarterly Report and presented elsewhere by management from time to time.

The Company's objective is to continue to grow by expanding its services in markets where it can be one of the largest and most profitable fully-integrated solid waste services companies. Such growth, if it were to occur, could place a significant strain on the Company's management and operational, financial and other resources.

The Company has incurred net losses in the past. There can be no assurance that the Company will be profitable in the future.

The Company's strategy envisions that a substantial part of the Company's future growth will come from acquiring and integrating solid waste collection, transfer and disposal operations. There can be no assurance that the Company will be able to identify suitable acquisition candidates and, once identified, to negotiate successfully their acquisition at a price or on terms and conditions favorable to the Company, or to integrate the operations of such acquired businesses with the Company.

The Company is highly dependent upon the services of the members of its senior management team, the loss of any of whom may have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company's future success depends on its continuing ability to identify, hire, train, motivate and retain highly trained personnel.

The Company anticipates that any future business acquisitions will be financed through cash from operations, borrowings under its bank line of credit, the issuance of shares of the Company's Class A Common Stock and/or seller financing. There can be no assurance that the Company will have sufficient existing capital resources or will be able to raise sufficient additional capital resources on terms satisfactory to the Company, if at all, in order to meet its capital requirements.

The Company's operating program depends on its ability to operate and expand the landfills it owns and leases and to develop new landfill sites. Several of the Company's landfills are subject to local laws purporting to regulate their expansion and other aspects of their operations. There can be no assurance that the laws adopted by municipalities in which the Company's landfills are located will not have a material adverse effect on the Company's utilization of its landfills or that the Company will be successful in obtaining new landfill sites or expanding the permitted capacity of any of its current landfills once its remaining disposal capacity has been consumed.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On or about October 30, 1997, Mr. Matthew M. Freeman commenced a civil lawsuit against the Company and two of the Company's officers and directors in the Rutland Superior Court, Rutland County, State of Vermont. In the Complaint, Mr. Freeman seeks compensation for services allegedly performed by him prior to 1995. Mr. Freeman is seeking a three-percent equity interest in the Company or the monetary equivalent thereof, as well as punitive damages. The Company and the officers and directors have answered the Complaint, denied Mr. Freeman's allegations of wrongdoing, and asserted various defenses. In order to facilitate the completion of the recent initial public offering of the Company's Class A Common Stock, certain stockholders of the Company have agreed to indemnify the Company for any settlement by the Company or any award against the Company in excess of \$350,000 (but not legal fees paid by or on behalf of the Company or any other third party).

On May 12, 1998, the Company filed suit in New York Supreme Court, Allegany County against the Town of Angelica, New York seeking a temporary restraining order and preliminary injunctive relief against the Town's enforcement of a recently-enacted local law which would prohibit the expansion of the Hyland landfill, would require the landfill and the operator thereof to receive an additional permit from the Town of Angelica to continue to operate, would prevent the disposal of yard waste, may preclude the disposal of certain types of industrial waste and would impose certain other restrictions on the landfill. A temporary restraining order was granted by the court on May 14, 1998 in favor of the Company, and by a decision dated July 13, 1998, the court granted the Company's motion for a preliminary injunction. If the Company is not successful in its lawsuit, and if the Town of Angelica seeks to enforce the law by its terms, then the Company would be required to obtain an additional permit from the Town of Angelica to operate the Hyland landfill, the expansion of the landfill beyond the current permitted capacity would be prohibited, and the Company would be unable to dispose of yard waste and may be precluded from

disposing of industrial waste at the landfill. There can be no assurance that such limitations would not have a material adverse effect on the Company's business, financial condition and results of operations. The Company began accepting waste at the Hyland facility on July 22, 1998.

The Company is not aware of any other non-routine or incidental material legal proceedings.

#### ITEM 2. CHANGES IN SECURITIES

Changes in Rights and Classes of Stock

None.

Sales of Unregistered Securities

During the quarter ended July 31, 1998 the Company had the following sales of unregistered securities:

On May 7, 1998, Robert Lynch exercised warrants to purchase 200 shares of the Company's Class A Common Stock in exchange for cash consideration of \$300. The shares of Class A Common Stock were offered and issued in reliance upon the exemption from registration set forth in section 4(2) under the Securities Act of 1933.

On May 22, 1998, Stephen Houghton exercised warrants to purchase 4,892 shares of the Company's Class A Common Stock in exchange for cash consideration of \$7,338. The shares of Class A Common Stock were offered and issued in reliance upon the exemption from registration set forth in section 4(2) under the Securities Act of 1933.

No underwriters were involved in the foregoing issuances of securities.

#### ITEM 3. DEFAULTS ON SENIOR SECURITIES

None.

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

During the quarter ended July 31, 1998, no matters were submitted to a vote of the Company's shareholders.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

27.1 Financial Data Schedule for Period Ended July 31, 1998

27.2 Restated Financial Data Schedule for Period Ended July 31, 1997

(b) Reports on Form 8-K: None.

SIGNATURE

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

Casella Waste Systems, Inc.

Date: September 4, 1998

By: /s/ Jerry Cifor

Jerry Cifor  
Vice President and  
Chief Financial Officer

(Principal Financial and Accounting  
Officer and Duly Authorized Officer)