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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended April 30, 2001

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)

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|--|--|
| Delaware ----- (State or other jurisdiction of incorporation or organization) | 03-0338873 ----- (I.R.S. Employer Identification No.) |
|--|--|

| | |
|---|------------------------------|
| 25 Greens Hill Lane, Rutland, VT ----- (Address of principal executive offices) | 05701 ----- (Zip Code) |
|---|------------------------------|

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

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

Securities registered pursuant to Section 12(g) of the Act:

Class A common stock, \$.01 per share par value

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

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

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The aggregate value of the voting stock held by non-affiliates of the registrant, based on the last sale price of the registrant's Class A common stock at the close of business on July 18, 2001 was \$269,969,391. The Company does not have any non-voting common stock outstanding.

There were 22,352,127 shares of class A common stock, \$.01 par value per share, of the registrant outstanding as of July 18, 2001. There were 988,200 shares of class B common stock, \$.01 par value per share, of the registrant outstanding as of July 18, 2001.

Documents Incorporated by Reference

Items 10, 11, 12 and 13 of Part III (except for information required with respect to executive officers of the Company, which is set forth under Part I -

Business - "Executive Officers and Other Key Employees of the Company") have been omitted from this report, since the Company expects to file with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, a definitive proxy statement. The information required by Items 10, 11, 12 and 13 of Part III of this report, which will appear in the definitive proxy statement, is incorporated by reference into this report.

PART I

ITEM 1. BUSINESS

The Company

Casella Waste Systems, Inc. the ("Company") is a regional, integrated solid waste services company that provides collection, transfer, disposal and recycling services, primarily throughout the eastern portion of the United States. The Company also markets recyclable metals, aluminum, plastics, paper and corrugated cardboard which has been processed at its facilities as well as recyclables purchased from third parties. The Company also generates electricity under its contracts at its wholly owned subsidiary, Maine Energy Recovery Company LP ("Maine Energy"), a waste-to-energy facility. As of July 18, 2001, the Company owned and/or operated five Subtitle D landfills, two landfills permitted to accept construction and demolition materials, 30 transfer stations, 43 recycling processing facilities, 38 solid and liquid waste collection divisions and one power generation facility, as well as a 50% interest in a cellulose insulation joint venture.

Recent Developments

In April 2001, the Company's Board of Directors approved a reorganization of certain of the Company's operations. This reorganization consisted of the elimination of various positions and the closure of certain facilities. A restructuring charge was recorded amounting to \$4.2 million. At the same time, the Company determined that certain assets (mainly goodwill) were impaired and therefore recorded a charge of \$59.6 million to reduce those assets to their estimated fair value. During the year ended April 30, 2001, the Company settled five of its outstanding lawsuits and provided for settlement of four others. The amount charged to income including legal fees was \$4.2 million. During the fourth quarter of fiscal 2001, the Company decided to divest or close certain operations. Accordingly, its Tire Processing, Commercial Recycling and Mulch Recycling businesses have been accounted for as discontinued operations. These assets were written down to estimated realizable value. Timber Energy Recovery, Inc., the sale of which is under negotiation, is now accounted for as an asset held for sale.

During fiscal 2001, the Company decided to divest its interest in both OCI and New Heights. Accordingly, the Company began seeking a buyer and also simplified its interest in OCI/New Heights. Effective July 3, 2001, the Company acquired Oakhurst Company, Inc.'s ("OCI") 37.5% interest in New Heights Recovery and Power LLC ("New Heights"), plus received a promissory note for \$1 million and common share purchase warrants, all in exchange for the cancellation of all amounts due from OCI and all equity interests in OCI. As a result of the transaction, the Company now owns a 50% direct interest in New Heights. Accordingly, the company has written its investment and advances in OCI/New Heights down to their estimated realizable values as of April 30, 2001.

AFA, a wood mulch processing operation, was sold effective June 30, 2001 for one dollar, and the Company retained equipment having a fair market value of approximately \$1.6 million. Additionally, the Company's obligations for a lease and employment agreements with a gross remaining value of approximately \$2.6 million were terminated at a cost of \$375,000.

Effective March 1, 2001, the Company acquired the remaining 16.25% minority interest in its majority owned subsidiary, Maine Energy, and sold its majority interest in the Penobscot Energy Recovery Company. Net cash proceeds for the two transactions amounted to \$12.0 million.

During the fiscal year ended April 30, 2001, the Company acquired 13 solid and liquid waste management businesses with approximately \$9.6 million in annualized revenues.

The Company entered into a joint venture agreement with Louisiana-Pacific Corp. to combine their respective cellulose insulation businesses into a single operating entity effective August 1, 2000. The new company, known as U.S. GreenFiber LLC ("Green Fiber"), is an equally-owned joint venture formed through the combination of Louisiana-Pacific's GreenStone Industries, Inc. and the

Company's U.S. Fibers, Inc. operations. The new entity supplies cellulose insulation to existing residential construction, retail and manufactured housing supply channels.

On August 11, 2000, the Company issued convertible preferred stock to Berkshire Partners of Boston, Massachusetts and certain other investors. The preferred stock is convertible into Class A common stock at \$14.00 per share. The Company raised approximately \$55.8 million in capital, which the Company used to pay down debt and continue its strategic growth plan.

Services

The Company's waste collection, landfill, transfer, certain recycling services operations and Maine Energy, a waste-to-energy facility which incinerates non-hazardous solid waste to generate electricity, are managed on a geographic basis and are divided into three geographic regions: the Central, Eastern and Western regions. These three regions are further divided into divisions organized around smaller market areas, known as "waste sheds", each of which contains the complete cycle of activities in the solid waste service process, from collection to transfer operations and recycling to disposal in either landfills or waste-to-energy facilities. Each division is managed separately and provides distinct services to its market. The Company's residential recycling operations, exclusive of the recycling facilities which operate within the waste sheds, are managed on a line-of-business basis independent of the three geographic regions out of Charlotte, North Carolina. The brokerage business is also managed under this segment; the residential recycling operations and the brokerage business are largely interdependent.

The following are the Company's three geographic regions and one line-of-business segment that comprise the Company's operations:

Central Region

The Central Region consists of Vermont, New Hampshire and eastern upstate New York. The portion of upstate New York within the Company's Central Region as of July 18, 2001 includes Clinton, Franklin, Essex, Warren, Washington, Saratoga, Rensselaer and Albany counties. The Company owns and operates Subtitle D landfills in Bethlehem, New Hampshire (See Part I, Item 3, 'Legal Proceedings') and Coventry, Vermont, and, through a 25-year lease, operates the Clinton County landfill located in Schuylers Falls, New York. In addition, as of July 18, 2001, the Company operated 14 solid waste collection operations, the real estate of nine of which are leased and 5 are owned, 1 liquid waste collection operation, which is owned, 12 transfer stations, the real estate of five of which are leased and seven of which are owned, 4 recycling facilities, the real estate of three of which are leased and one of which is owned and one leased transportation operation.

Eastern Region

The Eastern Region consists of Maine, southeastern New Hampshire, eastern Massachusetts and northern Rhode Island. The Company owns the SERF landfill located in Hampden, Maine, which disposes of ash, construction and demolition debris, special waste and front end processing residue primarily from the state of Maine. The Company has contracted to fill the Town of Woburn, Massachusetts landfill to grade and then complete final closure. In addition, at July 18, 2001, the Company operated 10 collection operations, the real estate at six of which are leased and four of which are owned, 13 recycling facilities, the real estate of four of which are leased and nine of which are owned, and 8 transfer stations, the property of four of which are leased and four of which

are owned and collected solid waste from commercial, industrial and residential customers in the Eastern Region. The Eastern Region also includes Maine Energy, which generates electricity from non-hazardous solid waste.

Western Region

The Western Region is comprised of upstate New York (including Ithaca, Elmira, Oneonta, Lowville, Potsdam, Geneva, Auburn, Buffalo, Jamestown and Olean) and northern Pennsylvania (Wellsboro, PA). At July 18, 2001 the Company operated 10 transfer stations, all of which are owned, 2 recycling facilities, all of which are owned, 13 collection operations, all of which are owned and collected solid waste from commercial, industrial and residential customers in the Western Region. The Company owns a Subtitle D permitted landfill, the Hyland facility, in Angelica, New York, which serves the western upstate portion of the New York waste shed (See Part I, Item 3, 'Legal Proceedings'). The Company also has 2

landfills permitted to accept construction and demolition materials, the Hakes landfill, in Painted Post, New York, owned by the Company and air space leased at the Schultz landfill, in Cheektowaga, New York.

FCR Recycling

FCR Recycling ("FCR" or "Recycling") includes residential recycling and the brokerage operations.

Residential recycling comprises 19 Material Recycling Facilities ("MRF"), two of which are owned and 17 of the facilities of which are leased, located in Stratford and Hartford, Connecticut; Charlotte and Greensboro, North Carolina; Camden and Mine Hill, New Jersey; Lee County, Sarasota and West Palm Beach, Florida; Memphis, Tennessee; Athens, Georgia; Ann Arbor and Saginaw, Michigan; Claverack, New York; Greenville, South Carolina; Alexandria, Virginia; Windham, New Hampshire; and Boston and Auburn, Massachusetts. These facilities accept mainly blue box recyclables from municipalities and other waste haulers for processing. The brokerage operations of FCR, located in Lakewood, New Jersey, as well as satellite offices in California and Maine, sell the processed recyclables, (principally paper and cardboard, as well as materials purchased from others), both domestically and overseas.

Operations

The following is a description of the Company's operations.

Landfills

The Company currently owns four Subtitle D landfill operations and operates a fifth Subtitle D landfill under a 25-year lease arrangement with a county. All of the Company's operating Subtitle D landfills include leachate collection systems, groundwater monitoring systems and, where required, active methane gas extraction and recovery systems. In addition to these landfills, the Company owns two landfills permitted to accept only construction and demolition materials ("C&D landfills"). These C&D landfills, depending on the state in which they are located, are typically constructed to different regulatory standards than Subtitle D landfills, reflecting the inert nature of the materials deposited in them.

During the fiscal year ended April 30, 2001, approximately 55% of the waste volumes received by the Company's landfills were from the Company's hauling divisions or transfer stations.

The following table provides certain information regarding the landfills that the Company operates. All of such information is provided as of July 18, 2001.

| Landfill | Location | Estimated Total Remaining Permitted Capacity (Tons) (1) | Estimated in Permitting Process Capacity (Tons) (1) (2) |
|-------------------------|--------------------|--|---|
| ----- | ----- | ----- | ----- |
| Clinton County (3)..... | Schuyler Falls, NY | 478,000 | 1,112,000 |
| Waste USA | Coventry, VT | 1,509,000 | -0- |
| SERF | Hampden, ME | 1,315,378 | 1,850,000 |
| NCES..... | Bethlehem, NH | 555,000 | -0- |
| Hyland..... | Angelica, NY | 1,575,600 | -0- |
| Hakes (C&D)..... | Campbell, NY | 1,146,332 | -0- |

(1) The Company converts estimated remaining permitted capacity and capacity in permitting process from cubic yards to tons by assuming a compaction factor equal to the historic average compaction factor applicable to the respective landfill.

(2) Represents capacity for which the Company has begun the permitting process. Does not include additional available capacity at the site for which permits have not yet been sought.

(3) Operated pursuant to a capital lease expiring in 2021.

Portland, New York, was closed during the year ended April 30, 2001

The Company also owns and/or operated five unlined landfills, which are not

currently in operation. All of these landfills have been closed and capped to environmental regulatory standards by the Company. One of the unlined landfills, a municipal landfill which is adjacent to the Subtitle D Clinton County landfill being operated by the Company, was operated by the Company from July 1996 through July 1997. The Company completed the closure and capping activities at this landfill in September 1997, and is indemnified by Clinton County for environmental liabilities arising from such landfill prior to the Company's operation.

The Company regularly monitors the available permitted in-place disposal capacity at each of its active landfills and evaluates whether to seek to expand this capacity. In making this evaluation, the Company considers various factors, including the volume of solid waste projected to be disposed of at the landfill, the size of the unpermitted capacity included in the landfill, the likelihood that the Company will be successful in obtaining the approvals and permits required for the expansion and the costs that would be involved in developing the expanded capacity. The Company also considers on an ongoing basis the extent to which it is advisable, in light of changing market conditions and/or regulatory requirements, to seek to expand or change the permitted waste streams at a particular landfill or to seek other permit modifications.

Once the permitted capacity of a particular landfill is reached, the landfill must be closed and capped, and post-closure care started, if additional capacity is not authorized. The Company establishes reserves for the estimated costs associated with such closure and post-closure costs over the anticipated useful life of each landfill.

Solid Waste Collection

The Company's 38 solid and liquid waste collection operations served over 500,000 commercial, industrial and residential customers at July 18, 2001. During fiscal 2001, approximately 53% of the solid waste collected by the Company was delivered for disposal at its landfills. The Company's collection operations are generally conducted within a 125-mile radius of a Company landfill. A majority of the Company's commercial and industrial collection services are performed under one-to-three-year service agreements, and fees are determined by such factors as collection frequency, type of equipment and containers furnished, the type, volume and weight of the solid waste collected, the distance to the disposal or processing facility and the cost of disposal or processing. The Company's residential collection and disposal services are performed either on a subscription basis (i.e., with no underlying contract) with individuals, or under contracts with municipalities, homeowners associations, apartment owners or mobile home park operators.

Transfer Station Services

The Company operated 30 transfer stations as of July 18, 2001. The transfer stations receive, compact and transfer solid waste collected primarily from the Company's various collection operations to larger Company-owned vehicles for transport to landfills. The Company believes that transfer stations benefit the Company by: (i) increasing the size of the waste shed which has access to the Company's landfills; (ii) reducing costs by improving utilization of collection personnel and equipment; and (iii) building relationships with municipalities that may lead to future

business opportunities, including privatization of the municipalities' waste management services.

Recycling Services

The Company has sought to position itself to provide recycling services to customers who are willing to pay for the cost of the recycling service. Depending on the terms of each customer contract and the level of recovered material commodity prices, the proceeds generated from reselling the recycled materials are usually shared between the Company and the respective customer. In addition, the Company has adopted a pricing strategy of charging collection and processing fees for recycling volume collected from its customers.

As of July 18, 2001 the Company operated 19 recycling processing facilities throughout the three geographic regions. The Company processes more than 20 classes of recyclable materials originating from the municipal solid waste stream, including cardboard, office paper, containers and bottles. The Company's regional recycling operations, as they relate to the three geographic regions, are concentrated principally in Vermont, which is in the Central Region, as the public sector in other states in the Company's service area has generally taken

primary responsibility for recycling efforts.

FCR Recycling

The residential recycling segment is comprised of 19 recycling facilities, 17 of which are leased and two of which are owned, that process and market recyclable materials under long-term contracts with municipalities and commercial customers. Additionally, the residential recycling segment operates one leased transfer station. The recyclable materials consist principally of old newspapers, old corrugated containers, mixed paper and commingled bottles and cans consisting of plastic, glass, steel and aluminum. This line of business segment provides residential recycling, processing and marketing services.

A significant portion of the material provided to the residential recycling segment is delivered pursuant to long-term contracts with municipal customers. The contracts generally have a term of five to ten years and expire at various times between 2002 and 2018. The terms of each of the contracts vary, but all the contracts provide that the municipality or a third party delivers materials to the Company's facility. In approximately one-third of the contracts, the municipalities agree to deliver a guaranteed tonnage and the municipality pays a fee for the amount of any shortfall from the guaranteed tonnage. Under the terms of the individual contracts, the Company pays or charges the municipality a fee for each ton of material delivered. Some contracts contain revenue sharing arrangements under which the Company pays the municipality a specified percentage of the revenues from the sale of the recovered materials.

The residential recycling segment derives a significant portion of its revenues from the sale of recyclable materials. The resale and purchase prices of the recyclable materials, particularly newspaper, corrugated containers, plastic, ferrous and aluminum, can fluctuate based upon market conditions. The Company uses long-term supply contracts with customers with floor price arrangements to reduce the commodity risk for certain recyclables, particularly newspaper and aluminum metals. Under such contracts, the Company obtains a guaranteed minimum price for the recyclable materials along with a commitment to receive additional amounts if the current market price rises above the floor price. The contracts are generally with large domestic companies that use the recyclable materials in their manufacturing process. In fiscal 2001, 35% of the revenues from the sale of recyclable materials of the residential recycling segment were derived from sales under these long-term contracts.

The brokerage operation is comprised of one location in New Jersey and satellite offices in California and Maine, all of which are leased. The brokerage operation derives all of its revenues from the sale of recyclable materials, predominately old newspaper, old corrugated cardboard, mixed paper and office paper. This segment markets in excess of 800,000 tons per year of various paper fibers both domestically and overseas. The ability to market volumes of this quantity allows the segment to reach more markets and receive top industry pricing.

The brokerage operation plays an integral part in securing mill contacts and long-term contracts for Residential Recycling. The predominate type of paper fibers that Brokerage handles comprises approximately 59% of the total material that the Residential Recycling segment markets within a year. This marketing of similar materials allows both business segments to negotiate more favorable long-term fiber contracts.

Other

The Company operates three biofuel facilities, two of which are owned and one of which is leased, in Martinsville, Virginia. These facilities use biomass and coal to produce steam for sale to industrial users under long-term contracts. The largest of these plants, Martinsville, Virginia, was closed in December 1999 pursuant to that plant's only customer going out of business.

The Company owns a 60% limited partnership interest in American Ash Recycling of Tennessee LP, a limited partnership that operates a permitted municipal waste combustor ash recycling facility in Nashville, Tennessee. This facility, which commenced operations in 1993, is the first commercially operational municipal waste combustor ash recycling facility in the United States.

Timber Energy Resources, Inc., located in Telogia, Florida, uses biomass waste as its source of fuel for the production of electricity for sale to the local electric utility. The Company also operates one wood processing facility, Timber Chip, a part of Timber Energy Resources, Inc. in Cairo, Georgia. The sale of Timber is being negotiated and the net assets are recorded as assets held for

sale.

US GreenFiber LLC

The Company entered into a joint venture agreement with Louisiana-Pacific Corp. to combine their respective cellulose insulation businesses into a single operating entity effective August 1, 2000. The new company, known as U.S. GreenFiber LLC, is an equally-owned joint venture formed through the combination of Louisiana-Pacific's GreenStone Industries, Inc. and the Company's U.S. Fibers, Inc. operations.

GreenFiber is a high quality, low cost provider of cellulose insulation with national manufacturing and distribution capability. Based in Charlotte, NC, GreenFiber sells nationwide to contractors, manufactured home builders and retailers and has nine manufacturing facilities located in Atlanta, Georgia; Charlotte, N. Carolina; Delphos, Ohio; Elkwood, Virginia; Norfolk, Nebraska; Phoenix, Arizona; Sacramento, California; Tampa, Florida; and Waco, Texas.

Competition

The solid waste services industry is highly competitive; it has undergone a long period of consolidation, and requires substantial labor and capital resources. The Company competes with numerous solid waste management companies, several of which are significantly larger and have greater access to capital and greater financial, marketing or technical resources than the Company. Certain of the Company's competitors are large national companies that may be able to achieve greater economies of scale than the Company. The Company also competes with a number of regional and local companies. In addition, the Company competes with operators of alternative disposal facilities, including incinerators, and with certain municipalities, counties and districts that operate their own solid waste collection and disposal facilities. Public sector facilities may have certain advantages over the Company due to the availability of user fees, charges or tax revenues and tax-exempt financing.

The Company competes for collection and disposal volume primarily on the basis of the price and quality of its services. From time to time, competitors may reduce the price of their services in an effort to expand market share or to win a competitively bid municipal contract. These practices may also lead to reduced pricing for the Company's services or the loss of business. In addition, competition exists within the industry not only for collection, transportation and disposal volume, but also for acquisition candidates. The Company generally competes for acquisition candidates with publicly owned regional and national waste management companies.

The residential recycling industry is highly competitive and requires substantial capital resources and prior experience to bid on municipal contracts. Competition is both national and regional in nature. Some of the markets in which the Company competes are served by one or more of the large national solid waste companies including, Waste Management, Allied Waste and Republic Services, as well as numerous regional and local competitors that offer competitive prices and quality service.

The Company's waste paper brokerage business faces extensive competition. Principal attributes of these markets contributing to such competition are industry-wide overcapacity and continual price pressures.

The insulation industry is highly competitive and requires substantial capital and labor resources. In its insulation manufacturing activities, the Company's joint venture with Louisiana-Pacific primarily competes with manufacturers of fiberglass insulation such as Owens Corning, Certainteed and Schuller International. These fiberglass insulation manufacturers have a significant market share and are substantially better capitalized than the Company.

Marketing and Sales

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

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

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

Employees

The Company employs approximately 3,200 persons. Certain of the Company's employees are covered by collective bargaining agreements. The Company believes relations with its employees to be satisfactory.

Risk Management, Insurance and Performance or Surety Bonds

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

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

Effective July 1, 1999, the Company established a captive insurance company, 'Casella Insurance Company', through which it is self-insured for workman's compensation and, effective May 1, 2000 automobile coverage. The Company's maximum exposure under this plan is \$250,000 per individual event with no aggregate limit, after which reinsurance takes effect and limits the Company's exposure.

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

Customers

Under the terms of its contracts, Maine Energy must sell all of the electricity generated at its facilities to Central Maine Power, an electric utility.

The recycling segment processing facilities provide recycling services to municipalities, commercial haulers and commercial waste generators within the geographic proximity of the processing facilities. The Company acts as a broker of products, including recyclable material processed at facilities operated by the residential recycling segment, principally to paper and box board manufacturers in the United States, Canada, the Pacific Rim, Europe and South America.

The Company's cellulose insulation joint venture, US GreenFiber LLC, sells its products to manufacturers of manufactured homes, insulation contractors, and retail home improvement stores throughout the United States.

Raw Materials

Maine Energy received 31% of its solid waste in fiscal 2001 from 18 Maine municipalities under long-term waste handling agreements. Maine Energy also receives raw materials from commercial and private waste haulers and municipalities with short-term contracts.

The residential recycling segment received 45% of its material under long-term agreements with municipalities. These contracts generally provide that all recyclables collected from the municipal recycling programs be delivered to a facility that is owned or operated by the Company. The quantity of material delivered by these communities is dependent on the participation of individual households in the recycling program.

The primary raw material for the Company's insulation joint venture is newspaper collected from residential recycling programs, including those operated by the Company's residential recycling segment. In fiscal 2001, the cellulose insulation joint venture received 24% of the newspaper used by it from the residential recycling segment. It purchased the remaining newspaper from municipalities, commercial haulers, and paper brokers. The chemicals used to make the newspaper fire retardant are purchased from industrial chemical manufacturers located in the United States and South America.

Seasonality

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: (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, New Hampshire, Maine and eastern New York during the winter months tends to lower the volume of waste generated by commercial and restaurant customers, which is partially offset by the winter ski industry. Since certain of the Company's operating and fixed costs remain constant throughout the fiscal year, operating income is therefore impacted by a similar seasonality. In addition, particularly harsh weather conditions typically results in increased operating costs to many of the Company's operations.

The recycling segment experiences increased volumes of newspaper in November and December due to increased newspaper advertising and retail activity during the holiday season. Additionally, the facilities located in Florida experience increased volumes of recyclable materials during the winter months, followed by decreases in the summer months in connection with seasonal changes in population.

The insulation business experiences lower sales in November and December because of lower production of manufactured housing due to holiday plant shut downs.

Regulation

Introduction

The Company is subject to extensive and evolving Federal, state and local environmental laws and regulations which have become increasingly stringent in recent years. The environmental regulations affecting the Company are administered by the EPA and other Federal, state and local environmental, zoning, health and safety agencies. The Company believes that it is currently in substantial compliance with applicable Federal, state and local environmental laws, permits, orders and regulations, and it does not currently anticipate any material environmental costs to bring its operations into compliance (although there can be no assurance in this regard in the future). The Company expects that its operations in the solid waste services industry will be subject to continued and increased regulation, legislation and regulatory enforcement actions. The Company attempts to anticipate future legal and regulatory requirements and to carry out plans intended to keep its operations in compliance with those requirements.

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

The principal Federal, state and local statutes and regulations applicable to

the Company's various operations are as follows:

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

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

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

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

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

are present in consumer goods and in the non-hazardous waste streams of its customers.

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

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

In October 1991, the EPA adopted the Subtitle D Regulations governing solid waste landfills. The Subtitle D Regulations, which generally became effective in October 1993, include location restrictions, facility design standards, operating criteria, closure and post-closure requirements, financial assurance requirements, groundwater monitoring requirements, groundwater remediation standards and corrective action requirements. In addition, the Subtitle D Regulations require that new landfill sites meet more stringent liner design criteria (typically, composite soil and synthetic liners or two or more synthetic liners) intended to keep leachate out of groundwater and have extensive collection systems to carry away leachate for treatment prior to disposal. Regulations generally require the Company to install groundwater monitoring wells at virtually all landfills it operates, to monitor groundwater

quality and, indirectly, the effectiveness of the leachate collection systems. The Subtitle D Regulations also require facility owners or operators to control emissions of methane gas generated at landfills where certain regulatory thresholds are exceeded. Each state must revise its landfill regulations to meet these requirements or the EPA will automatically impose such requirements upon landfill owners and operators in that state. Each state also must adopt and implement a permit program or other appropriate system to ensure that landfills within the state comply with the Subtitle D regulatory criteria. Various states in which the Company operates or in which it may operate in the future have adopted regulations or programs as stringent as, or more stringent than, the Subtitle D Regulations.

The Federal Water Pollution Control Act of 1972

The Federal Water Pollution Control Act of 1972, as amended ("Clean Water Act"), regulates the discharge of pollutants into the "waters of the United States" from a variety of sources, including solid waste disposal sites and transfer stations, processing facilities and waste-to-energy facilities (collectively, "solid waste management facilities"). If run-off or collected leachate from the Company's solid waste management facilities, or process or cooling waters generated at one of the Company's waste-to-energy facilities, is discharged into streams, rivers or other surface waters, the Clean Water Act would require the Company to apply for and obtain a discharge permit, conduct sampling and monitoring and, under certain circumstances, reduce the quantity of pollutants in such discharge. A permit also may be required if that run-off, leachate, or process or cooling water is discharged to a treatment facility that is owned by a local municipality. Numerous states have enacted regulations, which are equivalent to the Clean Water Act, and which also regulate the discharge of pollutants to groundwater. Finally, virtually all solid waste management facilities must comply with the EPA's storm water regulations, which are designed to prevent contaminated storm water run-off from flowing into surface waters.

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

CERCLA established a regulatory and remedial program intended to provide for the investigation and cleanup of facilities where or from which a release of any hazardous substance into the environment has occurred or is threatened. CERCLA's primary mechanism for remedying such problems is to impose strict joint and several liability for cleanup of facilities on current owners and operators of the site, former owners and operators of the site at the time of the disposal of the hazardous substances, as well as the generators of the hazardous substances and the transporters who arranged for disposal or transportation of the hazardous substances. In addition, CERCLA also imposes liability for the costs of evaluating and addressing damage done to natural resources. The costs of CERCLA investigation and cleanup can be very substantial. Liability under CERCLA does not depend upon the existence or

disposal of "hazardous waste" as defined by RCRA, but can be based on the existence of any of more than 700 "hazardous substances" listed by the EPA, many of which can be found in household waste. In addition, the definition of "hazardous substances" in CERCLA incorporates substances designated as hazardous or toxic under the Federal Clean Water Act, Clear Air Act and Toxic Substances Control Act. If the Company were found to be a responsible party for a CERCLA cleanup, the enforcing agency could hold the Company, or any other generator, transporter or the owner or operator of the contaminated facility, responsible for all investigative and remedial costs even if others also were liable. CERCLA also authorizes EPA to impose a lien in favor of the United States upon all real property subject to, or affected by, a remedial action for all costs for which a party is liable. CERCLA provides a responsible party with the right to bring a contribution action against other responsible parties for their allocable share of investigative and remedial costs. The Company's ability to get others to reimburse it for their allocable share of such costs would be limited by the Company's ability to identify and locate other responsible parties and prove the extent of their responsibility and by the financial resources of such other parties.

The Clean Air Act

The Clean Air Act, generally through state implementation of Federal requirements, regulates emissions of air pollutants from certain landfills based upon the date the landfill was constructed and the annual volume of emissions. The EPA has promulgated new source performance standards regulating air emissions of certain regulated pollutants (methane and non-methane organic

compounds) from municipal solid waste landfills. Landfills located in areas where levels of regulated pollutants exceed certain requirements of the Clean Air Act may be subject to even more extensive air pollution controls and emission limitations. In addition, the EPA has issued standards regulating the disposal of asbestos-containing materials.

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

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

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

OSHA establishes employer responsibilities and authorizes the Occupational Safety and Health Administration to promulgate occupational health and safety standards, including the obligation to maintain a workplace free of recognized hazards likely to cause death or serious injury, to comply with adopted worker protection standards, to maintain certain records, to provide workers with required disclosures and to implement certain health and safety training programs. Various of those promulgated standards may apply to the Company's operations, including those standards concerning notices of hazards, safety in excavation and demolition work, the handling of asbestos and asbestos-containing materials, and worker training and emergency response programs.

State and Local Regulations

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

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

In addition, certain states and localities may for economic or other reasons restrict the export of waste from their jurisdiction or require that a specified amount of waste be disposed of at facilities within their jurisdiction. In 1994, the U.S. Supreme Court rejected as unconstitutional, and therefore invalid, a local ordinance that sought to impose flow controls on taking waste out of the

locality. However, certain state and local jurisdictions continue to seek to enforce such restrictions and, in certain cases, the Company may elect not to challenge such restrictions. In addition, some proposed Federal legislation would allow states and localities to impose flow restrictions. Those restrictions could reduce the volume of waste going to landfills in certain areas, which may materially adversely affect the Company's ability to operate its landfills and/or affect the prices the Company can charge for landfill disposal services. Those restrictions also may result in higher disposal costs for the Company's collection operations. If the Company were unable to pass such higher costs through to its customers, the Company's business, financial condition and results of operations could be materially adversely affected.

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

Energy and Utility Regulation

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

The Company's waste-to-energy business is dependent upon its ability to sell the electricity generated by each of its facilities to an electric utility (or, in certain instances, a third party such as an energy marketer). Those purchases generally occur under long-term power purchase agreements, some of which will expire in the near future. There is no guarantee that new agreements will replace those that expire, or that any new agreement will contain a purchase price, as favorable as the one in the expiring agreement. Additionally, in the event that the electric utility industry in a state where the Company generates electricity is deregulated in the future, it is possible that the applicable regulatory agency will require that an existing agreement be renegotiated (the resulting agreement may be less favorable to the Company) or transferred to a third party.

Executive Officers and Other Key Employees of the Company

The executive officers and other key employees of the Company, their positions, and their ages as of July 31, 2001 are as follows:

| Name ---- | Age --- | Position ----- |
|------------------------------|------------|--|
| Executive Officers ----- | | |
| John W. Casella | 50 | Chairman, Chief Executive Officer and Secretary |
| James W. Bohlig | 55 | President and Chief Operating Officer, Director |
| Richard A. Norris (1) | 58 | Senior Vice President and Chief Financial Officer, Treasurer |
| Charles E. Leonard | 47 | Senior Vice President, Solid Waste Operations |
| Other Key Employees ----- | | |
| Michael Brennan | 43 | Vice President and General Counsel |
| Christopher M. DesRoches | 43 | Vice President, Sales and Marketing |
| Sean Duffy | 41 | Regional Vice President |
| Joseph S. Fusco | 37 | Vice President, Communications |
| James M. Hiltner | 37 | Regional Vice President |

| | | |
|-----------------|----|---|
| Michael Holmes | 46 | Regional Vice President |
| Larry B. Lackey | 40 | Vice President, Permits, Compliance and Engineering |
| Alan N. Sabino | 41 | Regional Vice President |
| Gary Simmons | 51 | Vice President, Fleet Management |

(1) Effective July 31, 2001, Jerry S. Cifor will resign from the Company and Richard Norris will assume the position of Senior Vice President, Chief Financial Officer and Treasurer.

John W. Casella has served as Chairman of the Board of Directors since July 2001 and as Chief Executive Officer of the Company since 1993. Mr. Casella served as President from 1993 to July, 2001 and as Chairman of the Board of Directors from 1993 to December 1999. In addition, Mr. Casella has been Chairman of the Board of Directors of Casella Waste Management, Inc. since 1977. Mr. Casella has actively supervised all aspects of Company operations since 1976, sets overall corporate policies, and serves as chief strategic planner of corporate development. Mr. Casella is also an executive officer and director of Casella Construction, a company owned by Mr. Casella and Douglas R. Casella. Mr. Casella has been a member of numerous industry-related and community service-related state and local boards and commissions including the Board of Directors of the Associated Industries of Vermont, The Association of Vermont Recyclers, Vermont State Chamber of Commerce and the Rutland Industrial Development Corporation. Mr. Casella has also served on various state task forces, serving in an advisory capacity to the Governor of Vermont on solid waste issues. Mr. Casella holds an Associate of Science in Business Management from Bryant & Stratton University and a Bachelor of Science in Business Education from Castleton State College.

James W. Bohlig has served as President since July 2001 and as Chief Operating Officer since 1993 with primary responsibility for business development, acquisitions and operations. Mr. Bohlig also served as Senior Vice President from 1993 to July 2001. Mr. Bohlig has served as a director of the Company since 1993. From 1989 until he joined the Company, Mr. Bohlig was Executive Vice President and Chief Operating Officer of Russell Corporation, a general contractor and developer based in Rutland, Vermont. Mr. Bohlig is a licensed professional engineer. Mr. Bohlig holds a Bachelor of Science in Engineering and Chemistry from the U.S. Naval Academy, and is a graduate of the Columbia University Management Program in Business Administration.

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

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

Michael Brennan joined the company in July 2000 as Vice President and General Counsel. From July 1998 to July 2000, he served as Associate General Counsel for Waste Management, Inc. From January 1996 to July 1998, he served as Senior Counsel and from March 1993 to January 1996, he served as Environmental Counsel for Waste Management, Inc.

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

Sean Duffy has served as regional Vice President of the Company since December 1999. From January 1999 to present, Mr. Duffy served as President of FCR, Inc.,

which he co-founded in 1983 and which is now a wholly-owned subsidiary of the Company. From May 1983 to July 1992, Mr. Duffy served as Chief Operating Officer of FCR and from August 1992 to December 1998 as Executive Vice President of FCR. From May 1998 to May of 2001, Mr. Duffy also served as President of FCR Plastics, Inc., a subsidiary of FCR, Inc.

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

James M. Hiltner has served as Regional Vice President of the Company since March 1998. From 1990 to March 1998, Mr. Hiltner held various positions at Waste Management, Inc. including region president from July 1996 through March 1998, where his responsibilities included overseeing waste management operations in upstate New York and northwestern Pennsylvania, a division president from April 1992 through July 1996 and a general manager from November 1990 through April 1992.

Michael Holmes has served as a Regional Vice President of the Company since January 1997. From November 1995 to January 1997, Mr. Holmes was Vice President of Superior Disposal Services, Inc., which was acquired by the Company in January 1997. From November 1993 to November 1995, he was Superintendent of Recycling and Solid Waste for the Town of Weston, Massachusetts Solid Waste Department where he managed all aspects of the town's recycling and solid waste services. From June 1983 to October 1992, he served as the Division Manager of all divisions in the Binghamton, N.Y. area and the Boston, Massachusetts's area for Laidlaw Waste Services, Inc. Mr. Holmes is a graduate of Broome Community College.

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

Alan N. Sabino has served as Regional Vice President of the Company since July 1996. From 1995 to July 1996, Mr. Sabino served as a Division President for Waste Management, Inc. From 1989 to 1994, he served as Region Operations Manager for Chambers Development Company, Inc., a waste management company. Mr. Sabino is a graduate of Pennsylvania State University.

Gary Simmons joined the Company in May 1997 as Vice President, Fleet Management. From 1995 to May 1997, Mr. Simmons served as National and Regional Fleet Service Manager for USA Waste Services, Inc., a waste management company. From 1977 to 1995, Mr. Simmons served in various fleet maintenance and management positions for Chambers Development Company, Inc.

ITEM 2. PROPERTIES

At July 18, 2001, the Company owned and/or operated five subtitle D landfills, two landfills permitted to accept construction and demolition materials, 30 transfer stations, 21 of which are owned and 9 of which are leased, 38 hauling operations, 22 of which are owned and 16 of which are leased, 40 recyclable processing facilities, 18 of which are owned and 22 of which are leased, one owned power generation facility, and utilized 14 corporate office and other administrative facilities, two of which are owned and 12 of which are leased. The Company's landfill operations are described in Item 1.

Other than the foregoing, at July 18, 2001 the principal fixed assets used by the Company in its solid waste collection and landfill operations included approximately 1,935 collection vehicles, 460 pieces of heavy equipment and 353 support vehicles.

ITEM 3. LEGAL PROCEEDINGS

On or about October 30, 1997, Mr. Matthew M. Freeman commenced a civil lawsuit against the Company and two of its officers and directors in Vermont Superior Court. Mr. Freeman claimed to have performed services for the Company prior to 1995 and in his lawsuit was seeking a three-percent equity interest in the Company or the monetary equivalent thereof, as well as punitive damages. On February 14, 2001, the Company settled the litigation for \$350,000 in cash and the issuance of 25,000 stock options.

The Company's wholly owned subsidiary, North Country Environmental Services, Inc. ("NCES"), was a party to an appeal against the Town of Bethlehem, New

Hampshire ("Town") before the New Hampshire Supreme Court. The appeal arose from cross actions for declaratory and injunctive relief filed by NCES and the Town to determine the permitted extent of NCES's landfill in the Town. The Grafton Superior Court ruled on February 1, 1999 that the Town could not enforce an ordinance purportedly prohibiting expansion of the landfill, at least within 51 acres of NCES's 87-acre parcel, based upon certain existing land-use approvals. As a result, NCES was able to construct and operate "Stage II, Phase II" of the landfill. In May 2001, the Supreme Court denied the Town's appeal.

On or about December 7, 1999, Earth Waste Systems, Inc., Kevin Elnicki and Frank Elnicki filed a civil lawsuit against the Company, two of the Company's officers and directors, and a former employee in Vermont State Court, Rutland County. The plaintiffs alleged that the Company and the individual defendants breached contractual obligations and engaged in other wrongdoing related to, among other things, a now terminated scrap metal agreement. Plaintiffs were seeking monetary damages, including punitive damages, in an unspecified amount. In April 2001, the Company settled the litigation for \$1,000,000 plus free disposal for 2000 tons of contaminated soil.

The Company brought an action against the Town of Hampden, Maine to set aside the Town's efforts to block the Company's construction of approximately 3,100,000 tons of capacity, for which the Company had been granted a permit by the State of Maine. On October 20, 2000, the Penobscot County Superior Court in Bangor, Maine granted the Company's motion for summary judgment, remanding the matter to the Hampden Board of Appeals to grant the Company a license to expand. On March 28, 2001, the Hampden Board of Appeals granted the license to expand.

On April 1, 1999, William F. Kaiser, a former Executive Vice President and Treasurer of KTI, filed a lawsuit against KTI in the U.S. District Court for the District of New Jersey. The suit alleged breach of contract, wrongful termination, breach of the implied covenant of good faith and fair dealing, misrepresentation of employment terms and failure to pay wages, all arising out of Mr. Kaiser's employment agreement with KTI. The suit also alleged that KTI inaccurately reported its financial results for the first nine months of 1998 and failed to properly disclose the change of control provision in Mr. Kaiser's employment agreement. Mr. Kaiser was seeking a declaratory judgment that, upon closing of the merger, the change of control provision entitles him to receive a severance payment of two years' salary, in the amount of \$320,000, and to exercise 132,000 unvested options for KTI common stock. Mr. Kaiser was also seeking damages in the amount of \$40,000 for an additional severance payment, as well as

undisclosed damages for outstanding salary, bonus and other payments and from his sale of approximately 20,000 shares of KTI common stock resulting from KTI's allegedly inaccurate financial reports. A settlement conference took place in March 2001 and the parties have reached a settlement in principal in the amount of \$295,000.

On or about April 26, 1999, Salvatore Russo filed an action in the U.S. District Court, District of New Jersey against KTI and two of its principal officers, Ross Pirasteh and Martin J. Sergi, purportedly on behalf of all shareholders who purchased KTI common stock from May 4, 1998 through August 14, 1998. Melanie Miller filed an identical complaint on May 14, 1999. The complaints allege that the defendants made material misrepresentations in KTI's nine month report on Form 10-Q for the period ended March 31, 1998 in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, concerning KTI's allowance for doubtful accounts and net income. The Plaintiffs are seeking undisclosed damages. The Company believes it has meritorious defenses to these complaints. The Court has consolidated the Russo and Miller complaints, and plaintiffs filed a consolidated amended complaint on June 15, 2000. By papers dated August 31, 2000, KTI and the other defendants moved to dismiss the Russo Complaint for failure to state a claim. Following full briefing, on March 12, 2001, the District Court denied defendants' motion without prejudice and directed plaintiffs to file an amended complaint within thirty days. On April 21, 2001, the plaintiffs filed the Second Consolidated Amended Class Action Complaint. By papers served May 31, 2001, the defendants moved to dismiss that latest Complaint. The parties have agreed to delay the deadline for plaintiffs' responsive papers pending a one day mediation currently scheduled for October 12, 2001.

On May 11, 2000, the Company was granted a permit modification by the New Hampshire Department of Environmental Services to increase the volume of solid waste processed and stored at its GDS transfer station in Newport, New Hampshire. On or about June 12, 2000, a local environmental activist appealed the permit modification to the New Hampshire Waste Management Council. The

appeal claims that the modification will lead to adverse environmental impacts through higher waste flows and increased levels of incineration at a nearby waste-to-energy facility, that the Company has been the subject of "complaints" arising from its New England and New York operations, and that the Company has failed to demonstrate that the modification is consistent with the waste management plan of the local waste management district. The Company expects to seek a dismissal of the appeal for the appellant's lack of standing.

On January 7, 2000, the City of Saco, Maine filed a notice of claims with the Company and Maine Energy claiming entitlement to certain "residual cancellation" payments from Maine Energy under the waste handling agreement dated June 7, 1991 among the Biddeford-Saco Waste Handling Committee, Biddeford, Saco and Maine Energy on the basis of the satisfaction of certain conditions, including the acquisition of KTI by the Company. The notice of claims alleges that the payments due to Saco exceed \$33 million, claims damages in such amounts for breach of contract, breach of fiduciary duties and fraud and also claims treble damages of \$100 million based on alleged fraudulent transfer of Maine Energy's assets. The notice also reserves the right to seek punitive damages. Although the City of Biddeford, Maine has not filed a notice of claims, it has given notice that it will be initiating a suit to receive the residual cancellation payments. Under the agreement, the aggregate amount to be paid upon the exercise of the put right is 18% of the fair market value of the equity of the partners in Maine Energy, and such amount is required to be paid within 120 days after the exercise of the put by the respective parties entitled thereto. The Company believes it has meritorious defenses to these claims.

On or about March 24, 2000, a complaint was filed in the United States District Court, District of New Jersey against the Company, KTI, and three of KTI's principal officers, Ross Pirasteh, Martin J. Sergi, and Paul A. Garrett. The complaint purported to be on behalf of all shareholders who purchased KTI common stock from January 1, 1998 through April 14, 1999. The Complaint alleged that the defendants made unspecified misrepresentations regarding KTI's financial condition during the class period in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The plaintiffs seek undisclosed damages. On or about April 6, 2000, the plaintiffs filed an amended class action complaint, which changes the class period covered by the complaint to the period including August 15, 1998 through April 14, 1999. The Company has filed a motion to dismiss, which remains pending. The Company is reviewing the claims made by the plaintiffs.

On or about December 19, 2000, a complaint was filed in the Superior Court of New Jersey against the Company, Seaglass, Inc., KTI Recycling of New Jersey, Inc., Oakhurst Company, Inc., and Marty Sergi. The complaint alleges that Fred Devlin was not paid his "Tagalong Payment" when KTI, Inc. sold its 80% interest in Seaglass, Inc. to New Heights Power & Recovery, LLC and that his employment agreement was breached when he was terminated. The Company has filed a motion to compel arbitration, which resulted in dismissal of the complaint and the initiation of arbitration proceedings. The parties are currently in the arbitrator selection stage of the process. The Company believes that it has meritorious defenses to these claims.

During the period of November 21, 1996 to October 9, 1997, the Company performed certain closure activities and installed a cut-off wall at the Clinton County Landfill, located in Clinton County, New York. On or about April 1999, the New York State Department of Labor alleged that the Company should have paid prevailing wages in connection with the labor associated with such activities. The Company has disputed the allegations and is exploring settlement possibilities with the State. The Company believes that it has meritorious defenses to these claims.

On or about June 18, 2001, the Company received a demand for damages from Daniel and Douglas Clark related to the merger agreement between the Company and Corning Community Disposal Service, Inc., alleging that the Company breached the agreement by failing to timely register the shares of stock for sale promptly upon receipt of written request. The Clarks allege, that but for the delay of the Company, they would have had an opportunity to sell their stock before the market value declined and that they suffered damages as a result of such delay. The Company believes that it has meritorious defenses to these claims.

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

The Company offers no prediction of the outcome of any of the proceedings

described above.

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

There were no matters submitted to a vote of the security holders during the fiscal quarter ended April 30, 2001.

PART II

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

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

| Period ----- | High ---- | Low --- |
|----------------------|--------------|------------|
| Fiscal 2000 | | |
| First quarter | \$27.250 | \$19.063 |
| Second quarter | \$26.625 | \$12.75 |
| Third quarter | \$19.313 | \$13.125 |
| Fourth quarter | \$15.438 | \$5.563 |
| Fiscal 2001 | | |
| First quarter | \$13.6875 | \$7.4375 |
| Second quarter | \$12.50 | \$7.9375 |
| Third quarter | \$9.35 | \$3.25 |
| Fourth quarter | \$9.50 | \$5.625 |

On July 18, 2001, the high and low sale prices per share of the Company's Class A common stock as quoted on the Nasdaq National Market were \$13.29 and \$12.60, respectively. As of July 18, 2001 there were approximately 577 holders of record of the Company's Class A common stock and two holders of record of the Company's Class B common stock.

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

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following selected consolidated financial and operating data set forth below with respect to the Company's consolidated statements of operations and cash flows for the fiscal years ended April 30, 1999, 2000 and 2001, and the consolidated balance sheets as of April 30, 2000 and 2001 are derived from the Company's consolidated financial statements included elsewhere in this Form 10-K, and the consolidated statements of operations and cash flows data for the fiscal years ended April 30, 1997 and 1998 and the consolidated balance sheet data as of April 30, 1997, 1998 and 1999 are derived from the Company's consolidated financial statements, all of which have been audited by Arthur Andersen LLP. During the year ended April 30, 2001, the Company decided to divest or close certain operations, and has accounted for those operations as discontinued. Accordingly, the Company's financial and operating data for all periods presented have been restated. The data set forth below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and Notes thereto included elsewhere in this Form 10-K.

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

| | Fiscal Year Ended April 30, | | | | |
|--|-----------------------------|------------|------------|------------|--------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| Statement of Operations Data: | | | | | |
| Revenues | \$ 101,347 | \$ 140,991 | \$ 179,264 | \$ 315,013 | \$ 479,816 |
| Cost of operations | 63,900 | 87,567 | 106,893 | 195,495 | 323,703 |
| General and administrative | 15,954 | 19,155 | 26,210 | 40,003 | 62,612 |
| Depreciation and amortization | 14,913 | 19,921 | 25,334 | 38,343 | 52,883 |
| Impairment charge | - | 1,571 | - | - | 59,619 |
| Restructuring Charge | - | - | - | - | 4,151 |
| Legal Settlements | - | - | - | - | 4,209 |
| Other Miscellaneous Charges | - | - | - | - | 1,604 |
| Merger-Related Costs | - | 290 | 1,951 | 1,490 | - |
| Operating income (loss) | 6,580 | 12,487 | 18,876 | 39,682 | (28,965) |
| Interest expense, net | 5,094 | 7,346 | 5,564 | 15,673 | 38,647 |
| Other expense (income), net | 628 | (549) | (353) | 2,204 | 27,360 |
| Income (loss) before provision (benefit) for income taxes, discontinued operations and extraordinary items | 858 | 5,690 | 13,665 | 21,805 | (94,972) |
| Provision (benefit) for income taxes | 718 | 3,048 | 7,315 | 10,615 | (12,731) |
| Income (loss) from discontinued operations | 57 | 808 | (265) | (1,884) | 15,448 |
| Estimated loss on disposal of discontinued operations, net of income taxes | - | - | - | 1,393 | 3,846 |
| Extraordinary items, net | - | - | - | 631 | - |
| Net income (loss) | 83 | 1,834 | 6,615 | 11,050 | (101,535) |
| Accretion of preferred stock and put warrants | (8,530) | (5,738) | - | - | (1,970) |
| Net income (loss) applicable to common stockholders | \$ (8,447) | \$ (3,904) | \$ 6,615 | \$ 11,050 | \$ (103,505) |
| Basic net income (loss) per common share | \$ (1.52) | \$ (0.41) | \$ 0.44 | \$ 0.59 | \$ (4.46) |
| Basic weighted average common shares outstanding (2) | 5,548 | 9,547 | 15,145 | 18,731 | 23,189 |
| Diluted net income (loss) per common share | \$ (1.52) | \$ (0.41) | \$ 0.41 | \$ 0.57 | \$ (4.46) |
| Diluted weighted average common shares outstanding (2) | 5,548 | 9,547 | 16,019 | 19,272 | 23,189 |

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

| | Fiscal Year Ended April 30, | | | | |
|---|-----------------------------|-------------|-------------|--------------|-------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| Other Operating Data: | | | | | |
| Capital expenditures | \$ (20,050) | \$ (29,671) | \$ (54,118) | \$ (68,575) | \$ (61,518) |
| Other Data: | | | | | |
| Cash flows from operating activities | \$ 17,058 | \$ 19,726 | \$ 37,462 | \$ 48,398 | \$ 63,767 |
| Cash flows from investing activities | \$ (53,490) | \$ (59,939) | \$ (95,690) | \$ (155,088) | \$ (55,565) |
| Cash flows from financing activities | \$ 39,299 | \$ 40,564 | \$ 59,154 | \$ 116,423 | \$ 18,765 |
| Adjusted EBITDA (3) | \$ 21,921 | \$ 32,913 | \$ 46,161 | \$ 79,013 | \$ 92,475 |
| Balance Sheet Data: | | | | | |
| Cash and cash equivalents | \$ 2,794 | \$ 3,087 | \$ 4,195 | \$ 7,788 | \$ 22,001 |
| Working capital (deficit) | \$ (4,453) | \$ 3,772 | \$ 2,680 | \$ 114,368 | \$ 55,057 |
| Property, Plant and equipment, net | \$ 72,215 | \$ 88,518 | \$ 128,374 | \$ 369,261 | \$ 290,537 |
| Total assets | \$ 152,805 | \$ 205,251 | \$ 282,228 | \$ 860,470 | \$ 686,293 |
| Long-term debt, less current maturities | \$ 80,369 | \$ 82,493 | \$ 86,523 | \$ 437,853 | \$ 350,511 |
| Redeemable preferred stock | \$ 31,426 | \$ - | \$ - | \$ - | \$ 57,720 |
| Redeemable put warrants (4) | \$ 400 | \$ - | \$ - | \$ - | \$ - |

| | | | | | |
|----------------------------|-----------|-----------|------------|------------|------------|
| Total stockholders' equity | \$ 35,449 | \$ 85,004 | \$ 148,554 | \$ 274,718 | \$ 172,951 |
|----------------------------|-----------|-----------|------------|------------|------------|

(1) The Company has restated its consolidated statements of operations, consolidated statements of cash flows and consolidated balance sheets to reflect discontinuing certain operations during the year ended April 30, 2001. See Note 7 of the Notes to Consolidated Financial Statements.

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

(3) Adjusted EBITDA is defined as operating income plus depreciation and amortization, impairment charge, restructuring charge, legal settlements, other miscellaneous charges, and merger-related costs less minority interest. Adjusted EBITDA does not represent, and should not be considered as, an alternative to net income or cash flows from operating activities, each as determined in accordance with GAAP. Moreover, Adjusted EBITDA does not necessarily indicate whether cash flow will be sufficient for such items as working capital or capital expenditures, or to react to changes in the Company's industry or to the economy generally. The Company believes that Adjusted EBITDA is a measure commonly used by lenders and certain investors to evaluate a company's performance in the solid waste industry. The Company also believes that Adjusted EBITDA data may help to understand the Company's performance because such data may reflect the Company's ability to generate cash flows, which is an indicator of its ability to satisfy its debt service and capital expenditure and working capital requirements. Because Adjusted EBITDA is not calculated by all companies and analysts in the same fashion, the Adjusted EBITDA measures presented by the Company may not be comparable to similarly titled measures reported by other companies. Therefore, in evaluating Adjusted EBITDA data, investors should consider, among other factors: the non-GAAP nature of Adjusted EBITDA data; actual cash flows; the actual availability of funds for debt service, capital expenditures and working capital; and the comparability of the Company's Adjusted EBITDA data to similarly titled measures reported by other companies. For more information about the Company's cash flows, see the Consolidated Statements of Cash Flows in the Company's consolidated financial statements.

(4) Represents warrants to purchase 100,000 shares of Class A common stock exercisable at \$6.00 per share. Pursuant to the terms of these warrants, in September 1997, warrants to purchase 25,000 shares were exercised by the holder at \$6.00 per share, and warrants to purchase 75,000 shares were called by the Company at \$7.00 per share.

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

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and Notes thereto, and other financial information included elsewhere in this Form 10-K.

Casella Waste Systems, Inc. the ("Company") is a regional, integrated solid waste services company that provides collection, transfer, disposal and recycling services, primarily throughout the eastern portion of the United States. The Company markets recyclable metals, aluminum, plastics, paper and corrugated cardboard which has been processed at its facilities as well as recyclables purchased from third parties. The Company also generates electricity under its contracts at its wholly owned subsidiary, Maine Energy Recovery Company LP ("Maine Energy"), a waste-to-energy facility. As of July 18, 2001, the Company owned and/or operated five Subtitle D landfills, two landfills permitted to accept construction and demolition materials, 30 transfer stations, 43 recycling processing facilities, 38 solid and liquid waste collection divisions and one power generation facility, as well as a 50% interest in a cellulose insulation joint venture.

In April 2001, the Company's Board of Directors approved a reorganization of certain of the Company's operations. This reorganization consisted of the elimination of various positions and the closure of certain facilities. A restructuring charge was recorded amounting to \$4.2 million. At the same time, the Company determined that certain assets (mainly goodwill) were impaired and therefore recorded a charge of \$59.6 million to reduce those assets to their estimated fair value. During the year ended April 30, 2001, the Company settled five of its outstanding lawsuits and provided for settlement of four others. The

amount charged to income including legal fees was \$4.2 million. During the fourth quarter of fiscal 2001, the Company decided to divest or close certain operations. Accordingly, its Tire Processing, Commercial Recycling and Mulch Recycling businesses have been accounted for as discontinued operations. These assets were written down to estimated realizable value. Timber Energy Recovery, Inc., the sale of which is under negotiation, is now accounted for as an asset held for sale.

The Company's revenues have increased from \$43.5 million for the fiscal year ended April 30, 1996, to \$479.8 million for the fiscal year ended April 30, 2001. From May 1, 1994 through April 30, 2001, the Company acquired 181 solid waste collection, transfer and disposal operations, as well as KTI, Inc. ("KTI") in December 1999. Under the rules of purchase accounting, the acquired companies' revenues and results of operations have been included together with those of the Company from the actual dates of the acquisitions and materially affect the period-to-period comparisons of the Company's historical results of operations. During the three years ended April 30, 2000, the Company acquired eight waste collection, transfer and disposal operations in transactions accounted for as poolings of interests. Under the rules governing poolings of interests, the financial statements of the Company have been restated for all prior years to reflect the financial position, results of operations and cash flows of the merged entities as if they had been one company for all prior periods presented in the accompanying financial statements.

This Form 10-K and other reports, proxy statements, and other communications to stockholders, as well as oral statements by the Company's officers or its agents, may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, with respect to, among other things, the Company's future revenues, operating income, or earnings per share. Without limiting the foregoing, any statements contained in this Annual Report 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 -----

The Company's revenues in the Eastern, Central and Western regions are attributable primarily to fees charged to customers for solid waste disposal and collection, landfill, waste-to-energy, transfer and recycling services. The Company derives a substantial portion of its collection revenues from commercial, industrial and municipal services that are generally performed under service agreements or pursuant to contracts with municipalities. The majority of 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 consist of revenues from the sale of recyclable commodities, operations and maintenance contracts of recycling facilities for municipal customers and recyclable brokering operations.

The Company, through its Recycling segment, provides integrated waste handling services, including processing and recycling of wood, paper, metals, aluminum, plastics and glass, municipal solid waste processing and disposal, and brokerage of recycled materials. The Company emphasizes the use of low-cost processing to add value to the waste products delivered. Effective August 1, 2000, the Company contributed its cellulose insulation assets to a joint venture with Louisiana-Pacific, and accordingly, has recognized half of the joint venture's net income/(loss) in the Company's results of operations since that date. In the Other segment, the Company has ancillary assets including specialty waste disposal, ash residue recycling and the generation of electric power and steam.

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 decrease in the Company's collection revenues as a percentage of total revenues in fiscal 2000 and 2001 is primarily attributable to the effects of the KTI acquisition. Significant recycling and brokerage revenues were added through that acquisition. Because the KTI acquisition closed December 14, 1999, fiscal 2000 includes only a partial year of KTI operations. That fact accounts for most of the changes in 2001 versus the prior year.

| | % of Revenues | | |
|-----------------------------------|----------------------|--------|--------|
| | Year Ended April 30, | | |
| | 1999 | 2000 | 2001 |
| Collection..... | 86.8% | 59.8% | 46.8% |
| Landfill/Disposal Facilities..... | 8.8 | 14.1 | 16.3 |
| Transfer..... | 2.6 | 4.5 | 7.7 |
| Recycling..... | 0.0 | 4.4 | 8.0 |
| Brokerage..... | 0.0 | 10.2 | 14.7 |
| Other..... | 1.8 | 7.0 | 6.5 |
| Total Revenues..... | 100.0% | 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 efforts.

Depreciation and amortization expense includes depreciation of fixed assets over the estimated useful life of the assets using the straight-line method, amortization of landfill airspace assets under the units-of-production method, and the amortization of goodwill and other intangible assets using the straight-line method. The amount of landfill amortization expense related to airspace consumption can vary materially from landfill to landfill depending upon the purchase price and landfill site and cell development costs. The Company depreciates all fixed and intangible assets, excluding non-depreciable land, down to a zero net book value, and does not apply a salvage value to any 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 costs. The Company will have material financial obligations relating to closure and post-closure costs of its existing landfills and any disposal facilities which it may own or operate in the future. The Company has provided and will in the future provide accruals for future financial obligations relating to closure and post-closure costs of its landfills (generally for a term of 30 years after final closure) based on engineering estimates of consumption of permitted landfill airspace over the useful life of any such landfill. There can be no assurance that the Company's financial obligations for closure or post-closure costs will not exceed the amount accrued and reserved or amounts otherwise receivable pursuant to trust funds. The Company routinely evaluates all such capitalized costs, and expenses those costs related to projects not likely to be successful. Internal and indirect landfill development and acquisition costs, such as executive and corporate overhead, public relations and other corporate services, are expensed as incurred.

RESULTS OF OPERATIONS

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

| | % of Revenues |
|--|----------------------|
| | Year ended April 30, |

| | 1999 | 2000 | 2001 |
|---|--------|--------|---------|
| | ---- | ---- | ---- |
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of operations | 59.6 | 62.1 | 67.5 |
| General and administrative | 14.6 | 12.7 | 13.0 |
| Depreciation and amortization | 14.1 | 12.2 | 11.0 |
| Impairment Charge | 0.0 | 0.0 | 12.4 |
| Restructuring Charge | 0.0 | 0.0 | 0.9 |
| Legal Settlements | 0.0 | 0.0 | 0.9 |
| Other Miscellaneous Charge | 0.0 | 0.0 | 0.3 |
| Merger-Related Costs | 1.1 | 0.5 | 0.0 |
| | ----- | ----- | ----- |
| Operating income | 10.6 | 12.5 | (6.0) |
| Interest expense, net | 3.1 | 5.0 | 8.1 |
| Equity loss on investment | 0.0 | 0.3 | 5.5 |
| Other (income) expenses, net | (0.2) | 0.4 | 0.2 |
| Provision for income taxes. | 4.1 | 3.4 | (2.7) |
| | ----- | ----- | ----- |
| Net income before discontinued operations and extraordinary item | 3.6% | 3.4% | (17.1)% |
| | ===== | ===== | ===== |
| Adjusted EBITDA* | 25.8% | 25.1% | 19.3% |
| | ===== | ===== | ===== |

* See discussion and computation of Adjusted EBITDA below.

FISCAL YEAR ENDED APRIL 30, 2001 VERSUS APRIL 30, 2000

REVENUES:

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

COST OF OPERATIONS:

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

GENERAL AND ADMINISTRATIVE:

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

DEPRECIATION AND AMORTIZATION:

Depreciation and amortization expenses increased \$ 14.5 million, or 37.9%, to \$52.9 million in fiscal 2001 from \$38.3 million in fiscal 2000. Depreciation and amortization expenses as a percentage of revenue decreased to 11% in fiscal 2001 from 12.2% in fiscal 2000. The decrease in depreciation and amortization expenses as a percentage of revenues was primarily attributable to the Company's acquisition of KTI. KTI carried lower depreciation expense as a percentage of revenues (approximately 7%) than the Company's existing operations (approximately 14.5%).

IMPAIRMENT CHARGE:

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

RESTRUCTURING CHARGE:

In April 2001, the Company incurred a restructuring charge amounting to \$4.2 million. This amount was primarily attributable to severance and facility closures. See Note 6 of the Notes to Consolidated Financial Statements.

LEGAL SETTLEMENTS:

During the year, the Company settled five of its outstanding lawsuits and provided for settlement of four others. The amount provided includes associated legal fees. The lawsuits are described under Item 3. Legal Proceedings.

OTHER MISCELLANEOUS CHARGES:

During the year, the Company provided for the recapping of a landfill and for a loss contract.

INTEREST EXPENSE, NET:

Net interest expense increased approximately \$23.0 million, or 146.6% to \$38.6 million in fiscal 2001 from \$15.7 million in fiscal 2000. Interest expense, net, as a percentage of revenues, increased to 8.1% in 2001 from 5.0% in fiscal 2000. The increase in net interest expense as a percentage of revenues is primarily attributable to three factors. They are as follows: (i) higher average debt balance in fiscal 2001, versus fiscal 2000 and (ii) the Company closed on a new \$450 million senior credit facility in December 1999 that raised the Company's borrowing cost by approximately 200 basis points over the Company's previous senior credit facility and (iii) this facility was amended twice in 2001, which further increased the cost of borrowing by approximately 60 basis points.

LOSS FROM EQUITY METHOD INVESTMENTS:

This amount comprises two items, the loss from OCI/New Heights (\$22.0 million) and the loss from GreenFiber (\$4.2 million).

The former amount arises from the Company's 35% ownership of Oakhurst Company, Inc., which was acquired as part of KTI. Oakhurst Company, Inc. owned 37.5% of New Heights Recovery and Power LLC ("New Heights"). The Company also had a direct ownership interest in New Heights of 12.5%. The charge in the year included writing down this investment to net realizable value.

On July 3, 2001, the Company acquired Oakhurst Company, Inc.'s (OCI) 37.5% interest in New Heights, a promissory note for \$1 million and common share purchase warrants, all in exchange for the cancellation of all

amounts due from OCI and all equity interests in OCI. As a result of the transaction, the Company now owns a 50% direct interest in New Heights.

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

GAIN ON SALE OF WARRANTS:

The Company sold two-thirds of its holding of Bangor Hydro warrants in fiscal 2001.

MINORITY INTEREST:

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

OTHER (INCOME)/EXPENSE:

Other (income)/expense increased \$2.6 million, or 401.4%, to \$3.2 million in fiscal 2001 from \$0.6 million in fiscal 2000. The other expense in fiscal 2001 is primarily attributable to the loss on sale of certain assets in the fourth quarter (\$2.8 million), and the cost of early termination of a letter of credit (\$1.4 million).

PROVISION FOR INCOME TAXES:

Provision for income taxes decreased \$23.3 million, to \$(12.7) million in fiscal 2001 from \$10.6 million in fiscal 2000. Provision for income taxes, as a percentage of revenues, decreased to (2.7)% in fiscal 2001 from 3.4% in fiscal 2000. The decrease is primarily due to the Company's loss in fiscal 2001 compared to fiscal 2000. The other primary factors causing provision for income taxes as a percentage of pre-tax net income to vary were (i) the write off of

goodwill and recording of the equity loss from OCI/New Heights, which were non deductible and (ii) increased amortization of non-deductible KTI goodwill.

FISCAL YEAR ENDED APRIL 30, 2000 VERSUS APRIL 30, 1999

REVENUES:

Revenues increased approximately \$135.7 million, or 75.7% to \$315.0 million in fiscal 2000 from \$179.3 million in fiscal 1999. Approximately \$121.3 million of the increase was attributable to the impact of businesses acquired during fiscal 1999 and fiscal 2000, including KTI, which was acquired in December 1999. The balance of the increase of approximately \$14.4 million was attributable to internal volume and price growth, including the positive impact of higher average recyclable commodity prices in fiscal 2000 compared to fiscal 1999.

COST OF OPERATIONS:

Cost of operations increased approximately \$88.6 million, or 82.9%, to \$195.5 million in fiscal 2000 from \$106.9 million in fiscal 1999. Cost of operations as a percentage of revenues increased to 62.1% in fiscal 2000 from 59.6% in fiscal 1999. The increase in cost of operations as a percentage of revenues was primarily attributable to acquiring KTI's recyclable brokerage operations, which carry a high cost of operations as a percentage of revenues (approximately 90%). Brokerage operations comprised approximately 10.2% of the Company's revenues in fiscal 2000, versus 0% in fiscal 1999.

GENERAL AND ADMINISTRATIVE:

General and administrative expenses increased approximately \$13.8 million, or 52.6% to \$40.0 million in fiscal 2000 from \$26.2 million in fiscal 1999. General and administrative expenses as a percentage of revenues decreased to 12.7% in 2000 from 14.6% in fiscal 1999. The decrease in general and administrative expenses as a percentage of revenues was primarily the result of acquiring KTI's recyclable brokerage operations, which carry low general and administrative costs as a percentage of revenues (approximately 6%). The general and administrative cost savings from acquiring KTI also contributed to the lower general and administrative expenses as a percentage of revenues in fiscal 2000.

DEPRECIATION AND AMORTIZATION:

Depreciation and amortization expenses increased \$13.0 million, or 51.4%, to \$38.3 million in fiscal 2000 from \$25.3 million in fiscal 1999. Depreciation and amortization expenses as a percentage of revenue decreased to 12.2% in fiscal 2000 from 14.1% in fiscal 1999. The decrease in depreciation and amortization expenses as a percentage of revenues was the result of the Company's acquisition of KTI. KTI carried lower depreciation expense as a percentage of revenues (approximately 7%) than the Company (approximately 14.5%).

MERGER-RELATED COSTS:

These comprise merger-related costs consisting of legal, engineering, accounting and other costs associated with the poolings of interests consummated during fiscal 1999 and fiscal 2000. Four such transactions occurred during fiscal 1999 and two occurred in fiscal 2000, resulting in a decrease of \$0.5 million or 23.6%. Merger related costs as a percentage of revenues decreased to 0.5% in fiscal 2000 from 1.1% in fiscal 1999.

INTEREST EXPENSE, NET:

Net interest expense increased approximately \$10.1 million, or 181.7% to \$15.7 million in fiscal 2000 from \$5.6 million in fiscal 1999. Interest expense, net, as a percentage of revenues, increased to 5.0% in 2000 from 3.1% in fiscal 1999. The increase in net interest expense as a percentage of revenues is primarily attributable to two factors. They are as follows: (i) higher average debt balance in fiscal 2000 versus fiscal 1999 and (ii) the Company closed on a new \$450 million senior credit facility in December 1999 that raised the Company's borrowing cost by approximately 200 basis points over the Company's previous senior credit facility.

MINORITY INTEREST:

This amount represents the minority owners' interest in the Company's then majority owned subsidiaries, Maine Energy, Penobscot Energy Recovery Company LP and American Ash Recycling of Tennessee, Ltd.

OTHER EXPENSES (INCOME), NET:

Other expense in fiscal 2000 arose from losses on sale of certain assets, while a gain was recorded in the prior period.

PROVISION FOR INCOME TAXES:

Provision for income taxes increased \$3.3 million, or 45.1%, to \$10.6 million in fiscal 2000 from \$7.3 million in fiscal 1999. The increase is primarily due to

the Company's increase in profitability in fiscal 2000 compared to fiscal 1999. An additional factor causing income tax expense, as a percentage of pre-tax net income, to vary was poolings of interests resulting in prior period restatements of entities not liable for Federal income tax due to Subchapter S Status.

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. Because of these needs, the Company has in the past had working capital deficits. The Company had net working capital of \$55.0 million at April 30, 2001 compared to net working capital of \$114.4 million at April 30, 2000. The main factors accounting for the decrease were the reduction in accounts receivable, mainly due to divestitures, and the exchange of a receivable for assets and the lower level of assets of discontinued operations.

The Company has a \$417.5 million revolving line of credit with a group of banks for which BankBoston, N.A. is acting as agent. This line of credit consists of a \$280 million Senior Secured Revolving Credit Facility ("Revolver") and a \$137.5 million Senior Secured Delayed Draw Term "B" Loan ("Term Loan"). This line of credit is secured by all assets of the Company, including the Company's interest in the equity securities of its subsidiaries. The Revolver matures in December 2004 and the Term Loan matures in December 2006. Funds available to the Company under the line of credit were approximately \$45 million at April 30, 2001. The Company entered into two amendments to the credit facilities during the fourth quarter of 2001 pursuant to which the Company's compliance with the covenants under the line of credit has been waived.

On June 28, 2000, the Company entered into an agreement with Berkshire Partners pursuant to which it agreed to sell Berkshire convertible preferred stock, which is convertible into the Company's Class A common stock at \$14.00 per share. The Company raised approximately \$55.8 million in the transaction, which closed in August 2000.

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

Net cash provided by operations for the fiscal years ended April 30, 2001 and April 30, 2000 amounted to \$63.8 million and \$48.4 million, respectively. Although the Company experienced a net loss in 2001, it included a significant number of non-cash items including the loss from discontinued operations, equity losses in non-consolidated affiliates and the impairment charge.

For fiscal 2001 and fiscal 2000, cash used in investing activities was \$55.6 million and \$155.1 million, respectively. The year 2000 included the acquisition of KTI, while acquisitions closed in 2001 were much smaller. That decrease was partially offset by proceeds from divestitures and the proceeds from sale of the Bangor Hydro warrants. Additions to fixed assets also decreased. For fiscal 1999, cash used in investing activities was \$95.7 million.

For fiscal 2001 and fiscal 2000, the Company's financing activities provided cash of \$18.8 million and \$116.4 million, respectively. The net cash provided by financing activities in the fiscal years ended April 30, 2001 and 2000 primarily reflects borrowings on the Company's credit facility, partially offset by repayments.

INFLATION AND PREVAILING ECONOMIC CONDITIONS

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

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

NEW ACCOUNTING PRONOUNCEMENTS

In June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133". SFAS No. 137 amends FASB Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", by deferring the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted SFAS No. 133 on May 1, 2001. The adoption of these rules did not have a material impact on the consolidated results of operations.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." These standards, among other things, significantly modify the current accounting rules related to accounting for business acquisitions, amortization of intangible assets and the method of accounting for impairments. The Company has not completed an analysis as to the magnitude of the impact of these new pronouncements on the Company's financial statements, nor has it been determined whether or not it will adopt these pronouncements as of the beginning of its fiscal year 2002 or 2003. However, the Company believes that the impact, when ultimately determined, could have a significant adverse effect on the Company's carrying value of certain long-term assets (mainly goodwill).

ADJUSTED EBITDA

Adjusted EBITDA represents operating income (earnings before interest and taxes, or "EBIT") plus depreciation and amortization expense, impairment charge, restructuring charge, legal settlements, other miscellaneous charges and merger-related costs less minority interest. Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles, but is provided because the Company understands that certain investors use this information when analyzing the financial position and performance of the Company.

| | FISCAL YEAR ENDED APRIL 30, | | |
|------------------------------------|-----------------------------|-----------|-------------|
| | 1999 | 2000 | 2001 |
| Operating Income (loss) | \$ 18,876 | \$ 39,682 | \$ (28,965) |
| Depreciation and Amortization | 25,334 | 38,343 | 52,883 |
| Impairment charge (i) | 0 | 0 | 59,619 |
| Restructuring Charge (ii) | 0 | 0 | 4,151 |
| Legal Settlements (iii) | 0 | 0 | 4,209 |
| Other Miscellaneous Charges | 0 | 0 | 1,604 |
| Merger-Related Costs | 1,951 | 1,490 | 0 |
| Minority interest | 0 | (502) | (1,026) |
| Adjusted EBITDA | \$ 46,161 | \$ 79,013 | \$ 92,475 |
| EBITDA as a percentage of revenues | 25.8% | 25.1% | 19.3% |

- (i) See Note 1(l) of Notes to Consolidated Financial Statements.
- (ii) See Note 6 of Notes to Consolidated Financial Statements.
- (iii) See Note 5 of Notes to Consolidated Financial Statements.

Analysis of the factors contributing to the change in Adjusted 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 Form 10-K and presented elsewhere by management from time to time.

WE HAVE EXPERIENCED DIFFICULTIES INTEGRATING KTI'S OPERATIONS AND ASSETS.

We acquired KTI on December 14, 1999. Since that time, we have experienced

difficulties in integrating the operations of KTI and these difficulties have caused us to revise our publicly disclosed projections. There can be no assurance that we will not continue to experience difficulties in integrating KTI's operations effectively. Among other matters, in connection with the KTI acquisition we assumed certain obligations to finance and support a tire recycling operation. Although we are seeking to sell or otherwise reduce our commitment to these operations, we cannot assure you that the recycling operation will not continue to divert management and other resources until the operations are sold. At April 30, 2001, this asset was written down to realizable value and treated as an asset held for sale.

OUR INCREASED LEVERAGE MAY IMPACT OUR ABILITY TO MAKE FUTURE ACQUISITIONS.

As a result of the acquisition of KTI and the increase in our credit facility, our indebtedness has increased substantially. This increased indebtedness has resulted in increased borrowing costs, which have adversely impacted our operating results. 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 the acquisition program.

WE MAY NOT BE SUCCESSFUL IN MAKING ACQUISITIONS, WHICH COULD LIMIT OUR FUTURE GROWTH.

Our strategy envisions that a substantial part of our future growth will come from making acquisitions. There can be no assurance that we 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 us, or to integrate the operations of such acquired businesses with our operations. Any of these acquisitions may be of significant size and may include assets that are outside our geographic territories or businesses that are ancillary to our core business strategy. In addition, due to the increased consolidation of the solid waste industry and our current size, we cannot assure you that we will be able to make acquisitions in the future at a rate consistent with our historical growth rate.

WE ARE DEPENDENT ON THE MEMBERS OF OUR SENIOR MANAGEMENT TEAM.

We are highly dependent upon the services of the members of our senior management team, the loss of any of whom may have a material adverse effect on our business, financial condition and results of operations. In addition, our future success depends on our continuing ability to identify, hire, train, motivate and retain highly trained personnel. We may be in default under our credit facility if both John Casella and James Bohlig cease to be employed by us.

OUR ABILITY TO MAKE ACQUISITIONS IS DEPENDENT ON THE AVAILABILITY OF ADEQUATE CASH AND THE ATTRACTIVENESS OF OUR STOCK PRICE.

We anticipate that any future business acquisitions will be financed through cash from operations, borrowings under our bank line of credit, the issuance of shares of our Class A common stock and/or seller financing. There can be no assurance that we will have sufficient existing capital resources, that our stock price will be sufficiently attractive for use in an acquisition or that we will be able to raise sufficient additional capital resources on terms satisfactory to us, if at all, in order to meet our capital requirements.

We also believe that a significant factor in our ability to close acquisitions will be the attractiveness of our 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 our Class A common stock compared to the equity securities of our competitors. The recent volatility in the market price of our Class A common stock could materially adversely affect our acquisition program.

ENVIRONMENTAL REGULATIONS COULD SUBJECT US TO FINES, PENALTIES AND LIMITATIONS ON OUR ABILITY TO EXPAND.

We are subject to potential liability and restrictions under environmental laws. Our waste-to-energy and manufacturing facilities are subject to regulations limiting discharges of pollution into the air and water, and the solid waste operations are subject to a wide range of Federal, state and, in some cases, local environmental and land use restrictions. If we are not able to comply with the requirements that apply to a particular facility, we could be subject to fines and penalties, and we may be required to spend large amounts to bring an

operation into compliance or to temporarily or permanently stop an operation that is not permitted under the law. Those costs or actions could have a material adverse effect upon our business, financial condition and results of operations.

Environmental and land use laws also can have an impact on whether our operations can expand and, in the case of our solid waste operations, may dictate those geographic areas from which we must, or, from which we may not, accept waste. The waste management industry has been and likely will continue to be subject to regulation, as well as to attempts to regulate the industry through new legislation. Those regulations and laws also may limit the overall size and daily waste volume that may be accepted by a solid waste operation. If we are not able to expand or otherwise operate one or more of our facilities profitably because of limits imposed under environmental laws, we may be required to increase our utilization of disposal facilities owned by third parties, and if so, our business, financial condition and results of operations could suffer a material adverse effect.

We have grown through acquisitions, and we have tried to evaluate and address environmental risks and liabilities presented by newly acquired businesses as we have identified them. It is possible that some liabilities, including ones that may exist only because of the past operations of an acquired business, may prove to be more difficult or costly to address than we anticipate. It is also possible that government officials responsible for enforcing environmental laws may believe an issue is more serious than we would expect, or that we will fail to identify or fully appreciate an existing liability before we become legally responsible to address it. Some of the legal sanctions to which we could become subject could cause us to lose a needed permit, or prevent us from or delay us in

obtaining or renewing permits to operate our facilities. The number, size and nature of those liabilities could have a material adverse effect on our business, financial condition and results of operations.

Our operating program depends on our ability to operate and expand the landfills we own and lease and to develop new landfill sites. Several of our 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 our landfills are located will not have a material adverse effect on our utilization of our landfills or that we will be successful in obtaining new landfill sites or expanding the permitted capacity of any of our current landfills once their remaining disposal capacity has been consumed.

OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED BY CHANGING PRICES OR MARKET REQUIREMENTS FOR RECYCLABLE MATERIALS.

Our results of operations may be materially adversely affected by changing purchase or resale prices or market requirements for recyclable materials. Our 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 our control. These changes have in the past contributed, and may continue to contribute, to significant variability in our period-to-period results of operations.

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

THE SEASONALITY OF OUR REVENUES COULD ADVERSELY IMPACT OUR FINANCIAL CONDITION.

The Company's transfer and disposal revenues have historically been lower during the months of November through March. This seasonality reflects the lower volume of waste during the late fall, winter and early spring months primarily because: (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 is therefore impacted by a similar seasonality. In addition, particularly harsh weather conditions could result in increased operating costs to some of the Company's operations.

The recycling segment experiences increased volumes of newspaper in November and December due to increased newspaper advertising and retail activity during the holiday season. Additionally, the facilities located in Florida experience increased volumes of recyclable materials during the winter months, followed by decreases in the summer months in connection with seasonal changes in population.

The insulation business experiences lower sales in November and December because of lower production of manufactured housing due to holiday plant shut downs.

OUR BUSINESS IS GEOGRAPHICALLY CONCENTRATED AND IS THEREFORE SUBJECT TO REGIONAL ECONOMIC DOWNTURNS.

Our operations and customers are principally located in the eastern United States. Therefore, our business, financial condition and results of operations are susceptible to regional economic downturns and other regional factors, including state regulations and severe weather conditions. In addition, as we expand in our existing markets,

opportunities for growth within these regions will become more limited. The costs and time involved in permitting and the scarcity of available landfills will make it difficult for us to expand vertically in these markets. We cannot assure you that we will complete enough acquisitions in other markets to lessen our regional geographic concentration.

MAINE ENERGY MAY BE REQUIRED TO MAKE A PAYMENT IN CONNECTION WITH THE PAYOFF OF THE MAINE ENERGY BONDS WHICH EXCEEDS THE AMOUNT OF THE LIABILITY WE RECORDED IN CONNECTION WITH THE KTI ACQUISITION.

Under the terms of a waste handling agreement among the Biddeford-Saco Waste Handling Committee, Biddeford, Saco and Maine Energy, Maine Energy may be required, following the date on which the bonds financing Maine Energy and certain limited partner loans to Maine Energy are paid in full, to pay an aggregate of 18% of the fair market value of the equity of the partners in Maine Energy to the respective municipalities party to that agreement. In connection with the acquisition of KTI, the Company estimated the fair market value of Maine Energy as of the date the bonds are assumed to be paid in full, and recorded a liability equal to 18% of such amount. We cannot assure you that our estimate of the fair market value of Maine Energy will prove to be accurate, and in the event we have underestimated the value of Maine Energy, we could be required to recognize unanticipated charges, in which case our financial condition, results of operations and liquidity could be materially adversely affected.

WE MAY NOT BE ABLE TO EFFECTIVELY COMPETE IN THE HIGHLY COMPETITIVE SOLID WASTE SERVICES INDUSTRY.

The solid waste services industry is highly competitive, is undergoing a period of increasingly rapid consolidation, and requires substantial labor and capital resources. Some of the markets in which we compete 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 our competitors have significantly greater financial and other resources than us. From time to time, competitors may reduce the price of their services in an effort to expand market share or to win a competitively bid municipal contract. These practices may either require us to reduce the pricing of our services or result in our loss of business. As is generally the case in the industry, municipal contracts are subject to periodic competitive bidding. There can be no assurance that we will be the successful bidder to obtain or retain these contracts. If we are 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, our business, financial condition and results of operations could be materially adversely affected.

In our solid waste disposal markets, we also compete 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 us.

Our insulation manufacturing joint venture with Louisiana-Pacific competes with other parties, some of which have substantially greater resources than we do, which they could use for product development, marketing or other purposes to our detriment.

OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION MAY BE NEGATIVELY AFFECTED IF WE INADEQUATELY ACCRUE FOR CLOSURE AND POST-CLOSURE COSTS.

We have material financial obligations relating to closure and post-closure costs of our existing landfills and will have material financial obligations with respect to any disposal facilities which we may own or operate in the future. In addition to the landfills we currently operate, we own four unlined landfills which are not currently in operation. We have provided and will in the future provide accruals for financial obligations relating to closure and post-closure costs of our owned or operated landfills, generally for a term of 30 years after final closure of a landfill. We cannot assure you that our financial obligations for closure or post-closure costs will not exceed the amount accrued and reserved or amounts otherwise receivable pursuant to trust funds established for this purpose. Such a

circumstance could result in unanticipated charges and have a material adverse effect on our financial condition and results of operations.

WE COULD BE PRECLUDED FROM ENTERING INTO CONTRACTS OR OBTAINING PERMITS IF WE ARE UNABLE TO OBTAIN THIRD PARTY FINANCIAL ASSURANCE TO SECURE OUR CONTRACTUAL OBLIGATIONS.

Municipal solid waste collection and recycling contracts, obligations associated with landfill closure and the operation and closure of waste-to-energy facilities may require performance or surety bonds, letters of credit or other means of financial assurance to secure our contractual performance. If we are unable to obtain the necessary financial assurance in sufficient amounts or at acceptable rates, we could be precluded from entering into additional municipal solid waste collection contracts or from obtaining or retaining landfill operating permits. Any future difficulty in obtaining insurance could also impair our ability to secure future contracts conditioned upon the contractor having adequate insurance coverage. Accordingly, our failure to obtain financial assurance bonds, letters of credit or other means of financial assurance or to maintain adequate insurance could have a material adverse effect on our business, financial condition and results of operations.

WE MAY BE REQUIRED TO WRITE-OFF CAPITALIZED CHARGES IN THE FUTURE, WHICH COULD ADVERSELY AFFECT OUR EARNINGS.

Any charge against earnings could have a material adverse effect on our earnings and the market price of our Class A common stock. In accordance with generally accepted accounting principles, we capitalize certain expenditures and advances relating to our acquisitions, pending acquisitions, landfills and development projects. From time to time in future periods, we 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 we estimate will be recoverable, through sale or otherwise, relating to (a) any operation that is permanently shut down or has not generated or is not expected to generate sufficient cash flow, (b) any pending acquisition that is not consummated and (c) any landfill or development project that is not expected to be successfully completed. We have incurred such charges in the past.

OUR CLASS B COMMON STOCK HAS TEN VOTES PER SHARE AND IS HELD EXCLUSIVELY BY JOHN W. CASELLA AND DOUGLAS R. CASELLA.

The holders of our Class B common stock are entitled to ten votes per share and the holders of our Class A common stock are entitled to one vote per share. At July 18, 2001, an aggregate of 988,200 shares of our Class B common stock, representing 9,882,000 votes, were outstanding, all of which were beneficially owned by John W. Casella, our chairman and chief executive officer, or by his brother, Douglas R. Casella, a director. Based on the number of shares of common stock outstanding at July 18, 2001, the shares of our Class A common stock and

Class B common stock held by John W. Casella and Douglas R. Casella represent approximately 34.2% of the aggregate voting power of our stockholders. Consequently, John W. Casella and Douglas R. Casella will be able to substantially influence all matters for stockholder consideration.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

At April 30, 2001, the Company has entered into six interest rate swap agreements (the "Swap Agreements") with two banks. The purpose was to effectively convert a portion of the Company's interest rate exposure on advances under its revolving credit facility from a floating rate to a fixed rate. The Swap Agreements effectively fix the Company's interest rate on the notional amount of \$250.0 million, at rates from 5.19375% to 6.875%. Net monthly payments or monthly receipts under the Swap Agreements are recorded as adjustments to interest expense. In addition, in the event of non-performance by the counterparties, the Company would be exposed to interest rate risk on the entire balance in the event the variable interest rate paid was to exceed the fixed rate paid under the terms of the Swap Agreements. If interest rates changed by 100 basis points, the impact on the Company would be an increase or decrease in annual interest expense of approximately \$1.0 million. The fair market value of the swaps is estimated at a loss of \$6.9 million as of April 30, 2001.

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

The Company is subject to commodity price fluctuations related to the portion of its sales of recyclable commodities that are not under floor or flat pricing arrangements. To minimize the Company's commodity exposure, the Company enters into hedging transactions that have been authorized pursuant to the Company's policies and procedures. The Company does not use financial instruments for trading purposes and is not a party to any leveraged derivatives. If commodity prices were to change by 10%, the impact on the company's revenue is estimated at \$6.6 Million.

At April 30, 2001, the Company has entered into several contracts for newsprint, cardboard and aluminum. The estimated fair market value of these contracts at April 30, 2001 amounted to \$1.8 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Casella Waste Systems, Inc. and subsidiaries as of April 30, 2000 and 2001, and the

consolidated results of their operations and their consolidated cash flows for each of the three years ended April 30, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

/s/ Arthur Andersen LLP

Boston, Massachusetts
July 19, 2001

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

| ASSETS | April 30, 2000 | April 30, 2001 |
|---|-------------------|-------------------|
| ----- | ----- | ----- |
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents | \$ 7,788 | \$ 22,001 |
| Restricted Cash | 19,336 | 7,175 |
| Accounts Receivable - Trade, net of allowance for Doubtful Accounts of \$5,371 and \$4,904 | 77,586 | 51,776 |
| Accounts Receivable - Other | 14,429 | - |
| Notes Receivable - Officers/Employees | 2,095 | 1,953 |
| Prepaid Expenses | 5,545 | 5,669 |
| Inventory | 9,529 | 3,017 |
| Investments | 5,156 | 3,641 |
| Deferred Income Taxes | 12,730 | 8,015 |
| Net Assets Held for Sale | 3,775 | 8,041 |
| Net Assets of Discontinued Operations | 27,222 | 11,534 |
| Other Current Assets | 4,952 | 2,763 |
| | ----- | ----- |
| Total Current Assets | 190,143 | 125,585 |
| | ----- | ----- |
| PROPERTY, PLANT AND EQUIPMENT, at Cost: | | |
| Land and Land Held for Investment | 11,380 | 11,813 |
| Landfills | 64,254 | 77,620 |
| Landfill Development | 10,353 | 12,553 |
| Buildings and Improvements | 43,396 | 50,597 |
| Machinery and Equipment | 222,031 | 139,921 |
| Rolling Stock | 77,505 | 84,076 |
| Containers | 34,744 | 39,117 |
| | ----- | ----- |
| | 463,663 | 415,697 |
| | ----- | ----- |
| Less: Accumulated Depreciation and Amortization | (94,402) | (125,160) |
| | ----- | ----- |
| Property, Plant and Equipment, net | 369,261 | 290,537 |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Intangible Assets, net | 272,291 | 237,573 |
| Restricted Cash | 10,847 | 2,902 |
| Deferred Income Taxes | - | 5,259 |
| Investments in Unconsolidated Entities | 14,306 | 21,844 |
| Other Non-Current Assets | 3,622 | 2,593 |
| | ----- | ----- |
| | 301,066 | 270,171 |
| | ----- | ----- |
| | \$ 860,470 | \$ 686,293 |
| | ===== | ===== |

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

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

| LIABILITIES AND STOCKHOLDERS' EQUITY | April 30, 2000 | April 30, 2001 |
|--------------------------------------|-------------------|-------------------|
| ----- | ----- | ----- |

| CURRENT LIABILITIES: | | |
|--|----------|----------|
| Current Maturities of Long-Term Debt | \$ 8,134 | \$ 6,690 |
| Current Maturities of Capital Lease Obligations | 788 | 1,429 |
| Accounts Payable | 39,404 | 29,158 |
| Accrued Payroll and Related Expenses | 5,410 | 2,542 |
| Accrued Interest | 3,994 | 4,880 |
| Accrued Income Taxes | 3,766 | 3,388 |
| Accrued Closure and Post-Closure Costs, Current Portion | 259 | 77 |
| Deferred Revenue | 2,829 | 520 |
| Other Current Liabilities | 11,191 | 21,844 |
| | ----- | ----- |
| Total Current Liabilities | 75,775 | 70,528 |
| | ----- | ----- |
| Long-Term Debt, Less Current Maturities | 437,853 | 350,511 |
| | ----- | ----- |
| Capital Lease Obligations, Less Current Maturities | 3,732 | 4,593 |
| | ----- | ----- |
| Deferred Income Taxes | 30,948 | - |
| | ----- | ----- |
| Accrued Closure and Post-Closure Costs, Less Current Maturities | 12,017 | 17,153 |
| | ----- | ----- |
| Minority Interest | 16,378 | 677 |
| | ----- | ----- |
| Other Long-Term Liabilities | 9,049 | 12,160 |
| | ----- | ----- |

COMMITMENTS AND CONTINGENCIES:

| | | |
|---|---|--------|
| Series A Redeemable, Convertible Preferred Stock, 55,750 Shares Authorized, Issued and Outstanding, Liquidation Preference of \$1,000 per share | - | 57,720 |
|---|---|--------|

STOCKHOLDERS' EQUITY:

| | | |
|--|------------|------------|
| Class A Common Stock - | | |
| Authorized - 100,000,000 Shares, \$0.01 par value Issued and Outstanding - 22,215,000 and 22,198,000 Shares as of April 30, 2000 and 2001, respectively | 222 | 222 |
| Class B Common Stock - | | |
| Authorized - 1,000,000 Shares, \$0.01 par value 10 Votes per Share, Issued and Outstanding - 988,000 Shares as of April 30, 2000 and 2001 | 10 | 10 |
| Accumulated Other Comprehensive Income (Loss) | (305) | 586 |
| Additional Paid-In Capital | 270,655 | 271,502 |
| Retained Earnings/(Accumulated Deficit) | 4,136 | (99,369) |
| | ----- | ----- |
| Total Stockholders' Equity | 274,718 | 172,951 |
| | ----- | ----- |
| | \$ 860,470 | \$ 686,293 |
| | ===== | ===== |

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

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

| | Fiscal Year Ended April 30, | | |
|-------------------------------|-----------------------------|------------|------------|
| | 1999 | 2000 | 2001 |
| | ----- | ----- | ----- |
| Continuing Operations: | | | |
| Revenues | \$ 179,264 | \$ 315,013 | \$ 479,816 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Cost of Operations | 106,893 | 195,495 | 323,703 |
| General and Administrative | 26,210 | 40,003 | 62,612 |
| Depreciation and Amortization | 25,334 | 38,343 | 52,883 |

| | | | |
|---|----------|-----------|--------------|
| Impairment Charge | - | - | 59,619 |
| Restructuring Charge | - | - | 4,151 |
| Legal Settlements | - | - | 4,209 |
| Other Miscellaneous Charges | - | - | 1,604 |
| Merger-Related Costs | 1,951 | 1,490 | - |
| | ----- | ----- | ----- |
| | 160,388 | 275,331 | 508,781 |
| | ----- | ----- | ----- |
| Operating Income (Loss) | 18,876 | 39,682 | (28,965) |
| | ----- | ----- | ----- |
| Other (Income)/Expense: | | | |
| Interest Income | (77) | (1,234) | (2,941) |
| Interest Expense | 5,641 | 16,907 | 41,588 |
| Loss from Equity Method Investments | - | 1,062 | 26,256 |
| Gain on Sale of Warrants | - | - | (3,131) |
| Minority Interest | - | 502 | 1,026 |
| Other Expenses/(Income) | (353) | 640 | 3,209 |
| | ----- | ----- | ----- |
| Other Expenses, net | 5,211 | 17,877 | 66,007 |
| | ----- | ----- | ----- |
| Income (Loss) from Continuing Operations Before Income Taxes, Discontinued Operations and Extraordinary Item | 13,665 | 21,805 | (94,972) |
| Provision (Benefit) for Income Taxes | 7,315 | 10,615 | (12,731) |
| | ----- | ----- | ----- |
| Income (Loss) from Continuing Operations Before Discontinued Operations and Extraordinary Item | 6,350 | 11,190 | (82,241) |
| | ----- | ----- | ----- |
| Discontinued Operations: | | | |
| Income (Loss) from Discontinued Operations to be disposed (net of income taxes of \$195 in 1999 and \$1,471 in 2000 and a tax benefit of \$8,781 in 2001.) | 265 | 1,884 | (15,448) |
| | ----- | ----- | ----- |
| Estimated loss on disposal of Discontinued Operations, including a provision for operating losses of \$0 and \$5,054 during phase-out period net of income tax benefit of \$891 and \$1,085 in 2000 and 2001, respectively. | - | (1,393) | (3,846) |
| | ----- | ----- | ----- |
| Extraordinary Item - Early Extinguishment of Debt, net of income tax of \$448 | - | (631) | - |
| | ----- | ----- | ----- |
| Net Income (Loss) | 6,615 | 11,050 | (101,535) |
| | ----- | ----- | ----- |
| Accretion of Preferred Stock Dividend | - | - | (1,970) |
| | ----- | ----- | ----- |
| Net Income/(Loss) Applicable to Common Stockholders | \$ 6,615 | \$ 11,050 | \$ (103,505) |
| | ----- | ----- | ----- |

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 share and per share data)

| | Fiscal Year Ended April 30, | | |
|--|-----------------------------|-----------|-----------|
| | 1999 | 2000 | 2001 |
| | ----- | ----- | ----- |
| Earnings Per Common Share: | | | |
| Basic: | | | |
| Income (Loss) from Continuing Operations Before Discontinued Operations and Extraordinary Item | \$ 0.42 | \$ 0.59 | \$ (3.63) |
| Income (Loss) from Discontinued Operations | \$ 0.02 | \$ 0.10 | \$ (0.66) |
| Estimated Loss on Disposal of Discontinued Operations | \$ - | \$ (0.07) | \$ (0.17) |
| Extraordinary Item | \$ - | \$ (0.03) | \$ - |
| | ----- | ----- | ----- |
| Net Income/(Loss) per Common Share | \$ 0.44 | \$ 0.59 | \$ (4.46) |
| | ===== | ===== | ===== |
| Basic Weighted Average Common Shares Outstanding | 15,145 | 18,731 | 23,189 |
| | ===== | ===== | ===== |
| Diluted: | | | |
| Income (Loss) from Continuing Operations Before Discontinued Operations and Extraordinary Item | \$ 0.39 | \$ 0.57 | \$ (3.63) |
| Income (Loss) from Discontinued Operations | \$ 0.02 | \$ 0.10 | \$ (0.66) |
| Estimated Loss on Disposal of | | | |

| | | | |
|--|---------|-----------|-----------|
| Discontinued Operations | \$ - | \$ (0.07) | \$ (0.17) |
| Extraordinary Item | \$ - | \$ (0.03) | \$ - |
| Net Income/(Loss) per Common Share | \$ 0.41 | \$ 0.57 | \$ (4.46) |
| Diluted Weighted Average Common Shares Outstanding | 16,019 | 19,272 | 23,189 |

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK
AND STOCKHOLDERS' EQUITY
(In thousands)

| | Series A Redeemable Convertible Preferred Stock | | Stockholders' Equity | | | |
|---|---|-----------|----------------------|-----------|----------------------|-----------|
| | # of Shares | Amount | Class A Common Stock | | Class B Common Stock | |
| | # of Shares | Amount | # of Shares | Par Value | # of Shares | Par Value |
| Balance, April 30, 1998 | - | - | 12,158 | \$ 122 | 988 | \$ 10 |
| Issuance of Class A Common Stock-Net of Issuance Costs | - | - | 2,061 | 20 | - | - |
| Issuance of Class A Common Stock From the Exercise of Stock Warrants/Options and Employee Stock Purchase Plan | - | - | 582 | 6 | - | - |
| Tax Benefits of Stock Options Exercised | - | - | - | - | - | - |
| Equity Transactions/ Adjustments To Poolings | - | - | 68 | 1 | - | - |
| Net Income | - | - | - | - | - | - |
| Balance, April 30, 1999 | - | \$ - | 14,869 | \$ 149 | 988 | \$ 10 |
| Issuance of Class A Common Stock and Stock Options - KTI Acquisition | - | - | 7,152 | 72 | - | - |
| Issuance of Class A Common Stock From the Exercise of Stock Warrants/Options and Employee Stock Purchase Plan | - | - | 194 | 1 | - | - |
| Equity transactions of Majority-Owned Subsidiary | - | - | - | - | - | - |
| Net Income | - | - | - | - | - | - |
| Unrealized Loss on Securities | - | - | - | - | - | - |
| Total Comprehensive Income | - | - | - | - | - | - |
| Balance, April 30, 2000 | - | \$ - | 22,215 | \$ 222 | 988 | \$ 10 |
| Issuance of Class A Common Stock From the Exercise of Stock Options and Employee Stock Purchase Plan | - | - | 32 | - | - | - |
| Issuance of Series A Redeemable Convertible Preferred Stock | 56 | 55,750 | - | - | - | - |
| Accretion of Preferred Stock Dividend | - | 1,970 | - | - | - | - |
| Equity transactions of Majority-Owned Subsidiary | - | - | - | - | - | - |
| Net Loss | - | - | - | - | - | - |
| Unrealized Gain on Securities | - | - | - | - | - | - |
| Total Comprehensive Loss | - | - | - | - | - | - |
| Other | - | - | (49) | - | - | - |
| Balance, April 30, 2001 | 56 | \$ 57,720 | 22,198 | \$ 222 | 988 | \$ 10 |

| | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Total Comprehensive Income (Loss) |
|---|----------------------------|---|---|----------------------------|-----------------------------------|
| Balance, April 30, 1998 | \$ 96,398 | \$ (12,766) | \$ - | \$ 83,764 | |
| Issuance of Class A Common Stock-Net of Issuance Costs | 52,211 | - | - | 52,231 | |
| Issuance of Class A Common Stock From the Exercise of Stock Warrants/Options and Employee Stock Purchase Plan | 3,805 | - | - | 3,811 | |
| Tax Benefit of Stock Options Exercised | 2,220 | - | - | 2,220 | |
| Equity Transactions/ Adjustments To Poolings | 99 | (763) | - | (663) | |
| Net Income | - | 6,615 | - | 6,615 | 6,615 |
| Balance, April 30, 1999 | \$ 154,733 | \$ (6,914) | \$ - | \$ 147,978 | |
| Issuance of Class A Common Stock and Stock Options - KTI Acquisition | 113,788 | - | - | 113,860 | |

| | | | | | |
|--|------------|----------|----------|------------|--------|
| Issuance of Class A Common Stock From the Exercise of Stock Warrants/Options and Employee Stock Purchase Plan | 859 | - | - | 860 | |
| Equity transactions of Majority- Owned Subsidiary | 1,275 | - | - | 1,275 | |
| Net Income | - | 11,050 | - | 11,050 | 11,050 |
| Unrealized Loss on Securities | - | - | - | (305) | (305) |
| Total Comprehensive Income | - | - | - | - | 10,745 |
| Balance, April 30, 2000 | \$ 270,655 | \$ 4,136 | \$ (305) | \$ 274,718 | |

| | | | | | |
|---|------------|-------------|--------|------------|-----------|
| Issuance of Class A Common Stock From the Exercise of Stock Options and Employee Stock Purchase Plan | 258 | - | - | 258 | |
| Issuance of Series A Redeemable Convertible Preferred Stock | (1,009) | - | - | (1,009) | |
| Accretion of Preferred Stock Dividend | - | (1,970) | - | (1,970) | |
| Equity transactions of Majority- Owned Subsidiary | 1,506 | - | - | 1,506 | |
| Net Loss | - | (101,535) | - | (101,535) | (101,535) |
| Unrealized Gain on Securities | - | - | 891 | 891 | 891 |
| Total Comprehensive Loss | - | - | - | - | (100,644) |
| Other | 92 | - | - | 92 | |
| Balance, April 30, 2001 | \$ 271,502 | \$ (99,369) | \$ 586 | \$ 172,951 | |

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

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

| | Fiscal Year Ended April 30, | | |
|--|-----------------------------|-----------|--------------|
| | 1999 | 2000 | 2001 |
| Cash Flows from Operating Activities: | | | |
| Net Income (Loss) | \$ 6,615 | \$ 11,050 | \$ (101,535) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities - | | | |
| Depreciation and Amortization | 25,334 | 38,343 | 52,883 |
| Estimated Loss on Disposal of Discontinued Operations | - | 1,393 | 3,846 |
| (Income) Loss from Discontinued Operations | (265) | (1,884) | 15,448 |
| Extraordinary Item | - | 631 | - |
| Loss from Equity Method Investments | - | 1,062 | 26,256 |
| Impairment Charge | - | - | 59,619 |
| Gain on Sale of Warrants | - | - | (3,131) |
| Loss on Sale of Assets | 3 | 840 | 1,101 |
| Minority Interest | - | 502 | 1,026 |
| Deferred Income Taxes | 558 | 11,939 | (10,866) |
| Changes in Assets and Liabilities, net of Effects of Acquisitions - | | | |
| Accounts Receivable | (1,135) | (17,320) | 16,692 |
| Accounts Payable | 4,419 | 1,433 | (6,643) |
| Other Current Assets and Liabilities | 1,933 | 409 | 9,071 |
| | 30,847 | 37,348 | 165,302 |
| Net Cash Provided by Operating Activities | 37,462 | 48,398 | 63,767 |
| Cash Flows from Investing Activities: | | | |
| Acquisitions, net of Cash Acquired | (33,336) | (81,838) | (9,331) |
| Proceeds from Divestitures, net of Cash Divested | - | - | 15,814 |
| Additions to Property, Plant and Equipment | (54,118) | (68,575) | (61,518) |
| Proceeds from Sale of Equipment | 587 | 1,317 | 2,298 |
| Proceeds from Sale of Warrants | - | - | 6,718 |
| Advances to Unconsolidated Entities | - | (5,580) | (9,546) |
| Other | (8,823) | (412) | - |
| Net Cash Used in Investing Activities | (95,690) | (155,088) | (55,565) |

| | | | |
|---|----------|-----------|-----------|
| Cash Flows from Financing Activities: | | | |
| Proceeds from Long-Term Borrowings | 73,728 | 423,955 | 49,590 |
| Principal Payments on Long-Term Debt | (70,809) | (309,667) | (87,331) |
| Proceeds from Issuance of Common Stock | 52,231 | - | - |
| Proceeds from Equity Transactions of Majority-Owned Subsidiary | - | 1,275 | 1,506 |
| Proceeds from Exercise of Stock Warrants/Options and Employee Stock Option Plan | 3,811 | 860 | 259 |
| Equity Transactions of Pooled Entities | 193 | - | - |
| Proceeds from the Issuance of Series A Redeemable, Convertible Preferred Stock, net | - | - | 54,741 |
| | ----- | ----- | ----- |
| Net Cash Provided by Financing Activities | 59,154 | 116,423 | 18,765 |
| | ----- | ----- | ----- |
| Cash from Discontinued Operations | 182 | (6,140) | (12,754) |
| Net Increase in Cash and Cash Equivalents | 1,108 | 3,593 | 14,213 |
| Cash and Cash Equivalents, Beginning of Year | 3,087 | 4,195 | 7,788 |
| | ----- | ----- | ----- |
| Cash and Cash Equivalents, End of Year | \$ 4,195 | \$ 7,788 | \$ 22,001 |
| | ===== | ===== | ===== |

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

Supplemental Disclosures of Cash Flow Information:

Cash Paid (Received) During the Year for -

| | | | |
|------------------------------|----------|-----------|------------|
| Interest | \$ 6,288 | \$ 12,514 | \$ 37,484 |
| | ===== | ===== | ===== |
| Income Taxes, net of Refunds | \$ 6,952 | \$ 1,876 | \$ (1,773) |
| | ===== | ===== | ===== |

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

Summary of Entities Acquired

in Purchase Business Combinations

| | | | |
|---------------------------------------|-----------|------------|-----------|
| Fair Market Value of Assets Acquired | \$ 36,210 | \$ 519,054 | \$ 22,602 |
| Notes Receivable Exchanged for Assets | | | (13,267) |

| | | | |
|---------------------------------------|----------|-----------|---------|
| Common Stock and Stock Options Issued | - | (113,860) | - |
| Cash Paid, net | (33,336) | (81,838) | (9,331) |
| | ----- | ----- | ----- |

| | | | |
|--|----------|------------|-------|
| Liabilities Assumed and Notes Payable to Sellers | \$ 2,874 | \$ 323,356 | \$ 4 |
| | ===== | ===== | ===== |

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except for share and per share data)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Casella Waste Systems, Inc. ("the Company") is a regional, integrated solid waste services company, that provides collection, transfer, disposal and recycling services, primarily throughout the eastern portion of the United States. The Company markets recyclable metals, aluminum, plastics, paper and corrugated cardboard which has been processed at its facilities as well as recyclables purchased from third parties. The Company also generates electricity under long-term contracts at a waste-to-energy facility, Maine Energy Recovery Company LP ("Maine Energy") (see Note 3).

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

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Certain reclassifications have been made to the prior period financial statements to conform to the current presentation.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(c) Revenue Recognition

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

Revenues from the sale of electricity to local utilities by the Company's waste-to-energy facilities (see Note 3) are recorded at the contract rate specified by its power purchase agreement as the electricity is delivered.

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

Revenues from brokerage are recognized at the time of shipment.

(d) Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, investments in closure trust funds, trade payables and debt instruments. The carrying values of these financial instruments approximate their respective fair values. See Note 4 for the terms and carrying values of the Company's various debt instruments.

(e) Cash and Cash Equivalents

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

(f) Restricted Cash

Restricted cash consists of cash held in trust on deposit with various banks that support the Company's financial assurance obligations for its facilities' closure and post-closure costs. It also includes cash held in trust, all of which is available, under certain circumstances, for current operating expenses, debt service, capital improvements and repairs and maintenance in accordance with certain contractual obligations. Restricted cash available for current operating and debt service purposes is classified as a current asset. A summary of restricted cash is as follows:

| | April 30, 2000 | | | April 30, 2001 | | |
|--|----------------|--------------|----------|----------------|--------------|----------|
| | Short Term | Long Term | Total | Short Term | Long Term | Total |
| | ---- | ---- | ----- | ---- | ---- | ----- |
| Insurance | \$ 1,727 | \$ - | \$ 1,727 | \$ 6,872 | \$ - | \$ 6,872 |
| Landfill Closure | 154 | 3,566 | 3,720 | - | 2,498 | 2,498 |
| Other Facilities Closure | - | 410 | 410 | - | 301 | 301 |
| Facility Maintenance and Operations | 12,612 | 1,194 | 13,806 | - | - | - |
| Debt Service | 4,478 | 5,677 | 10,155 | - | - | - |

| | | | | | | |
|-------|----------|----------|----------|----------|----------|----------|
| Other | 365 | - | 365 | 303 | 103 | 406 |
| Total | \$19,336 | \$10,847 | \$30,183 | \$ 7,175 | \$ 2,902 | \$10,077 |

(g) Inventory

Inventory consists primarily of secondary fibers and recyclables ready for sale and is stated at the lower of cost (first-in, first-out) or market. Inventory consisted of finished goods of approximately \$8,765 and \$2,651 at April 30, 2000 and 2001, respectively, and raw materials of \$764 and \$366 at April 30, 2000 and 2001 respectively.

(h) Investments

As of April 30, 2000 and 2001, the Company owned warrants to purchase 542,786 and 186,358 shares of common stock in Bangor-Hydro Electric, respectively. In accordance with SFAS No. 115 "Accounting for Certain

Investments in Debt and Equity Securities," the Company classifies these securities as "available for sale." Accordingly, the carrying value of the securities is adjusted to fair value through other comprehensive income/(loss). As of April 30, 2000 and 2001, the fair market value of these warrants was approximately \$5,156 and \$3,554, respectively, which are included in investments in the accompanying consolidated balance sheets.

During the year ended April 30, 2001, the Company exercised 356,428 warrants and sold the 356,428 shares of common stock, resulting in a realized gain of approximately \$3,131.

(i) Property, Plant and Equipment

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

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

The cost of maintenance and repairs is charged to operations as incurred. Depreciation expense for the years ended April 30, 1999, 2000 and 2001 was \$13,768, \$23,246 and \$35,033, respectively.

Capitalized landfill costs include expenditures for land and related airspace, permitting costs and preparation costs. Landfill permitting and preparation costs represent only direct costs related to these activities, including legal, engineering and construction. Landfill preparation costs include the costs of construction associated with excavation, liners, site berms and the installation of leak detection and leachate collection systems. Interest is capitalized on landfill permitting and construction projects and other projects under development while the assets are undergoing activities to ready them for their intended use. The interest capitalization rate is based on the Company's weighted average cost of indebtedness. Interest capitalized for the years ended April 30, 1999, 2000 and 2001 was \$530, \$640 and \$373, respectively. Management routinely reviews its investment in operating landfills, transfer stations and other significant facilities to determine whether the costs of these investments are realizable.

Landfill permitting, acquisition and preparation costs, excluding the estimated residual value of land, are amortized as landfill airspace is consumed. In determining the amortization rate for these landfills, preparation costs include the total estimated costs to complete construction of the landfills' permitted and probable to be permitted capacity. Units-of-production amortization rates are determined annually for each of the Company's operating landfills. The rates are based on estimates provided by the Company's engineers and accounting

personnel and consider the information provided by surveys, which are performed at least annually.

(j) Investments in Unconsolidated Entities

The Company owned 35% of Oakhurst Company, Inc. ("OCI"), which it accounted for on the equity basis of accounting. At April 30, 2001, among other businesses, OCI had a 37.5% equity interest in New Heights Recovery and Power LLC ("New Heights"), a fully integrated waste tire and glass recycling and power generation facility in Ford Heights, IL. New Heights primarily specializes in waste tire processing. The Company also had a 12.5% direct equity interest in New Heights.

In addition to its ownership in OCI, the Company had aggregate amounts due from OCI in the form of notes and trade receivables of \$14,695 and \$27,586 as of April 30, 2000 and 2001, respectively. In addition, the Company had directly loaned \$1,500 to New Heights, which was secured by a first mortgage on the facility, and had an operations and management service agreement for the operations and management of the New Heights facility.

During fiscal year 2001, the Company decided to divest its interest in both OCI and New Heights. Accordingly, the company began actively seeking a buyer and also simplified its interest in OCI and New Heights. On July 3, 2001, the Company acquired OCI's 37.5% interest in New Heights, received a promissory note for \$1,000 and common share purchase warrants in OCI, all in exchange for the cancellation of all amounts due from OCI and all equity interests in OCI. As a result of the transaction, the Company now owns a 50% direct equity interest in New Heights.

Accordingly, the Company has written its investment and advances in OCI/New Heights down to their estimated realizable value as of April 30, 2001 by recording aggregate charges of \$19,521. These charges are a component of the loss from equity method investments on the accompanying consolidated financial statements.

In addition, the Company entered into an agreement in July 2000 with Louisiana-Pacific Corp. to combine their respective cellulose insulation businesses into a single operating entity ("US GreenFiber LLC") under a joint venture agreement effective August 1, 2000. The Company contributed the operating assets of its cellulose insulation manufacturing business together with \$1,000 in cash. There was no gain or loss recognized on this transaction.

The Company accounts for its 50% ownership in New Heights and US GreenFiber LLC using the equity method of accounting.

(k) Accrued Closure and Post-Closure Costs

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

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

The states in which the Company operates require a certain portion of these accrued closure and post-closure obligations to be funded at any point in time. Accordingly, the Company has placed \$3,720 and \$2,498 at April 30, 2000 and 2001 respectively, in restricted investment accounts to fund these future obligations.

In addition, the Company has been required to post a surety bond or bank letter of credit to secure its obligations to close its landfills in accordance with environmental regulations.

(l) Intangible Assets

Intangible assets at April 30, 2000 and 2001 consist of the following:

| | 2000 | April 30, ----- 2001 |
|---|-----------|----------------------------|
| | ---- | ---- |
| Goodwill | \$267,582 | \$241,181 |
| Covenants not to compete | 14,291 | 14,206 |
| Customer lists | 562 | 562 |
| Deferred debt acquisition costs and other | 8,359 | 8,040 |
| | ----- | ----- |
| | 290,794 | 263,989 |
| Less--accumulated amortization | 18,503 | 26,416 |
| | ----- | ----- |
| | \$272,291 | \$237,573 |
| | ===== | ===== |

Goodwill is the cost in excess of fair value of identifiable assets of acquired businesses and is amortized using the straight-line method over periods not exceeding 40 years. Covenants not to compete and customer lists are amortized using the straight-line method over their estimated useful lives, typically no more than 10 years. Deferred debt acquisition costs are capitalized and amortized over the life of the related debt using the effective interest method.

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

As a result of the factors discussed in Note 6, during 2001, the Company recorded a charge of \$59,619 to reduce certain assets (mainly goodwill arising from the acquisition of KTI, see Note 2), to their estimated fair value. There were no such impairments in 1999 and 2000.

(m) Income Taxes

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

(n) Earnings per Share

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

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:

| | Year Ended April 30, | | |
|--|----------------------|---------|--------|
| | 1999 | 2000 | 2001 |
| Number of Shares Outstanding, End of Period: | | | |
| Class A Common Stock | 14,869 | 22,215 | 22,198 |
| Class B Common Stock | 988 | 988 | 988 |
| Effect of Weighting the Average Shares Outstanding During the Period | (712) | (4,472) | 3 |
| Basic Shares Outstanding | 15,145 | 18,731 | 23,189 |
| Potentially Dilutive Shares | 874 | 541 | - |
| Diluted Shares Outstanding | 16,019 | 19,272 | 23,189 |

The following is a reconciliation of the numerator used in the calculation of earnings per share from income (loss) from continuing operations before discontinued operations and extraordinary item for the year ended April 30, 2001:

| | |
|--|----------|
| Loss from continuing operations | (82,241) |
| Accretion of preferred stock dividend | (1,970) |
| Adjusted Loss from Continuing Operations | (84,211) |

For the years ended April 30, 1999, 2000 and 2001, 211,000, 2,033,000 and 3,526,000 options respectively, were excluded from the calculation of diluted shares as their effects are anti-dilutive. Additionally, for the year ended April 30, 2001, 5,389,000 common stock equivalents related to options, convertible debt, and redeemable convertible preferred stock were excluded from the calculation of diluted shares as the Company reported a net loss.

(o) Comprehensive Income (Loss)

Comprehensive income (loss) 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 (loss) included in the accompanying balance sheets consists of unrealized gains and losses on the Company's available for sale securities.

(p) New Accounting Pronouncements

In June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133". SFAS No. 137 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", by deferring the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be

recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted SFAS No. 133 on May 1, 2001. The adoption of these rules did not have a material impact on the consolidated results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". These standards, among other things, significantly modify the current accounting rules related to accounting for business acquisitions, amortization of intangible assets and the method of accounting for impairments. The Company has not completed an analysis as to the magnitude of the impact of these new pronouncements on the Company's financial statements, nor has it been determined whether or not it will adopt these pronouncements as of the beginning of its fiscal year 2002 or 2003. However, the Company believes that the impact, when ultimately determined, could have a significant adverse effect on the Company's carrying value of certain long-term assets (mainly goodwill).

2. BUSINESS COMBINATIONS

(a) Transactions Recorded as Purchases

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

In addition to the above, the Company also acquired 50, 38 and 13 solid waste hauling operations in 1999, 2000 and 2001 in transactions accounted for as purchases. Accordingly, the operating results of these businesses are included in the accompanying consolidated statements of operations from the dates of acquisition, and the purchase prices have been allocated to the net assets acquired based on fair values at the dates of acquisition, with the residual amounts allocated to goodwill. Management does not believe the final purchase price allocation will produce materially different results than reflected herein.

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

| | Year Ended April 30, | | |
|--|----------------------|------------|-----------|
| | 1999 | 2000 | 2001 |
| Current Assets | \$ 613 | \$ 107,457 | \$ 644 |
| Property and Equipment | 10,768 | 220,830 | 2,671 |
| Intangible Assets (including goodwill) | 24,829 | 190,178 | 19,287 |
| Other Non-Current Assets | - | 589 | - |
| Current Liabilities | - | (41,647) | (4) |
| Other Non-Current Liabilities | (2,874) | (281,709) | - |
| Total Consideration | \$ 33,336 | \$ 195,698 | \$ 22,598 |

The following unaudited pro forma combined information shows the results of the Company's operations for the years ended April 30, 2000 and 2001 as though each of the completed acquisitions had occurred as of May 1, 1999:

| | Year ended April 30, | |
|---|----------------------|------------|
| | 2000 | 2001 |
| Revenues | \$ 562,642 | \$ 482,759 |
| Operating Income (Loss) | 53,912 | (28,474) |
| Net Income (Loss) applicable to Common Stockholders | 11,345 | (103,446) |
| Diluted Pro forma net income(loss) per common share | \$ 0.51 | \$ (4.46) |
| Weighted average diluted shares outstanding | 22,346 | 23,189 |

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, 1999 or the results of future operations of the Company. Furthermore, the pro forma results do not give effect to all cost savings or incremental costs that may occur as a result of the integration and consolidation of the completed acquisitions.

(b) Transactions Recorded as Poolings of Interests

The Company has completed several mergers in business acquisitions accounted for as poolings of interests. For the years ended April 30, 1999 and 2000 the Company merged with four and two businesses, respectively, and issued 1,271,559 and 362,973 Class A common shares, respectively. There were no acquisitions accounted for as poolings of interests in the year ended April 30, 2001.

3. INVESTMENT IN WASTE-TO-ENERGY FACILITIES

Effective March 1, 2001, the Company acquired the remaining 16.25% minority interest in its majority owned subsidiary, Maine Energy, and sold all of its majority interest in the Penobscot Energy Recovery Company LP. Net proceeds for these transactions amounted to \$12,000. Therefore, the Company now owns a 100% interest in Maine Energy, which utilizes non-hazardous solid waste as the fuel for the generation of electricity.

Maine Energy sells the electricity it produces to Central Maine Power ("Central Maine") pursuant to a long-term power purchase agreement. Under this agreement, Maine Energy has agreed to sell energy to Central Maine through May 31, 2007 at an initial rate of 7.18 cents (determined in 1996) per kilowatt-hour ("kWh"), which escalates annually by 2% (8.12 cents per kWh as of April 30, 2001). From June 1, 2007 until December 31, 2012, Maine Energy is to be paid the then current market value for both its energy and capacity by Central Maine.

If, in any year, Maine Energy fails to produce 100,000,000 kWh of electricity and Maine Energy does not have a force majeure defense, such as physical damage to the plant or other similar events, Maine Energy must pay approximately \$3.8 million to Central Maine as liquidated damages. This payment obligation is secured by a letter of credit with a bank. Additionally, if, in any year, Maine Energy fails to produce 15,000,000 kWh of electricity and Maine Energy does not have a force majeure defense, Maine Energy must pay the balance of the letter of credit to Central Maine as liquidated damages. The balance of the letter of credit at April 30, 2001 was approximately \$26 million.

As of April 30, 2001, the Company has met all of its kWh requirements under the power purchase agreement.

Under the terms of a waste handling agreement between certain municipalities and Maine Energy, the latter is obligated to make a payment at the point in time that Maine Energy pays off its debt (as defined) obligations, currently estimated to occur between 2003 and 2005, or upon the consummation of an outright sale of Maine Energy. The estimated obligation has been recorded in other long-term liabilities as of April 30, 2001.

Additionally, the Company owns 100% of Timber Energy Resources, Inc. ("Timber Energy"). Timber Energy uses biomass waste as its source of fuel to be combusted for the generation of electricity. Timber Energy also operates two wood processing facilities. Timber Energy sells the electricity that it generates to Florida Power Corporation ("Florida Power"), a local electric utility, under a power purchase agreement. Under the terms of the power purchase agreement, Florida Power has agreed to purchase all of the electricity generated by Timber Energy. In 2001, the Company decided to sell Timber Energy, is actively seeking a buyer and accordingly has classified this entity as an asset held for sale on the accompanying consolidated balance sheet, where it is stated at net realizable value.

4. LONG-TERM DEBT

Long-term debt as of April 30, 2000 and 2001 consists of the following:

| | April 30, |
|--|-----------|
| | ----- |
| | 2000 |
| | 2001 |
| | ----- |

| | | |
|--|------------|------------|
| Advances on Senior Secured Revolving Credit Facility (the "Revolver") which provides for advances of up to \$280,000, due December 14, 2004, bearing interest at LIBOR plus 2.75%, (7.50% at April 30, 2001), and decreasing by \$25,000 in years 3 and 4, secured by substantially all of the assets of the Company. | 228,890 | 208,415 |
| Advances on Senior Secured Delayed Draw Term "B" Loan (the "Term Loan") which provides for up to \$137,500 due December 14, 2006, bearing interest at LIBOR plus 4.0% (9.0% at April 30, 2001), and calling for principal payments of \$1,500 per year, beginning in fiscal 2001 with the remaining principal balance due at maturity. This loan is secured by substantially all of the assets of the Company. | 150,000 | 137,500 |
| Notes payable in connection with businesses acquired, bearing interest at rates of 6% to 10%, due in monthly installments varying to \$22, expiring May 2000 through April 2009. | 6,275 | 4,329 |
| Subordinated, Convertible Notes payable in connection with business acquired, bearing interest at 7.5%, due in monthly installments varying to \$50, expiring on March 15, 2003. Convertible to Class A common stock of the Company, at the note holder's election, at the rate of one share of common stock for each \$15.375 of the principal amount surrendered for conversion. | 6,144 | 4,110 |
| Payments due to Clinton County, discounted at 4.74%, due in quarterly installments of \$375 through March 2003. | 4,173 | 2,847 |
| PERC Bonds Payable - Issued by the Finance Authority of Maine ("FAME"), Electric Rate Stabilization Revenue Refunding Bonds, Series 1998 A and Series B, subject to mandatory redemption in annual installments of varying amounts through July 1, 2018. Interest is based on rates for certain tax-exempt obligations, as determined weekly by the remarketing agent, with a weighted average interest rate of 5.0% at April 30, 2000. | 40,900 | - |
| Timber Energy Revenue Bonds Payable - Industrial Development Revenue Bonds: Series A, Interest at 7%, annual sinking fund requirements of \$2,320, \$2,665 and \$4,620, due December 2000 through 2002. The Bond Agreements require, among other things, maintenance of various insurance coverages and restrict the borrowers ability to incur additional indebtedness. The bonds are collateralized by liens on Timber Energy's electric generating facility located in Telogia, Florida. At April 30, 2001, the Bonds have been classified in assets held for sale. (See Note 3). | 9,605 | - |
| | ----- | ----- |
| | 445,987 | 357,201 |
| Less - Current Portion | 8,134 | 6,690 |
| | ----- | ----- |
| | \$ 437,853 | \$ 350,511 |
| | ===== | ===== |

The Revolver and the Term Loan contain certain covenants that, among other things, restrict dividends and stock repurchases, limit capital expenditures and annual operating lease payments, and set minimum fixed charges, interest coverage and leverage ratios and minimum consolidated adjusted net worth requirements. For the fiscal period ended April 30, 2001, the Company's

compliance with the covenants has been waived.

The Company has entered into interest rate swap agreements to balance fixed and floating rate debt interest risk in accordance with management's criteria. The agreements are contracts to exchange fixed and floating interest rate payments periodically over a specified term without the exchange of the underlying notional amounts. The agreements provide only for the exchange of interest on the notional amounts at the stated rates, with no multipliers or leverage. Differences paid or received over the life of the agreements are recorded in the consolidated financial statements as additions to or reductions of interest expense on the underlying debt. The fair market value of the swaps is estimated at a loss of \$6,900 as of April 30, 2001.

As of April 30, 2001, interest rate agreements in notional amounts and with terms as set forth in the following table were outstanding:

| Bank | Notional amounts | Receive | Pay | Range of Agreements |
|--------|------------------|---------|-------------|----------------------------|
| ---- | ----- | ----- | --- | ----- |
| Bank A | \$130,000 | LIBOR | 5.43-6.74% | January 2001 to March 2003 |
| Bank B | \$120,000 | LIBOR | 5.19-6.875% | April 2000 to April 2003 |

As of April 30, 2001, debt matures as follows:

| Year Ending April 30, | |
|-----------------------|------------|
| 2002 | \$ 6,690 |
| 2003 | 3,092 |
| 2004 | 1,549 |
| 2005 | 151,328 |
| 2006 | 202 |
| Thereafter | 194,340 |
| | ----- |
| | \$ 357,201 |
| | ===== |

5. COMMITMENTS AND CONTINGENCIES

(a) Leases

The following is a schedule of future minimum lease payments, together with the present value of the net minimum lease payments under capital leases, as of April 30, 2001.

| Year Ended April 30, | Operating Leases | Capital Leases |
|--|------------------|----------------|
| 2002 | \$ 1,372 | \$ 1,988 |
| 2003 | 1,023 | 1,970 |
| 2004 | 550 | 1,219 |
| 2005 | 186 | 494 |
| 2006 | 95 | 494 |
| Thereafter | 42 | 535 |
| | ----- | ----- |
| Total minimum lease payments | \$ 3,268 | 6,700 |
| | ===== | |
| Less - amount representing interest | | 678 |
| | | ----- |
| | | 6,022 |
| Current maturities of capital lease obligations | | 1,429 |
| | | ----- |
| Present value of long term capital lease obligations | | \$ 4,593 |
| | | ===== |

The Company leases real estate, compactors and hauling vehicles under leases that qualify for treatment as capital leases. The assets related to these leases have been capitalized and are included in property and equipment at April 30, 2000 and 2001.

The Company leases operating facilities and equipment under operating leases with monthly payments varying to \$11.

Total rent expense under operating leases charged to operations was \$1,362, \$1,979 and \$2,649 for each of the three years ended April 30, 1999, 2000 and 2001, respectively.

(b) Legal Proceedings

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

During the year ended April 30, 2001, the Company settled five of its outstanding lawsuits and provided for settlement of four others. The amount charged to income including associated legal fees was \$4,209.

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

(c) Environmental Liability

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

(d) Employment Contracts

The Company has entered into employment contracts with five of its senior officers. The contracts, dated December 8, 1999, have a three-year term and a two-year covenant not to compete from the date of termination. Total annual commitments for salaries under these contracts are \$1.2 million. In the event of a change in control of the Company, or in the event of involuntary termination without cause, the employment contracts provide for the payment of three years of salary and bonuses. (See Note 6)

(e) Commodity Hedges

The Company is subject to commodity price fluctuations related to the portion of its sales of recyclable commodities that are not under floor or flat pricing arrangements. At April 30, 2001, the Company has entered into several contracts for newsprint, cardboard and aluminum. The estimated fair market value of these contracts at April 30, 2001 amounted to \$1,829.

6. RESTRUCTURING

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

| | |
|-----------|---------|
| Severance | \$3,786 |
|-----------|---------|

| | |
|-------------------|---------|
| Facility closures | 365 |
| | ----- |
| | \$4,151 |
| | ----- |

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

During the year ended April 30, 2001, none of the restructuring charge had been spent, and the balance remaining in the accompanying balance sheet, included in other current liabilities, amounted to \$4,151.

7. DISCONTINUED OPERATIONS, ASSETS HELD FOR SALE AND EXTRAORDINARY ITEM

Discontinued Operations:

During the fourth quarter, the Company adopted a formal plan to dispose of its Tire Processing, Commercial Recycling and Mulch Recycling businesses (herein "discontinued businesses"). The Company has accounted for these planned dispositions in accordance with APB Opinion No. 30, and accordingly the results of operations of the discontinued businesses have been segregated from continuing operations and reported in separate lines in the accompanying consolidated statements of operations.

The Company is actively seeking a buyer for the Tire Processing and Commercial Recycling businesses. The Mulch Recycling business was sold on June 30, 2001.

Assets and liabilities of the discontinued businesses consisted of the following at April 30:

| | 2000 | 2001 |
|---------------------------------------|-----------|-----------|
| | ---- | ---- |
| Current Assets | \$ 5,830 | \$ 8,407 |
| Non-Current Assets | 32,788 | 18,949 |
| | ----- | ----- |
| Total Assets | 38,618 | 27,356 |
| | ----- | ----- |
| Current Liabilities | 8,430 | 9,690 |
| Non-Current Liabilities | 2,966 | 6,132 |
| | ----- | ----- |
| Net Assets of Discontinued Operations | \$ 27,222 | \$ 11,534 |
| | ===== | ===== |

Assets are shown at their expected net realizable values and liabilities are shown at their face amounts.

Net assets of discontinued operations are stated at their expected net realizable values and have been separately classified in the accompanying balance sheets at April 30, 2000 and 2001. The prior year financial statements have been restated to conform with the current year's presentation.

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

| | 1999 | 2000 | 2001 |
|---|----------|-----------|-------------|
| | ---- | ---- | ---- |
| Revenues | \$ 4,982 | \$ 23,129 | \$ 48,607 |
| Income (Loss) before | | | |
| Income Taxes | 460 | 3,355 | (24,229) |
| Provision (Benefit) for Income Taxes | 195 | 1,471 | (8,781) |
| | ----- | ----- | ----- |
| Income (Loss) from Discontinued Operations, | | | |
| net of Income Taxes | \$ 265 | \$ 1,884 | \$ (15,448) |
| | ===== | ===== | ===== |

Additionally for the year ended April 30, 2001, the estimated loss on the

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

The Company has included approximately \$0, \$13,957 and \$27,921 of intercompany sales of recyclables from the commercial recycling business to the brokerage business in loss on discontinued operations for the years ended April 30, 1999, 2000, and 2001, respectively.

Net Assets Held for Sale:

In addition, the Company has identified for sale certain other businesses, which do not qualify as discontinued operations. These include its Timber Energy business (see Note 3) and its one remaining plastics recycling facility. Accordingly, the Company on April 30, 2001 has reclassified Timber Energy and its plastics recycling business as assets held for sale on the accompanying consolidated balance sheet. The plastics recycling business was sold May 17, 2001.

On April 30, 2000, the Company had reclassified its emergency hazardous response business and its plastics recycling business as assets held for sale on the accompanying consolidated balance sheet.

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

| | 2000 | 2001 |
|--------------------------|----------|----------|
| | ----- | ----- |
| Current Assets | \$ 2,874 | \$ 4,361 |
| Non-Current Assets | 2,332 | 12,508 |
| | ----- | ----- |
| Total Assets | 5,206 | 16,869 |
| | ----- | ----- |
| Current Liabilities | 1,273 | 4,165 |
| Non-Current Liabilities | 158 | 4,663 |
| | ----- | ----- |
| Net Assets Held for Sale | \$ 3,775 | \$ 8,041 |
| | ===== | ===== |

Extraordinary Item:

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

8. STOCKHOLDERS' EQUITY

(a) Preferred Stock

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

As of April 30, 2001 the Company has accreted \$1,970 of dividends, which are included in the carrying value of the preferred stock in the accompanying consolidated balance sheet.

(b) Common Stock

The holders of the Class A Common Stock are entitled to one vote for each share held. The holders of the Class B Common Stock are entitled to ten votes for each share held, except for the election of one director, who is elected by the holders of the Class A Common Stock exclusively. The Class B Common Stock is

convertible into Class A Common Stock on a share-for-share basis at the option of the shareholder.

(c) Stock Warrants

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

(d) Stock Option Plans

During 1993, the Company adopted an incentive stock option plan for officers and other key employees. The 1993 Incentive Stock Option Plan (the "1993 Option Plan") provided for the issuance of a maximum of 300,000 shares of Class A Common Stock. As of April 30, 2000 and 2001, options to purchase 17,000 shares of Class A Common Stock at a weighted average exercise price of \$4.61 were outstanding under the 1993 Option Plan. No further options may be granted under this plan.

During 1994, the Company adopted a non-statutory stock option plan for officers and other key employees. The 1994 Stock Option Plan (the "1994 Option Plan") provided for the issuance of a maximum of 150,000 shares of Class A Common Stock. As of April 30, 2000 and 2001 options to purchase 15,000 shares of Class A common stock at a weighted average exercise price of \$0.60 were outstanding under the 1994 Option Plan. No further options may be granted under this plan.

In May 1994, the Company also established a nonqualified stock option pool for certain key employees. The plan established 338,000 stock options to purchase Class A common stock. As of April 30, 2000 and 2001 options to purchase 302,656 shares of Class A common stock at a weighted average exercise price of \$2.00 were outstanding. No further options may be granted from this pool.

During 1996, the Company adopted a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. The 1996 Stock Option Plan (the "1996 Option Plan") provided for the issuance of a maximum of 918,135 shares of Class A Common Stock pursuant to the grant of either incentive stock options or non-statutory options. As of April 30, 2000, a total of 372,707 options to purchase Class A Common Stock were outstanding at a weighted average exercise price of \$12.08. As of April 30, 2001, a total of 363,707 options to purchase Class A common Stock were outstanding at an average exercise price of \$11.98. No further options may be granted under this plan.

On July 31, 1997, the Company adopted a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. The Board of Directors has the authority to select the optionees and determine the terms of the options granted. The 1997 Stock Option Plan (the "1997 Option Plan") provides for the issuance of 5,328,135 shares of Class A Common Stock pursuant to the grant of either incentive stock options or non-statutory options, which includes all authorized, but un-issued options under previous plans. As of April 30, 2000, options to purchase 2,259,965 shares of Class A Common Stock at an average exercise price of \$20.86 were outstanding under the 1997 Option Plan. As of April 30, 2001, options to purchase 4,066,020 shares of Class A Common Stock at a weighted average exercise price of \$11.41 were outstanding under the 1997 Option Plan. As of April 30, 2001, 1,252,075 options were available for future grant under the 1997 Option Plan.

Additionally, options outstanding under the assumed KTI Stock Option Plan totaled 930,412 and 588,769 at April 30, 2000 and 2001, respectively at weighted average exercise prices of \$26.59 and \$26.31, respectively.

On July 31, 1997, the Company adopted a stock option plan for non-employee directors of the Company. The 1997 Non-Employee Director Stock Option Plan provides for the issuance of a maximum of 100,000 shares of Class A Common Stock pursuant to the grant of non-statutory options. As of April 30, 2000 and 2001, options to purchase 19,000 shares of Class A Common Stock at a weighted average exercise price of \$6.58 and 56,500 shares of Class A Common Stock at a weighted average exercise price of \$16.00, respectively, were outstanding under the 1997 Non-Employee Director Stock Option Plan. As of April 30, 2001, 43,500 options were available for future grant under the 1997 Non-Employee Director Stock Option Plan.

On July 2, 2001, the Company offered its employees, other than executive officers, the opportunity to ask the Company to exchange options having an exercise price of \$12.00 or more per share. For every two eligible options surrendered, the Company will grant one new option six months and one day after the expiration of the offer (July 31, 2001), at an exercise price equal to the closing price of a Class A Common Stock as quoted by Nasdaq on the date of the grant. The Company filed a Schedule TO with the SEC on July 2, 2001 describing such offer to exchange.

Options generally vest over a one to three year period from the date of grant and are granted at prices at least equal to the prevailing fair market value at the issue date.

Stock option activity for each of the three years ended April 30, 1999, 2000 and 2001 is as follows:

| | Number Of Shares | Weighted Average Exercise Price |
|--|---------------------|---------------------------------------|
| | ----- | ----- |
| Outstanding, April 30, 1998 | 1,595,302 | \$ 8.75 |
| Granted | 870,000 | 27.68 |
| Terminated | (9,033) | (11.17) |
| Exercised | (486,710) | (6.43) |
| | ----- | ----- |
| Outstanding, April 30, 1999 | 1,969,559 | 17.65 |
| Granted | 1,402,000 | 16.27 |
| Issued in Connection with the Acquisition of KTI | 930,417 | 26.59 |
| Terminated | (216,335) | (20.56) |
| Exercised | (168,901) | (2.05) |
| | ----- | ----- |
| Outstanding, April 30, 2000 | 3,916,740 | 19.78 |
| Granted | 1,929,060 | 9.26 |
| Terminated | (433,148) | (24.62) |
| Exercised | (3,000) | (8.69) |
| | ----- | ----- |
| Outstanding, April 30, 2001 | 5,409,652 | \$ 15.65 |
| | ===== | ===== |
| Exercisable, April 30, 2000 | 2,321,432 | \$ 18.35 |
| | ===== | ===== |
| Exercisable, April 30, 2001 | 4,071,188 | \$ 16.44 |
| | ===== | ===== |

Set forth below is a summary of options outstanding and exercisable as of April 30, 2001:

| Range of Exercise | Options Outstanding | | | Options Exercisable | |
|-------------------|------------------------------------|---|--|-------------------------------------|--|
| | Number of Outstanding Shares | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number of Exercisable Options | Weighted Average Exercise Price |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$.60-\$2.00 | 317,656 | 3.1 | \$ 1.93 | 317,656 | \$ 1.93 |
| \$4.61-\$8.78 | 1,747,502 | 7.4 | 8.51 | 1,073,495 | 8.34 |
| \$10.00-18.00 | 1,729,810 | 5.4 | 14.74 | 1,270,942 | 15.05 |
| \$18.00-27.00 | 1,069,290 | 7.5 | 24.58 | 977,185 | 25.08 |
| Over \$27.00 | 545,394 | 8.6 | 32.20 | 431,910 | 31.81 |
| | ----- | ----- | ----- | ----- | ----- |
| ALL | 5,409,652 | 6.9 | \$15.65 | 4,071,188 | \$ 16.44 |
| === | ===== | ===== | ===== | ===== | ===== |

During fiscal 1996, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation", which defines a fair value based method of accounting for

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

The Company has elected to account for its stock-based compensation plans under APB Opinion No. 25. However, the Company has computed, for pro forma disclosure purposes, the value of all options granted during the years ended April 30, 1999, 2000 and 2001 using the Black-Scholes option pricing model as prescribed by SFAS No. 123, using the following weighted average assumptions for grants in the years ended April 30, 1999, 2000 and 2001.

| | | April 30, | |
|-------------------------|------------|-------------|-------------|
| | 1999 | 2000 | 2001 |
| | ---- | ---- | ---- |
| Risk-free interest rate | 4.6%-5.68% | 5.81%-6.69% | 4.85%-6.76% |
| Expected dividend yield | N/A | N/A | N/A |
| Expected life | 5 Years | 5 years | 7 years |
| Expected volatility | 52.40% | 67.37% | 84.20% |

The total value of options granted during the years ended April 30, 1999, 2000 and 2001 would be amortized on a pro forma basis over the vesting period of the options. Options generally vest over a one to three year period. If the Company had accounted for these plans in accordance with SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have changed as reflected in the following pro forma amounts:

| | | April 30, | |
|---|----------|-----------|--------------|
| | 1999 | 2000 | 2001 |
| | ----- | ----- | ----- |
| Net income (loss) Applicable to Common Stockholders | | | |
| As reported | \$ 6,615 | \$ 11,050 | \$ (103,505) |
| Pro forma | \$ 2,534 | \$ 4,379 | \$ (116,594) |
| Diluted Net income (loss) per share of Common stock | | | |
| As reported | \$ 0.41 | \$ 0.57 | \$ (4.46) |
| Pro forma | \$ 0.16 | \$ 0.23 | \$ (5.03) |

The weighted-average grant-date fair value of options granted during the years ended April 30, 1999, 2000 and 2001 is \$6.43, \$3.30 and \$7.28, respectively.

9. INCOME TAXES

The provision (benefit) for income taxes from continuing operations for the years ended April 30, 1999, 2000 and 2001 consists of the following:

| | | April 30, | |
|--|----------|-----------|------------|
| | 1999 | 2000 | 2001 |
| | ----- | ----- | ----- |
| Federal-- | | | |
| Current | \$ 4,814 | \$ 4,912 | \$ (1,036) |
| Deferred | 1,420 | 3,079 | (2,935) |
| Deferred Benefit of Loss Carryforwards | - | - | (5,721) |
| | 6,234 | 7,991 | (9,692) |
| State-- | | | |
| Current | 828 | 1,791 | (829) |
| Deferred | 253 | 833 | (1,068) |
| Deferred Benefit of Loss | | | |

| | | | |
|---------------|----------|-----------|-------------|
| Carryforwards | - | - | (1,142) |
| | ----- | ----- | ----- |
| | 1,081 | 2,624 | (3,039) |
| | ----- | ----- | ----- |
| Total | \$ 7,315 | \$ 10,615 | \$ (12,731) |
| | ===== | ===== | ===== |

The differences in the provision for income taxes and the amounts determined by applying the Federal statutory rate to income before provision for income taxes for the years ended April 30, 1999, 2000 and 2001 are as follows:

| | Fiscal Year Ended April 30, | | |
|---|-----------------------------|-----------|-------------|
| | 1999 | 2000 | 2001 |
| | ----- | ----- | ----- |
| Federal Statutory Rate | 34% | 35% | 35% |
| Tax at Statutory Rate | \$ 4,646 | \$ 7,632 | \$ (32,978) |
| State Income Taxes, net of Federal Benefit | 714 | 1,706 | (1,975) |
| Non-deductible Impairment Charge | - | - | 12,825 |
| Non-deductible Goodwill | 201 | 205 | 1,155 |
| Equity in Loss of Unconsolidated Entities | - | 295 | 6,390 |
| Other, net | 1,754 | 777 | 1,852 |
| | ----- | ----- | ----- |
| | \$ 7,315 | \$ 10,615 | \$ (12,731) |
| | ===== | ===== | ===== |

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

Deferred tax assets and liabilities consist of the following at April 30, 2000 and 2001:

| | 2000 | 2001 |
|---|-------------|-----------|
| | ----- | ----- |
| Deferred Tax Assets: | | |
| Accrued Expenses and reserves | \$ 13,463 | \$ 16,293 |
| Basis difference in partnership interests | 14,091 | 428 |
| Amortization of intangibles | - | 13,562 |
| Net Operating Loss Carryforwards | 30,794 | 35,931 |
| Alternative Minimum Tax Credit Carryforwards | 1,795 | 1,442 |
| Other Tax Carryforwards | 530 | 235 |
| Other | 932 | 875 |
| | ----- | ----- |
| Total Deferred Tax Assets | 61,605 | 68,766 |
| Less: Valuation Allowance | (24,778) | (24,134) |
| | ----- | ----- |
| Total Deferred Tax Assets After Valuation Allowance | 36,827 | 44,632 |
| | ----- | ----- |
| Deferred Tax Liabilities: | | |
| Accelerated Depreciation of Property and Equipment | (49,546) | (28,980) |
| Amortization of Intangibles | (3,407) | - |
| Other | (2,092) | (2,378) |
| | ----- | ----- |
| Total Deferred Tax Liabilities | (55,045) | (31,358) |
| | ----- | ----- |
| Net Deferred Tax Asset (Liability) | \$ (18,218) | \$ 13,274 |
| | ===== | ===== |

At April 30, 2001, the Company has for income tax purposes Federal net operating loss carryforwards of approximately \$80,033 that expire in years 2005 through

2021, state net operating loss carryforwards of approximately \$107,811 that expire in years 2002 through 2021, and business tax credit carryforwards of approximately \$235 that expire in years 2002 through 2004. Substantial limitations restrict the Company's ability to utilize certain Federal and state loss carryforwards and all the business tax credit carryforwards. Due to uncertainty of the utilization of the carryforwards, no tax benefit has been recognized for approximately \$47,404 of the Federal net operating loss carryforwards, \$94,362 state net operating loss carryforwards and all of the business tax credit carryforwards. In addition, the Company has approximately \$1,442 minimum tax credit carryforward available that is not subject to limitation.

The \$644 decrease in the valuation allowance is due to the expiration of certain state loss carryforwards offset by additional valuation allowance for current year state tax losses for which utilization is uncertain. The valuation allowance includes \$21,773 related to loss carryforwards acquired through acquisitions. To the extent that future realization of such carryforwards exceeds the Company's current estimates, additional benefits received will be recorded as a reduction of goodwill. In assessing the realizability of carryforwards and other deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company adjusts the valuation allowance in the period management determines it is more likely than not that deferred tax assets will or will not be realized.

10. EMPLOYEE BENEFIT PLANS

The Company offers its eligible employees the opportunity to contribute to a 401(k) plan. The Company may contribute up to \$500 dollars per individual per calendar year. Participants vest in employer contributions ratably over a three-year period. Employer contributions for the years ended April 30, 1999, 2000 and 2001 amounted to \$275, \$387 and \$434, respectively.

In January 1998, the Company implemented its Employee Stock Purchase Plan. Under this plan, qualified employees may purchase shares of Class A Common Stock by payroll deduction at a 15% discount from the market price. 600,000 shares of Class A Common Stock have been reserved for this purpose. During the years ended April 30, 1999, 2000 and 2001, 5,812, 6,616 and 29,287 shares, respectively, of Class A Common Stock were issued under this plan.

11. RELATED PARTY TRANSACTIONS

(a) Services

During 1999, 2000 and 2001, the Company retained the services of a related party, a company wholly owned by two of the Company's major stockholders and members of the Board of Directors, as a contractor in closing certain landfills owned by the Company. Total purchased services charged to operations for each of the three years ended April 30, 1999, 2000 and 2001 were \$5,198, \$5,338 and \$3,780, respectively, of which \$450 and \$23 were outstanding and included in accounts payable at April 30, 2000 and 2001, respectively. In 2000, the Company entered into an agreement with this company, totaling approximately \$4,500 to construct a new cell at Clinton County Landfill. No agreements were entered into during the year ended April 30, 2001.

(b) Leases

On August 1, 1993, the Company entered into two leases for operating facilities with a partnership in which two of the Company's major stockholders and members of the Board of Directors are the general partners. The leases are classified as capital leases in the accompanying consolidated balance sheets. The leases call for monthly payments of approximately \$18 and expire in April 2003. Total interest and amortization expense charged to operations for the years ended April 30, 1999, 2000 and 2001 under these agreements was \$237, \$179 and \$236, respectively.

(c) Post-closure Landfill

The Company has agreed to pay the cost of post-closure on a landfill owned by certain principal shareholders. The Company paid the cost of closing this landfill in 1992, and the post-closure maintenance obligations are expected to last until 2012. In each of the three years ended April 30, 1999, 2000 and 2001, the Company paid \$3, \$5 and \$7 respectively, pursuant to this agreement. As of April 30, 2000 and 2001, the Company has accrued \$96 and \$89 respectively, for costs associated with its post-closure obligations.

(d) Employee Loans

As of April 30, 2001, the Company has recourse loans to officers and employees outstanding in the amount of \$1,953. The interest on these notes is payable upon demand by the company. The notes have no fixed repayment terms. Interest is at the Wall Street Journal Prime Rate (8% at April 30, 2001). Notes from officers consisted of \$1,866 at April 30, 2001, with the remainder being from employees of the Company.

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.

The Company classifies its operations into Eastern, Central and Western and FCR Recycling. The Company's revenues in the Eastern, Central and Western segments are derived mainly from one industry segment, which includes the collection, transfer, recycling and disposal of non-hazardous solid waste. The Eastern Region also includes Maine Energy, which generates electricity from non-hazardous solid waste. The Company's revenues in the FCR Recycling segment are derived from integrated waste handling services, including processing and recycling of wood, paper, metals, plastics and glass and disposal and brokerage of recycled materials. Ancillary operations, mainly biofuel plants and major customer accounts are included in Other. The accounting policies of the business segments are the same as those described in Note 1.

| | Eastern Region | Central Region | Western Region | Recycling | Other |
|--|-------------------|-------------------|-------------------|------------|------------|
| | ----- | ----- | ----- | ----- | ----- |
| Year Ended April 30, 1999 | | | | | |
| Outside Revenues | \$ 36,025 | \$ 84,987 | \$ 57,566 | \$ - | \$ 686 |
| Inter-segment Revenues | 2,166 | 28,398 | 6,710 | - | - |
| Income (Loss) from Continuing Operations | (1,024) | 7,971 | 2,778 | - | (3,375) |
| Depreciation & Amortization | 5,336 | 12,334 | 6,357 | - | 1,307 |
| Merger-Related Costs | - | 332 | 546 | - | 1,073 |
| Interest Expense (Net) | 1,917 | 3,633 | 3,723 | - | (3,709) |
| Capital Expenditures | 17,107 | 15,153 | 19,079 | - | 2,779 |
| Total Assets | \$ 49,703 | \$ 113,978 | \$ 99,633 | \$ - | \$ 17,910 |
| Year Ended April 30, 2000 | | | | | |
| Outside Revenues | \$ 84,353 | \$ 97,807 | \$ 60,671 | \$ 46,034 | \$ 26,148 |
| Inter-segment Revenues | 13,999 | 32,657 | 12,776 | 9,242 | 4,978 |
| Income (Loss) from Continuing Operations | 1,259 | 14,793 | 5,227 | 3,190 | (13,279) |
| Depreciation & Amortization | 11,692 | 13,992 | 7,847 | 1,228 | 3,584 |
| Merger-Related Costs | 1,101 | - | 389 | - | - |
| Interest Expense (Net) | 4,315 | 3,491 | 3,116 | 1,569 | 3,182 |
| Capital Expenditures | 18,092 | 15,806 | 17,422 | 9,169 | 8,086 |
| Total Assets | \$ 377,724 | \$ 127,749 | \$ 112,237 | \$ 91,870 | \$ 150,890 |
| Year Ended April 30, 2001 | | | | | |
| Outside Revenues | \$ 158,754 | \$ 99,305 | \$ 66,473 | \$ 108,903 | \$ 46,381 |
| Inter-segment Revenues | 38,267 | 40,498 | 14,995 | 18,463 | 1,273 |
| Income (Loss) from Continuing Operations | (3,876) | 3,706 | 4,152 | (49,780) | (36,443) |
| Depreciation & Amortization | 20,349 | 14,330 | 9,855 | 3,955 | 4,394 |
| Impairment Charge | 1,948 | 7,765 | 49 | 49,857 | - |
| Interest Expense (Net) | 10,346 | 3,564 | 4,321 | 6,923 | 13,493 |
| Capital Expenditures | 25,843 | 20,545 | 16,445 | 7,750 | (9,065) |
| Total Assets | \$ 283,967 | \$ 126,617 | \$ 112,882 | \$ 80,984 | \$ 81,843 |
| | Elimination | Total | | | |
| | ----- | ----- | | | |
| Year Ended April 30, 1999 | | | | | |
| Outside Revenues | \$ - | \$ 179,264 | | | |
| Inter-segment Revenues | (37,274) | - | | | |
| Income (Loss) from Continuing | | | | | |

| | | |
|-----------------------------|------|------------|
| Operations | - | 6,350 |
| Depreciation & Amortization | - | 25,334 |
| Merger-Related Costs | - | 1,951 |
| Interest Expense (Net) | - | 5,564 |
| Capital Expenditures | - | 54,118 |
| Total Assets | \$ - | \$ 281,224 |

Year Ended April 30, 2000

| | | |
|--|----------|------------|
| Outside Revenues | \$ - | \$ 315,013 |
| Inter-segment Revenues | (73,652) | - |
| Income (Loss) from Continuing Operations | - | 11,190 |
| Depreciation & Amortization | - | 38,343 |
| Merger-Related Costs | - | 1,490 |
| Interest Expense (Net) | - | 15,673 |
| Capital Expenditures | - | 68,575 |
| Total Assets | \$ - | \$ 860,470 |

Year Ended April 30, 2001

| | | |
|--|-----------|------------|
| Outside Revenues | \$ - | \$ 479,816 |
| Inter-segment Revenues | (113,496) | - |
| Income (Loss) from Continuing Operations | - | (82,241) |
| Depreciation & Amortization | - | 52,883 |
| Impairment Charge | - | 59,619 |
| Interest Expense (Net) | - | 38,647 |
| Capital Expenditures | - | 61,518 |
| Total Assets | \$ - | \$ 686,293 |

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following is a summary of certain items in the Consolidated Statements of Operations by quarter for 2001 and 2000.

| | First Quarter ----- | Second Quarter ----- | Third Quarter ----- | Fourth Quarter ----- |
|---|---------------------------|----------------------------|---------------------------|----------------------------|
| 2001 | | | | |
| Revenues | \$141,080 | \$126,448 | \$112,705 | \$ 99,583 |
| Operating Income (Loss) | 14,056 | 14,135 | 10,788 | (67,944) |
| Income (Loss) Before Income Taxes and Discontinued Operations | 3,630 | 3,101 | (13,419) | (88,284) |
| Net Income (Loss) Applicable To Common Stockholders | 3,319 | 364 | (13,620) | (93,568) |
| Basic Earnings per Share | 0.14 | 0.02 | (0.58) | (4.04) |
| Diluted Earnings per Share | 0.14 | 0.01 | (0.58) | (4.04) |
| 2000 | | | | |
| Revenues | \$ 53,725 | \$ 54,684 | \$ 86,704 | \$119,900 |
| Operating Income | 7,149 | 9,645 | 9,748 | 13,140 |
| Income Before Income Taxes Discontinued Operations and Extraordinary Item | 5,603 | 8,485 | 4,742 | 2,975 |
| Net Income | 3,041 | 4,872 | 755 | 2,382 |
| Basic Earnings per Share | 0.19 | 0.30 | 0.04 | 0.10 |
| Diluted Earnings per Share | 0.18 | 0.30 | 0.04 | 0.10 |

None.

PART III

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

PART IV

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

Item 14(a) (1) Consolidated Financial Statements included under Item 8:

Report of Independent Public Accountants

Consolidated Balance Sheets as of April 30, 2000 and 2001

Consolidated Statements of Operations for the Years Ended April 30, 1999, 2000 and 2001.

Consolidated Statements of Redeemable Convertible Preferred Stock, and Stockholders' Equity for the Years Ended April 30, 1999, 2000 and 2001.

Consolidated Statements of Cash Flows for the Years Ended April 30, 1999, 2000 and 2001.

Notes to Consolidated Financial Statements

Item 14(a) (2) Schedule II - Valuation and Qualifying Accounts

Item 14(a) (3) Exhibits:

The following Exhibits are filed as part of this report under Item 14(c):

Exhibit

| Exhibit No. | Description |
|-------------|---|
| 2.1(1) | Agreement and Plan of Merger dated as of January 12, 1999 and as amended by Amendments No. 1, 2 and 3 thereto, among Casella Waste Systems, Inc. ("Casella"), KTI, Inc. ("KTI") and Rutland Acquisition Sub, Inc. (incorporated herein by reference to Annex A to the registration statement on Form S-4 as filed November 12, 1999 (file no. 19991112)). |
| 3.1 | Amended and Restated Certificate of Incorporation of Casella (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form S-8 of Casella as filed November 18, 1998). |
| 3.3 | Second Amended and Restated By-Laws of Casella (incorporated herein by reference to Exhibit 3.1 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)). |
| 4.1 | Form of stock certificate of Casella Class A common stock (incorporated herein by reference to Exhibit 4 to Amendment No. 2 to the registration statement on Form S-1 of Casella as filed October 9, 1997 (file no. 333-33135)). |
| 4.2 | Certificate of Designation creating Series A Convertible Preferred Stock (incorporated herein by reference to Exhibit 4.1 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)). |
| 10.1 | 1993 Incentive Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)). |

- 10.2 1994 Nonstatutory Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.3 1996 Stock Option Plan (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.4 1997 Non-Employee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.5 to Amendment No. 1 to the registration statement on Form S-1 of Casella as filed September 24, 1997 (file no. 333-33135)).
- 10.5 Amended and Restated 1997 Stock Incentive Plan (incorporated herein by reference to the Definitive Proxy Statement on Schedule 14A of Casella as filed September 21, 1998).
- 10.6 Registration Rights Agreement between Casella and Susan Olivieri and Robert MacNeil, dated January 3, 1996 (incorporated herein by reference to Exhibit 10.6 to Amendment No. 1 to the registration statement on Form S-1 of Casella as filed September 24, 1997 (file no. 333-33135)).
- 10.7 1995 Stockholders Agreement between Casella and the stockholders who are a party thereto, dated as of December 22, 1995 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.8 1995 Registration Rights Agreement between Casella and the stockholders who are a party thereto, dated as of December 22, 1995 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.9 1995 Repurchase Agreement between Casella and the stockholders who are a party thereto, dated as of December 22, 1995 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.10 Management Services Agreement between Casella, BCI Growth III, L.P., North Atlantic Venture Fund, L.P., and Vermont Venture Capital Fund, L.P., dated as of December 22, 1995 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.11 Warrant to Purchase Common Stock of Casella granted to John W. Casella, dated as of July 26, 1993 (incorporated herein by reference to Exhibit 10.11 to Amendment No. 1 to the registration statement on Form S-1 of Casella as filed September 24, 1997 (file no. 333-33135)).
- 10.12 Warrant to Purchase Common Stock of Casella granted to Douglas R. Casella, dated as of July 26, 1993 (incorporated herein by reference to Exhibit 10.12 to Amendment No. 1 to the registration statement on Form S-1 of Casella as filed September 24, 1997 (file no. 333-33135)).
- 10.13 Asset Purchase Agreement by and among Kenneth H. Mead, Kerkim, Inc. and Casella Waste Management of N.Y., dated as of January 17, 1997 (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.14 Reorganization Agreement by and among Kenneth H. Mead, Superior Disposal Services, Inc., Kensue, Inc., S.D.S. at PA, Inc. and Claws Refuse, Inc., dated as of January 17, 1997 (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).

- 10.15 Termination of Lease Agreement by and between Casella Associates and Casella Waste Management, Inc. dated September 25, 1996 (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.16 Amended and Restated Revolving Credit and Term Loan Agreement between the Registrant and BankBoston, dated as of January 12, 1998 (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form S-1 of Casella as filed June 3, 1998 (file no. 333-55879)).
- 10.17 Lease Agreement, as Amended, between Casella Associates and Casella Waste Management, Inc., dated December 9, 1994 (Rutland lease) (incorporated herein by reference to Exhibit 10.17 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.18 Lease Agreement, as Amended, between Casella Associates and Casella Waste Management, Inc., dated December 9, 1994 (Montpelier lease) (incorporated herein by reference to Exhibit 10.18 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.19 Furniture and Fixtures Lease Renewal Agreement between Casella Associates and Casella Waste Management, Inc., dated May 1, 1994 (incorporated herein by reference to Exhibit 10.19 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.20 Lease, Operations and Maintenance Agreement between CV Landfill, Inc. and the Registrant dated June 30, 1994 (incorporated herein by reference to Exhibit 10.20 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.21 Restated Operation and Management Agreement by and between Clinton County (N.Y.) and the Registrant dated September 9, 1996 (incorporated herein by reference to Exhibit 10.21 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.22 Labor Utilization Agreement by and between Clinton County (N.Y.) and the Registrant dated August 7, 1996 (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.23 Lease and Option Agreement by and between Waste U.S.A., Inc. and New England Waste Services of Vermont, Inc., dated December 14, 1995 (incorporated herein by reference to Exhibit 10.23 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.24 Consulting and Non-Competition Agreement between Casella and Kenneth H. Mead, dated January 23, 1997 (incorporated herein by reference to Exhibit 10.24 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.25 Issuance of Shares by Casella to National Waste Industries, Inc., dated October 19, 1994 (incorporated herein by reference to Exhibit 10.25 to the registration statement on Form S-1 of Casella as filed August 7, 1997 (file no. 333-33135)).
- 10.26 Registration Rights Agreement by and among Casella, Joseph M. Winters, Andrew B. Winters, Brigid Winters, Sean Winters and Maureen Winters (the "All Cycle Stockholders"), dated as of December 19, 1997. (incorporated herein by reference Exhibit 10.23 to the registration statement filed on Form S-1 of Casella as filed June 3, 1998 (file no. 333-55879)).
- 10.27 Amendment No. 1 to Registration Rights Agreement by and among the Registrant, the All Cycle Stockholders, Winters Family Partnership and Goldman, Sachs & Co., dated as of June 3, 1998. (incorporated herein by reference to Exhibit 10.24 to the registration statement on Form S-1 of Casella as filed June 3,

1998 (file no. 333-55879)).

- 10.28 Amendment No. 2 to Lease Agreement, by and between Casella Associates and Casella Waste Management, Inc., dated as of November 20, 1997 (Rutland lease). (incorporated herein by reference to Exhibit 10.25 to the registration statement on Form S-1 of Casella as filed on June 25, 1998 (file no. 333-57745)).
- 10.29 Amendment No. 1 to Stock Option Agreement (incorporated herein by reference to the Current Report on Form 8-K of Casella as filed May 13, 1999).
- 10.30 Agreement between Penobscot Energy Recovery Company and Bangor Hydro-Electric Company dated June 21, 1984, as amended (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
- 10.31 Agreement between Timber Energy Resources, Inc. and Florida Power Corporation dated December 31, 1984. (Incorporated herein by reference to exhibit 10.31 to the registration statement on Form S-4 as filed November 12, 1999 (file no. 19991112)).
- 10.32 Steam Agreement between Multitrade Group, Inc. and Tultex Corporation dated August 11, 1987, as amended. (incorporated herein by reference to Exhibit 10.32 to the registration statement on Form S-4 as filed November 12, 1999 (file no. 19991112)).
- 10.33 Form of Penobscot Energy Recovery Company Waste Disposal Agreement (City of Bangor) dated April 1, 1991 and Schedule of Substantially Identical Waste Disposal Agreements (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
- 10.34 Steam Agreement between Multitrade Group, Inc. and Bassett-Walker, Inc. dated March 1, 1993, as amended. (incorporated herein by reference to Exhibit 10.34 to the registration statement on Form S-4 as filed November 12, 1999 (file no. 19991112)).
- 10.35 Power Purchase Agreement between Maine Energy Recovery Company and Central Maine Power Company dated January 12, 1984, as amended (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
- 10.36 Host Municipalities' Waste Handling Agreement among Biddeford-Saco Solid Waste Committee, City of Biddeford, City of Saco and Maine Energy Recovery Company dated June 7, 1991 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
- 10.37 Form of Maine Energy Recovery Company Waste Handling Agreement (Town of North Berwick) dated June 7, 1991 and Schedule of Substantially Identical Waste Disposal Agreements (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form S-4 of KTI as filed October 18, 1994 (file no. 33-85234)).
- 10.38 Third Amendment to Power Purchase Agreement between Maine Energy Recovery Company, L.P. and Central Maine Power Company dated November 6, 1995. (incorporated herein by reference to Exhibit 10.38 to the registration statement on Form S-4 as filed November 12, 1999 (file no. 19991112)).
- 10.39 Steam Supply and Operating Agreement between Multitrade Group, Inc. and E.I. DuPont De Nemours & Co. dated February 11, 1998, as amended. (incorporated herein by reference to Exhibit 10.39 to the registration statement on Form S-4 as filed November 12, 1999 (file no. 19991112)).

- 10.40 Amendment No. 2 to Power Purchase Agreement between Penobscot Energy Recovery Company, L.P. and Bangor-Hydro Electric Company dated June 26, 1998 (incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K of KTI as filed July 8, 1998).
- 10.41 Second Amended and Restated Waste Disposal Agreements between Penobscot Energy Recovery Company and the Municipal Review Committee, Inc. dated June 26, 1998 (incorporated herein by reference to Exhibit 4.2 to the Current Report on Form 8-K of KTI as filed July 8, 1998).
- 10.42 Non-Exclusive License to Use Technology between KTI and Oakhurst Technology, Inc. dated December 29, 1998 (incorporated herein by reference to Exhibit 4.5 to the Current Report on Form 8-K of KTI as filed January 15, 1999).
- 10.43 Management Compensation Agreement between Casella Waste Systems, Inc. and John W. Casella dated December 8, 1999.
- 10.44 Management Compensation Agreement between Casella Waste Systems, Inc. and James W. Bohlig dated December 8, 1999.
- 10.45 Management Compensation Agreement between Casella Waste Systems, Inc. and Jerry S. Cifor dated December 8, 1999.
- 10.46 Management Compensation Agreement between Casella Waste Systems, Inc. and Martin J. Sergi dated December 8, 1999.
- 10.47 Management Compensation Agreement between Casella Waste Systems, Inc. and Ross Pirasteh dated December 8, 1999.
- 10.48 Preferred Stock Purchase Agreement, dated as of June 28, 2000, by and among the Company and the Purchasers identified therein (incorporated herein by reference to Exhibit 10.1 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
- 10.49 Registration Rights Agreement, dated as of August 11, 2000, by and among the Company and the Purchasers identified therein (incorporated herein by reference to Exhibit 10.2 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
- 10.50 First Amendment to Amended and Restated Revolving Credit and Term Loan Agreement, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.3 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
- 10.51 Second Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.4 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
- 10.52 Third Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.5 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
- 10.53 Fourth Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated December 14, 1999, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.) (incorporated herein by reference to Exhibit 10.6 to the current report on Form 8-K of Casella as filed August 18, 2000 (file no. 000-23211)).
- 10.54 Fifth Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated February 22, 2001, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.).

- 10.55 Sixth Amendment to Amended and Restated Revolving Credit and Term Loan Agreement and Consent, dated June 4, 2001, between the Company and Fleet National Bank (f/k/a BankBoston, N.A.).
- 10.56 KTI, Inc. 1994 Long-Term Incentive Award Plan (incorporated herein by reference to Exhibit (d)(3) to the Schedule TO of Casella as filed July 2, 2001 (file no. 000-23211)).
- 10.57 KTI, Inc. Non-Plan Stock Option Terms and Conditions (incorporated herein by reference to Exhibit (d)(4) to the Schedule TO of Casella as filed July 2, 2001 (file no. 000-23211)).
- 21.1 Subsidiaries of Casella Waste Systems, Inc.
- 23.1 Consent of Arthur Andersen LLP.

Item 14(b) Reports on Form 8-K

During the quarter ended April 30, 2001 the Company filed no reports on Form 8-K.

SIGNATURES

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

CASELLA WASTE SYSTEMS, INC.

By: /s/ John W. Casella

 John W. Casella
 Chairman and Chief
 Executive Officer

Date: July 30, 2001

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

| Signature ----- | Title ----- | Date ---- |
|---|--|---------------|
| /s/ John W. Casella ----- John W. Casella | Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) | July 30, 2001 |
| /s/ James W. Bohlig ----- James W. Bohlig | President and Chief Operating Officer, Director | July 30, 2001 |
| /s/ Jerry Cifor ----- Jerry Cifor | Senior Vice President and Chief Financial Officer (Principal Accounting and Financial Officer) | July 30, 2001 |
| /s/ Douglas R. Casella ----- Douglas R. Casella | Director | July 30, 2001 |
| /s/ John F. Chapple III ----- John F. Chapple III | Director | July 30, 2001 |
| /s/ Gregory B. Peters ----- Gregory B. Peters | Director | July 30, 2001 |
| /s/ George Mitchell ----- George Mitchell | Director | July 30, 2001 |

Deductions - Amounts Paid

Balance at end of period

| | | |
|-------|-------|----------|
| - | - | - |
| ----- | ----- | ----- |
| \$ - | \$ - | \$ 4,151 |
| ===== | ===== | ===== |

FIFTH AMENDMENT TO AMENDED AND RESTATED
REVOLVING CREDIT AND TERM LOAN AGREEMENT
AND CONSENT

THIS FIFTH AMENDMENT TO AMENDED AND RESTATED REVOLVING CREDIT AND TERM LOAN AGREEMENT AND CONSENT (this "Fifth Amendment") is made and entered into as of the 22nd day of February, 2001, by and among CASELLA WASTE SYSTEMS, INC., a Delaware corporation (the "Parent"), its Subsidiaries (other than Excluded Subsidiaries) listed on Schedule 1 to the Credit Agreement defined below (together with the Parent, collectively the "Borrowers"), FLEET NATIONAL BANK (f/k/a BankBoston, N.A., "Fleet") and such banks or other financial institutions which may become a party thereto (the "Banks"), Fleet as Administrative Agent for the Banks (the "Administrative Agent"), KEYBANK NATIONAL ASSOCIATION as Documentation Agent, BANK OF AMERICA, N.A. as Syndication Agent and CANADIAN IMPERIAL BANK OF COMMERCE as the Canadian Agent (the "Canadian Agent", and together with the Administrative Agent, the "Bank Agents").

WHEREAS, the Borrowers, the Banks and the Bank Agents are parties to an Amended and Restated Revolving Credit and Term Loan Agreement dated as of December 14, 1999, (as amended by a First Amendment to Revolving Credit and Term Loan Agreement dated as of February 2, 2000, a Second Amendment to Revolving Credit and Term Loan Agreement dated as of February 14, 2000, a Third Amendment to Revolving Credit and Term Loan Agreement dated as of April 14, 2000, a Fourth Amendment to Revolving Credit and Term Loan Agreement dated as of August 4, 2000, and as the same may be further amended and in effect from time to time, the "Credit Agreement"), pursuant to which the Banks have extended credit to the Borrowers on the terms set forth therein;

WHEREAS, the Parent has informed the Banks that it plans to exchange its stock in The AFA Group, Inc. and Advanced Enterprises Recycling Inc. for the assets of Waste Disposal Services LLC plus a cash payment of approximately \$1,500,000 (such stock acquisition and disposition being hereinafter referred to as the "AFA Swap");

WHEREAS, the Parent has informed the Banks that it plans to convert a \$16,300,000 note receivable, plus accrued interest, from Oakhurst into equity in New Heights Recovery LLC, an Illinois limited liability corporation (such transaction being hereinafter referred to as the "New Heights Equity Investment");

WHEREAS, the ING L/C will be replaced by a Letter of Credit under this Credit Agreement (the "MERC L/C");

WHEREAS, the Borrowers have informed the Banks that they intend to sell the Resource Technology Group for approximately \$24,000,000 and use the Net Cash Proceeds thereof to pay down the Term Loan;

WHEREAS, the Borrowers have requested that the Banks and the Administrative Agent make certain amendments to the Credit Agreement, and grant certain consents, and the Banks and the Administrative Agent are willing to amend the Credit Agreement and grant such certain consents on the terms set forth herein;

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NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Definitions. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Credit Agreement.

2. Amendments to Section 1.1 of the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended by:

(a) deleting the definitions of "Adjusted Margin", "Adjustment Period", "Consolidated Earnings Before Interest Taxes Depreciation and Amortization or EBITDA", "Excluded Subsidiaries" and "Security Documents" and respectively replacing such definitions in their entirety with the following new definitions:

"Adjusted Margin. A margin of 0.125% per annum added to the

otherwise applicable rate during the Adjustment Period.

Adjustment Period. The period from February 22, 2001 through August 22, 2001, provided that no Event of Default has occurred and is continuing. If an Event of Default has occurred and is continuing, the Adjustment Period shall continue until such Event of Default has been cured to the satisfaction of the Required Banks.

Consolidated Earnings Before Interest Taxes Depreciation and Amortization or EBITDA. For any period, the Consolidated Net Income (or Deficit) of the Borrowers determined in accordance with GAAP, plus; to the extent that such charge was deducted in determining Consolidated Net Income (or Deficit) in the relevant period, (a) interest expense, (b) income taxes, (c) amortization expense, and (d) depreciation expense for such period, (e) EBITDA of the businesses acquired by any Borrower (through asset purchases or otherwise) (each an "Acquired Business"), or with respect to Subsidiaries (other than Excluded Subsidiaries) acquired or formed during the period reported in the most recent financial statements delivered to the Banks pursuant to ss.7.4 (each a "New Subsidiary") shall be included in the calculation of EBITDA if (i) the Acquired Businesses or New Subsidiaries had annual revenue of at least \$5,000,000 for the most recent fiscal year ended, (ii) the Administrative Agent receives a letter in form and substance satisfactory to the Administrative Agent from the Borrowers' Accountants as to adjustments for non-recurring expenses, and (iii) (A) the financial statements of such Acquired Businesses or New Subsidiaries have been audited for the most recent fiscal year ended of such Acquired Businesses or New Subsidiaries, a portion of which fiscal year is sought to be included in the calculation of EBITDA, or (B) the Administrative Agent consents to such inclusion after being furnished with other acceptable financial statements, and, in each case, a Compliance Certificate and other reasonably appropriate documentation, in form and substance reasonably satisfactory to the Administrative Agent, with respect to the historical operating results and balance sheet of such Acquired Businesses or New Subsidiaries (which information to the knowledge of the CFO is correct in all material

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respects) are provided to the Administrative Agent, (f) the non-cash non-recurring charges related to Oakhurst operations in the amount of \$1,680,000 to be taken through the fiscal quarter ending January 31, 2001, and (g) solely for the purposes of determining compliance with ss.9.3 hereof, pro-forma credit related to the purchase of certain assets in July 2000, such charges not to exceed \$959,000 for the fiscal quarter ending January 31, 2001, and \$384,000 for the fiscal quarter ending April 30, 2001.

Consolidated Net Income (or Deficit). The consolidated net income (or deficit) of the Borrowers after deduction of all expenses, taxes, and other proper charges determined in accordance with GAAP, plus, without duplication, (a) non-cash non-recurring charges related to restructuring charges or asset impairment charges with respect to the Cellulose Joint Venture not exceeding \$7,750,000, and (b) if the Resource Technology Group is sold by October 31, 2001, non-cash non-recurring charges related to losses from asset impairment charges or such sale not exceeding \$13,000,000, less, to the extent included therein, (x) any extraordinary gains, (y) any income from non-continuing operations, and (z) income attributable to any minority equity or other Investment in any non-Borrower except to the extent of actual cash received with respect to the Cellulose Joint Venture or the New Heights Equity Investment paid to the Borrowers in the form of cash dividends or cash partnership distributions during the applicable period.

Excluded Subsidiaries. The Insurance Subsidiary and the De Minimis Subsidiaries and MERC until the Assignment Effective

Date.

Security Documents. The Domestic Security and Pledge Agreement, the Canadian Pledge Agreement, the Canadian Security Agreements, and, as of the Effective Assignment Date, the ING Documents set forth on Schedule 4 hereto, each as amended and in effect from time to time, and any additional documents evidencing or perfecting the Administrative Agent's lien on the assets of the applicable Borrowers for the benefit of the applicable Banks (including Uniform Commercial Code financing statements and the Canadian equivalent thereof)."

and (b) deleting the last paragraph of the definition of "Applicable Rate" therein and restating it as follows:

"Each Applicable Rate shall become effective on the first day after receipt by the Banks of financial statements delivered pursuant to ss.7.4(a) or (b) hereof which indicate a change in the Pricing Ratio and in the Applicable Rate in accordance with the above table, provided that for the period from the Fifth Amendment Effective Date through six (6) months after the Fifth Amendment Effective Date, the Applicable Rate shall be Level IV, provided further that during the Adjustment Period, the Adjusted Margin shall be added to the Applicable Rate for Level IV in the above table and to the Acceptance Fee for Bankers' Acceptances. If at any time the financial statements required to be delivered pursuant to ss.7.4(a) or (b) hereof are not delivered within 10 days after the time

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periods specified in such subsections, the Applicable Rate shall be the rate set forth for Level IV plus the Adjusted Margin, if applicable, subject to adjustment upon actual receipt of such financial statements."

and (c) by inserting the following new definitions in proper alphabetical order:

"Assignment Effective Date. The date on which the ING Documents assigned to the Administrative Agent for the benefit of the Banks.

ING Agreement. Pursuant to a certain Credit Agreement dated as of April 30, 1996 (the "ING Agreement"), among MERC, the banks named therein (such banks collectively referred to as the "ING Lenders"), and ING (U.S.) Capital LLC, as the agent thereof (the "ING Agent"), the ING Lenders made certain credit extensions to MERC (including the ING L/C).

ING Documents. The Documents listed and identified as such on Schedule 4 attached hereto.

MERC Transaction. The purchase of the remaining 16.25% of the partnership interests of MERC by KTI Environmental Group, Inc., for a purchase price of approximately \$7.9 million (including assumed debt to be entered into simultaneously with the sale of KTI's interest in PERC)."

3. Amendments To Section 2.1(a) of the Credit Agreement. Section 2.1(a) of the Credit Agreement is hereby amended by inserting, immediately before the period (".") at the end of the first sentence thereof, the following text:

"provided further that until the ratio of Consolidated Funded Indebtedness to EBITDA as at the end of any fiscal quarter is less than 3.50:1.00, the outstanding amount of Domestic Revolving Credit Loans (including the Swing Line Loans) and the Maximum Drawing Amount of the Domestic Letters of Credit shall not exceed a maximum aggregate amount outstanding equal to \$280,000,000, however the Commitment Fee shall be payable on the full amount of the Total Commitment during such period."

4. Amendments to Section 4A.4.1 of the Credit Agreement. Section 4A.4.1 of the Credit Agreement is hereby amended by adding the following new subsection (f) in proper alphabetical order therein:

"(f) The Domestic Borrowers shall use \$10,000,000 of the Net Cash Proceeds received from the sale of the Bangor Warrants permitted under ss.8.4.2(c) and \$23,000,000 of the Net Cash Proceeds received from the sale of PERC and Timber permitted under ss.8.4.2(a) to pay down (i) outstanding Domestic Revolving Credit Loans by \$22,000,000, and (ii) the Term Loan by \$11,000,000."

5. Amendments to Section 4A.6.1 of the Credit Agreement. Section 4A.6.1 of the Credit Agreement is hereby amended by deleting the subsections (a) and (b) in their entirety and restating them as follows:

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"(a) To the extent that all or any portion of the Term Loan bears interest during such Interest Period at the Base Rate, the Term Loan or such portion thereof shall bear interest during such Interest Period at the rate of 2.000% per annum plus the Adjusted Margin during the Adjustment Period (the "Term Loan Base Rate Margin") above the Base Rate.

(b) At the option of the Domestic Borrowers, and upon notice give to the Administrative Agent pursuant to ss.4A.6.2, so long as no Default or Event of Default has occurred or is continuing, to the extent that all or any portion of the Term Loan bears interest during such Interest Period at the Eurodollar Rate, the Term Loan or such portion shall bear interest during such Interest Period at the rate of 3.500% per annum plus the Adjusted Margin during the Adjustment Period (the "Term Loan Eurodollar Margin") above the Eurodollar Rate.

6. Amendments to Section 7.4 of the Credit Agreement. Section 7.4 of the Credit Agreement is hereby amended by (a) deleting the word "and" at the end of subsection (f) thereof, and (b) deleting subsection (g) thereof in its entirety and replacing it with the following:

"(g) consolidated and consolidating balance sheets and statements of operations, including, the divisional profit and loss results, on a monthly basis until such time as the ratio of (i) Total Consolidated Funded Indebtedness to (ii) EBITDA under ss.9.5 hereof is less than 3.50:1.00, and thereafter on a quarterly basis; and

(h) from time to time such other financial data and other information (including accountants' management letters) as the Banks may reasonably request;"

7. Amendments to Section 7 of the Credit Agreement. Section 7 of the Credit Agreement is hereby amended by adding the following new ss.7.19:

"ss.7.19. Quarterly Conference Calls. For the fiscal year 2002, the Borrowers will arrange and participate in conference calls with the Banks within 30 days following the close of each fiscal quarter."

8. Amendments to Section 8.4.1(j) of the Credit Agreement. Section 8.4.1(j) of the Credit Agreement is hereby amended by deleting subsection (j) thereof in its entirety and replacing it with the following:

"(j) (i) in the event that the ratio of (A) Total Consolidated Funded Indebtedness to (B) EBITDA under ss.9.5 hereof is greater than or equal to 3.50:1.00, cash consideration to be paid by such Borrower in connection with any such acquisition or series of related acquisitions (including cash deferred payments, contingent or otherwise, and the aggregate amount of all liabilities assumed), shall not exceed \$1,000,000 without the consent of the Administrative Agent and the Required Banks and (ii) in the event that the ratio of (A) Total Consolidated Funded Indebtedness to (B) EBITDA under ss.9.5 hereof is less than 3.50:1.00, cash consideration to be paid by such Borrower in connection with any

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such acquisition or series of related acquisitions (including cash deferred payments, contingent or otherwise, and the aggregate amount of all,

liabilities assumed), shall not exceed \$15,000,000 without the consent of the Administrative Agent and the Required Banks; provided, further, in each case, that, taking into account such acquisition and any borrowing made in connection therewith, there shall remain at least \$20,000,000 of availability under the Total Commitment."

9. Amendment to Section 8.4.2 of the Credit Agreement is amended by adding the following sentence immediately prior to the third sentence thereof which begins "Notwithstanding the foregoing.....": "the Borrowers shall be permitted to sell the Resource Technology Group, provided that gross cash proceeds of approximately \$24,000,000 shall be received and shall be used to pay down the Term Loan."

10. Amendments to Section 8.6 of the Credit Agreement. Section 8.6 of the Credit Agreement is hereby amended by deleting ss.8.6 in its entirety and replacing it with the following new ss.8.6:

"ss.8.6. Restricted Distributions and Redemptions.

None of the Borrowers will declare or pay any cash Distributions; provided that any Subsidiary may declare or pay cash Distributions to the Parent. In addition, the Borrowers shall not redeem, convert, retire or otherwise acquire shares of any class of capital stock of the Borrowers or Excluded Subsidiaries without the written consent of the Administrative Agent and the Required Banks. So long as no Default or Event of Default has occurred and is continuing, or would occur after giving effect thereto, at any time after August 9, 2003, the Parent may make quarterly cash Distributions on its Series A Preferred Stock in an amount up to five percent (5%) of the face value of the Series A Preferred Stock per year, but in no event to exceed \$3,226,879 in any fiscal year."

11. Amendments to Section 8.8 of the Credit Agreement. Section 8.8 of the Credit Agreement is hereby amended by deleting ss.8.8 in its entirety and substituting in place thereof the following new ss.8.8:

"ss.8.8. Capital Expenditures. Commencing with the fiscal quarter ending April 30, 2001, as at the end of any fiscal quarter, the Borrowers will not permit the amount of Capital Expenditures (excluding any acquisitions permitted by ss.8.4 hereof) made by the Borrowers in the period of four (4) consecutive fiscal quarters then ended to exceed (a) through January 31, 2002, an amount equal to 2.0 times the sum of depreciation and landfill amortization expense for such period (calculated in accordance with GAAP), and (b) thereafter, the lesser of an amount equal to (i) 0.5 times EBITDA for such period, and (ii) the sum of depreciation and landfill amortization expense for such period (calculated in accordance with GAAP)."

12. Amendments to Section 9.1 of the Credit Agreement. Section 9.1 of the Credit Agreement is hereby amended by deleting ss.9.1 in its entirety and substituting in place thereof the following new ss.9.1:

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"ss.9.1. Interest Coverage Ratios. As of the end of any fiscal quarter, the ratio of EBITDA to Consolidated Total Interest Expense shall not be less than the stated ratio for the respective periods set forth below:

| Period | Ratio |
|---------------------------------|--------|
| ----- | ----- |
| Effective Date through 10/30/01 | 2.50:1 |
| 10/31/01 through 1/30/02 | 2.75:1 |
| 1/31/02 through 4/29/02 | 3.00:1 |
| Thereafter | 3.50:1 |

provided, that any adjustments made pursuant to clause (e) of the definition of EBITDA shall not be included in the calculation of this ss.9.1 and EBITDA shall be calculated for the period of four (4) fiscal quarters ending on the date of calculation."

13. Amendments to Section 9.3 of the Credit Agreement. Section 9.3 of the Credit Agreement is hereby amended by deleting ss.9.3 in its entirety and substituting in place thereof the following new ss.9.3:

"ss.9.3. Borrowers' Funded Debt to EBITDA Ratio. The Borrowers will not permit the ratio of (a) Consolidated Funded Indebtedness to (b) EBITDA as at the end of any fiscal quarter to exceed the stated ratio for the respective periods set forth below:

| Period | Ratio |
|--------------------------------|--------|
| ----- | ----- |
| Effective Date through 6/30/00 | 4.00:1 |
| 7/31/00 through 7/31/01 | 3.75:1 |
| Thereafter | 3.50:1 |

provided that, in the event that the Resource Technology Group are sold prior to October 31, 2001 for Net Cash Proceeds of at least \$24,000,000, the maximum permitted ratio as at the end of the fiscal quarter when such sale occurred and thereafter shall be 3.50:1. For the purposes of this ss.9.3, EBITDA shall be calculated for the period of four (4) consecutive fiscal quarters ending on the date of calculation."

14. Amendments to Schedules and Exhibits of the Credit Agreement. The Schedules to the Credit Agreement are hereby amended by (a) deleting the current Schedule 1 attached thereto and replacing it with the new Schedule 1 attached hereto; and (b) adding in proper numerical order the new Schedule 4 attached hereto. The Borrowers hereby represent and warrant that such new Schedules are complete and accurate. Concurrently herewith, the Borrowers have delivered new Perfection Certificates for all new Subsidiaries. Exhibit D is hereby amended by deleting the current Exhibit D attached to the Credit Agreement and replacing it with the new Exhibit D attached hereto.

15. Deletion of Sections from the Credit Agreement. As of the Fifth Amendment Effective Date or if later, as of the Assignment Effective Date, the text of following sections shall be deleted in their entirety from the Credit Agreement, and the words "Intentionally Deleted" shall be inserted in their place:

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ss.8.1(f) (i) and (j)
ss.8.d(h) (i)
ss.8.3(i)
ss.9.5.

16. Consent to AFA Asset Swap. Each of the Banks hereby consents to the AFA Swap, provided that (a) the cash consideration received by the Borrowers in connection with the AFA Swap shall not be less than \$1,500,000 and such consideration shall be used to pay down the Term Loan, and (b) the Borrowers shall comply with the terms of Section 8.4.1 with respect to the acquisition of the Waste Disposal Services LLC assets.

17. Consent to New Heights Equity Investment. Each of the Banks hereby consents to the New Heights Equity Investment, provided that the stock of New Heights owned by KTI Inc. shall be pledged to the Administrative Agent for the benefit of the Banks.

18. The MERC Transaction. In connection with the issuance of the MERC L/C and the payment of all outstanding amounts under the ING Agreement, the ING Lenders will assign all of their rights, interests and obligations under the ING Documents to the Administrative Agent for the benefit of the Banks pursuant to the Assignment and Acceptance dated the Assignment Effective Date between the ING Lenders, ING and the Administrative Agent (on behalf of itself and the Banks). As of the Assignment Effective Date, the ING Agreement shall be subsumed under this Credit Agreement and shall be amended and restated and replaced in its entirety by the terms of this Credit Agreement, and the ING Documents shall be "Security Documents" under this Credit Agreement, and MERC will no longer be an Excluded Subsidiary and will become a Borrower hereunder, and will execute and deliver a Joinder and Affirmation to the Credit Agreement, allonges to the Notes, and deliver such other documents as requested by the Administrative Agent. Any cash held by ING shall be applied to pay down the outstanding Domestic Revolving Credit Loans.

If the MERC Transaction and the Assignment Effective Date occurs after the Fifth Amendment Date, the Banks hereby consent to the MERC Transaction, on the terms set forth in this ss.18, notwithstanding the restrictions in ss.8.4(j), as amended hereby.

19. Representations and Warranties. Each of the Borrowers represents and warrants as follows:

(a) The execution, delivery and performance of each of this Fifth Amendment and the Credit Agreement, as amended as of the date hereof and the transactions contemplated hereby and thereby are within the corporate power and authority of such Borrower and have been or will be authorized by proper corporate proceedings, and do not (a) require any consent or approval of the stockholders of such Borrower, (b) contravene any provision of the charter documents or by-laws of such Borrower or any law, rule or regulation applicable to such Borrower, or (c) contravene any provision of, or constitute an event of default or event which, but for the requirement that time elapse or notice be given, or both, would constitute an event of default under, any other material agreement, instrument or undertaking binding on such Borrower.

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(b) This Fifth Amendment and the Credit Agreement as amended as of the date hereof and all of the terms and provisions hereof and thereof are the legal, valid and binding obligations of such Borrower enforceable in accordance with their respective terms except as limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting the enforcement of creditors' rights generally, and except as the remedy of specific performance or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

(c) The execution, delivery and performance of this Fifth Amendment and the Credit Agreement as amended as of the date hereof and the transactions contemplated hereby and thereby do not require any approval or consent of, or filing or registration with, any governmental or other agency or authority, or any other party.

(d) The representations and warranties contained in ss.6 of the Credit Agreement are true and correct in all material respects as of the date hereof as though made on and as of the date hereof.

(e) After giving effect to this Fifth Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing.

20. Ratification, Etc. Except as expressly amended hereby, the Credit Agreement, the other Loan Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. This Fifth Amendment and the Credit Agreement shall hereafter be read and construed together as a single document, and all references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended by this Fifth Amendment.

21. GOVERNING LAW. THIS FIFTH AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

22. DELIVERY BY FACSIMILE. This Amendment, to the extent signed and delivered by means of a facsimile machine, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto or to any such agreement-or instrument shall raise the use of a facsimile machine to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine as a defense to the formation of a contract and each party forever waives such defense.

23. Counterparts. This Fifth Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which counterparts taken together shall be deemed to constitute one and the same instrument.

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23. Effectiveness. This Fifth Amendment shall become effective (the "Fifth Amendment Effective Date") upon the receipt by the Agent of:

(a) a counterpart of this Fifth Amendment, executed by the Required Banks and the Borrowers;

(b) an amendment fee in an aggregate amount equal to 20.0 basis points on the Commitment or outstanding principal portion of the Term Loan, as applicable, of each Bank which consents to this Fifth Amendment on or prior to 5:00 p.m. (Boston time) on February 20, 2001;

(c) with respect to those provisions relating to new Borrowers including MERC, upon the signing and delivery a Joinder and Affirmation Agreement to the Administrative Agent, allonges to the Notes, and all documentation reasonably requested by the Administrative Agent in connection therewith; and

(d) payment of all fees and expenses of the Administrative Agent's legal counsel in the connection with the preparation of this Fifth Amendment and ancillary documentation and filings.

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IN WITNESS WHEREOF, each of the undersigned have duly executed this Fifth Amendment as of the date first set forth above.

FLEET NATIONAL BANK
(f/k/a BankBoston N.A.)
individually and as Administrative Agent

By: /s/ Timothy M. Laurion

Name: Timothy M. Laurion
Title: Managing Director

KEYBANK NATIONAL ASSOCIATION,
individually and as Documentation Agent

By: /s/ Daniel W. Lally

Name: Daniel W. Lally
Title: Assistant Vice President

BANK OF AMERICA, N.A.,
individually and as Syndication Agent

By: /s/ Steven R. Arentsen

Name: Steven R. Arentsen
Title: Senior Vice President

COMERICABANK

By: /s/ Joe Ursay

Name: Joe Ursay
Title: Officer

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

ELT LTD.

By: /s/ Kelly C. Walker
Name: Kelly C. Walker
Title: Authorized Agent

STRATEGIC MANAGED LOAN PORTFOLIO

By: /s/ M. G. Regan
Name: Mike Regan
Title: Alternative Investment Strategies

KZH SHOSHONE LLC

By: /s/ Susan Lee
Name: Susan Lee
Title: Authorized Agent

PILGRIM AMERICA HIGH INCOME
INVESTMENTS, LTD.

By: /s/ Charles E. LeMieux
Name: Charles E. LeMieux, CFA
Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

PILGRIM CLO 1999-1 LTD.

By: Pilgrim Investments, Inc., as its
investment manager

By: /s/ Charles E. LeMieux, CFA
Name: Charles E. LeMieux, CFA
Title: Vice President

BANKERS TRUST COMPANY

By:
Name:
Title:

ARCHIMEDES FUNDING III, LTD.

By: ING Capital Advisors LLC,
as Collateral Manager

By:
Name:
Title:

CYPRESSTREE INVESTMENT PARTNERS II, LTD.

By:
Name:
Title:

KZH-ING-1 LLC

By: /s/ Susan Lee
Name: Susan Lee
Title: Authorized Agent

KZH-ING-2 LLC

By: /s/ Susan Lee
Name: Susan Lee
Title: Authorized Agent

KZH-ING-3 LLC

By: /s/ Susan Lee
Name: Susan Lee
Title: Authorized Agent

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

NORTH AMERICAN SENIOR
FLOATING RATE FUND

By:
Name:
Title:

KEMPER FLOATING RATE FUND

By: /s/ Kelly Babson
Name: Kelly Babson
Title: Managing Director

CARLYLE HIGH YIELD PARTNERS II, LTD.

By: /s/ Linda M. Pace
Name: Linda M. Pace
Title: Vice President

CYPRESSTREE INVESTMENT
PARTNERS I, L TD

By:
Name:
Title:

OPPENHEIMER SENIOR FLOATING
RATE FUND

By: /s/ David Foxhoven
Name: David Foxhoven
Title: A.V.P.

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

Sankaty Advisors, Inc. as Collateral
Manager for Great Point CLO 1999-LTD.,
as Term Lender

By: /s/ Diane J. Exter
Name: Diane J. Exter
Title: Managing Director, Portfolio
Manager

SANKATY HIGH YIELD PARTNERS II, L.P.

By: /s/ Diane J. Exter
Name: Diane J. Exter
Title: Managing Director, Portfolio
Manager

LASALLE BANK NATIONAL
ASSOCIATION

By: /s/ Paul M. Casey
Name: Paul M. Casey
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Rod Hurst
Name: Rod Hurst
Title: Vice President

FIRST VERMONT BANK AND TRUST
COMPANY

By:
Name:
Title:

CANADIAN IMPERIAL BANK OF
COMMERCE, individually and as
Canadian Agent

By: /s/ M. Beth Miller
Name: M. Beth Miller
Title: Authorized Signatory

SANKATY HIGH YIELD PARTNERS II, L.P.

By:
Name:
Title:

GREAT POINT CLO 1999-1 LTD.

By:
Name:
Title:

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

FIRST ALLAMERICA FINANCIAL LIFE
INSURANCE CO.

By:
Name:
Title:

AVALON CAPITAL LTD.

By: INVESCO Senior Secured Management,
Inc., as Portfolio Advisor

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

AVALON CAPITAL LTD. 2

By: INVESCO Senior Secured Management,
Inc., as Portfolio Advisor

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

OLYMPIC FUNDING TRUST, SERIES 1999-1

By: /s/ Kelly C. Walker
Name: Kelly C. Walker
Title: Authorized Agent

KZH CYPRESSTREE 1 LLC

By: /s/ Susan Lee
Name: Susan Lee
Title: Authorized Agent

NORSE CBO, LTD.

By: /s/ Timothy S. Peterson
Name: Timothy S. Peterson
Title: Authorized Signatory

HARBOURVIEW CDO II, LIMITED

By: /s/ Lisa Chaffee
Name: Lisa Chaffee
Title: MANAGER

INDOSUEZ CAPITAL FUNDING 11A, LIMITED

By: Indosuez Capital Luxembourg, as
Collateral Manager

By: /s/ Melissa Marano
Name: Melissa Marano
Title: Vice President

MAGNETITE ASSET INVESTORS, LLC

By: ILLEGIBLE
Name:
Title: Director

ARES LEVERAGED INVESTMENT FUND II, L.P.

By:
Name:
Title:

ARES III CLO LTD.

By: ARES CLO Management LLC

By:
Name:
Title:

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

COLUMBUS LOAN FUNDING LTD.

By: Travelers Asset Management
International Company LLC

By: /s/ Denise T. Duffee
Name: Denise T. Duffee
Title: Investment Officer

MUIRFIELD TRADING LLC

By: /s/ Kelly C. Walker
Name: Kelly C. Walker
Title: Vice President

STANFIELD/RMF TRANSATLANTIC CDO, LTD.

By:
Name:
Title:

VAN KAMPEN CLO I, LIMITED

By: /s/ Douglas L. Winchell
Name: Douglas L. Winchell
Title: Vice President

VAN KAMPEN CLO II, LIMITED

By: /s/ Douglas L. Winchell
Name: Douglas L. Winchell
Title: Vice President

BLACK ROCK

By: ILLEGIBLE
Name:
Title: Director

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

SEQUILS-ING I (HBDGM), LTD.
By: ING Capital Advisors LLC,
as Collateral Manager and Authorized
Signatory

By:
Name:
Title:

THE TRAVELERS INSURANCE COMPANY

By: /s/ Denise T. Duffee
Name: Denise T. Duffee
Title: Investment Officer

TRAVELERS CORPORATE LOAN FUND INC.

By: Travelers Asset Management
International Company LLC

By: /s/ Denise T. Duffee
Name: Denise T. Duffee
Title: Investment Officer

VAN KAMPEN PRIME RATE INCOME TRUST

By: /s/ Douglas L. Winchell
Name: Douglas L. Winchell
Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

NORTH AMERICAN SENIOR FLOATING
RATE FUND

By: CypressTree Investment Management
Company, Inc. as Portfolio Manager

By: /s/ Jeffrey W. Heuer

Name: Jeffrey W. Heuer
Title: Principal

CYPRESSTREE INVESTMENT PARTNERS I, LTD
By: CypressTree Investment Management
Company, Inc. as Portfolio Manager

By: /s/ Jeffrey W. Heuer

Name: Jeffrey W. Heuer
Title: Principal

CYPRESSTREE INVESTMENT PARTNERS II, LTD
By: CypressTree Investment Management
Company, Inc. as Portfolio Manager

By: /s/ Jeffrey W. Heuer

Name: Jeffrey W. Heuer
Title: Principal

CYPRESSTREE INVESTMENT
MANAGEMENT COMPANY, INC.
As: Attorney-in-Fact and on behalf of
First Allmerica Financial Life Insurance
Company as Portfolio Manager

By: /s/ Jeffrey W. Heuer

Name: Jeffrey W. Heuer
Title: Principal

CHARTER VIEW PORTFOLIO
By: INVESCO Senior Secured Management,
Inc.
As Investment Advisor

By: /s/ Joseph Rotondo

Name: Joseph Rotondo
Title: Authorized Signatory

AERIES FINANCE-11 LTD.
By: INVESCO Senior Secured Management,
Inc.
As Sub-Managing Agent

By: /s/ Joseph Rotondo

Name: Joseph Rotondo
Title: Authorized Signatory

CERES II FINANCE LTD.
By: INVESCO Senior Secured Management,
Inc.
As Sub-Managing Agent (Financial)

By: /s/ Joseph Rotondo

Name: Joseph Rotondo
Title: Authorized Signatory

FLOATING RATE PORTFOLIO
By: INVESCO Senior Secured Management,
Inc.
As Attorney in fact

By: /s/ Joseph Rotondo

Name: Joseph Rotondo
Title: Authorized Signatory

CIBC INC.
By: /s/ M. Beth Miller

Name: M. Beth Miller
Title: AUTHORIZED SIGNATORY

ARCHIMEDES FUNDING III, LTD.
BY: ING Capital Advisors LLC,
as Collateral Manager

By: /s/ Michael J. Campbell

Name: Michael J. Campbell
Title: MANAGING DIRECTOR

SEQUILS-ING I (HBDGM), LTD.
BY: ING Capital Advisors LLC,
as Collateral Manager

By: /s/ Michael J. Campbell

Name: Michael J. Campbell
Title: MANAGING DIRECTOR

NEMEAN CLO, LTD.
BY: ING Capital Advisors LLC,
as Investment Manager

By: /s/ Michael J. Campbell

Name: Michael J. Campbell
Title: MANAGING DIRECTOR

DOMESTIC BORROWERS

- ALL CYCLE WASTE, INC.
- BRISTOL WASTE MANAGEMENT, INC.
- CASELLA T.I.R.E.S., INC.
- CASELLA TRANSPORTATION, INC.
- CASELLA WASTE MANAGEMENT, INC.
- CASELLA WASTE MANAGEMENT OF N.Y., INC.
- CASELLA WASTE MANAGEMENT OF PENNSYLVANIA, INC.
- CASELLA WASTE SYSTEMS, INC.

GRASSLANDS INC.
HAKES C & D DISPOSAL, INC.
HIRAM HOLLOW REGENERATION CORP.
NATURAL ENVIRONMENTAL, INC.
NEWBURY WASTE MANAGEMENT, INC.
NEW ENGLAND WASTE SERVICES, INC.
NEW ENGLAND WASTE SERVICES OF MASSACHUSETTS, INC.
NEW ENGLAND WASTE SERVICES OF N.Y., INC.
NEW ENGLAND WASTE SERVICES OF VERMONT, INC.
NORTH COUNTRY ENVIRONMENTAL SERVICES, INC.
NORTHERN SANITATION, INC.
PINE TREE WASTE, INC.
RESOURCE RECOVERY OF CAPE COD, INC.
RESOURCE TRANSFER SERVICES, INC.
RESOURCE WASTE SYSTEMS, INC.
SAWYER ENVIRONMENTAL RECOVERY FACILITIES, INC.
SAWYER ENVIRONMENTAL SERVICES
SCHULTZ LANDFILL, INC.
SUNDERLAND WASTE MANAGEMENT, INC.
WASTE-STREAM INC.
WESTFIELD DISPOSAL SERVICE, INC.
WINTERS BROTHERS, INC.

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

[SIGNATURES CONTINUED ON NEXT PAGE]

ADVANCED ENTERPRISES RECYCLING INC.
THE AFA GROUP, INC.
AFA PALLET, INC.
AGRO PRODUCTS, INC.
ALLIED EQUIPT. & SALES CORP., INC.
AMERICAN SUPPLIES SALES GROUP, INC.
ARTIC INC.
ATLANTIC TRANSPORTATION TECHNOLOGIES INC.
DATA DESTRUCTION SERVICES, INC.
FAIRFIELD COUNTY RECYCLING, INC.
FCR CAMDEN, INC.
FCR FLORIDA, INC.
FCR GEORGIA, INC.
FCR GREENSBORO, INC.
FCR GREENVILLE, INC.
FCR MORRIS, INC.
FCR PLASTICS, INC.
FCR REDEMPTION, INC.
FCR TENNESSEE, INC.
FCR VIRGINIA, INC.
FCR, INC.
KTI BIO FUELS, INC.
KTI ENERGY OF MARTINSVILLE, INC.
KTI ENERGY OF VIRGINIA, INC.
KTI ENVIRONMENTAL GROUP, INC.
KTI NEW JERSEY FIBERS, INC.
KTI OPERATIONS, INC.
KTI RECYCLING OF ILLINOIS, INC.
KTI RECYCLING OF NEW ENGLAND, INC.
KTI RECYCLING OF NEW JERSEY, INC.
KTI RECYCLING, INC.
KTI SPECIALTY WASTE SERVICES, INC.
KTI TRANSPORTATION SERVICES, INC.
KTI, INC.
MECKLENBURG COUNTY RECYCLING, INC.
POWER SHIP TRANSPORT, INC.
TOTAL WASTE MANAGEMENT CORP.
U .S. FIBER, INC.

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

[SIGNATURES CONTINUED ON NEXT PAGE]

PENOBSCOT ENERGY RECOVERY COMPANY,
LIMITED PARTNERSHIP

By: PERC Management Company Limited
Partnership, general partner
By: PERC, Inc., general partner

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

PERC MANAGEMENT COMPANY, LIMITED
PARTNERSHIP

By: PERC, Inc., general partner

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

CANADIAN BORROWERS

KTI RECYCLING OF CANADA, INC.
1316991 ONTARIO, INC.

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

CASELLA WASTE SYSTEMS, INC.
AMENDED AND RESTATED REVOLVING CREDIT AND
TERM LOAN AGREEMENT
DECEMBER 14, 1999

SCHEDULE 1

SUBSIDIARIES OF THE PARENT

I. BORROWERS:

| | STATE OF INCORPORATION | FOREIGN QUAL. ORDERED |
|---|---------------------------|--------------------------|
| 1. ALL CYCLE WASTE, INC. | VT | |
| 2. ALTERNATE ENERGY, INC. | MA | NH |
| 3. BRISTOL WASTE MANAGEMENT, INC. | VT | |
| 4. CASELLA TRANSPORTATION, INC. | VT | |
| 5. CASELLA WASTE MANAGEMENT OF MASSACHUSETTS, INC. | MA | |
| 6. CASELLA WASTE MANAGEMENT OF N.Y., INC. | NY | |

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| 7. CASELLA WASTE MANAGEMENT OF PENNSYLVANIA, INC. | PA | |
| 8. CASELLA WASTE MANAGEMENT, INC. | VT | NY, MA, NH |
| 9. CASELLA WASTE SYSTEMS, INC. | DE | VT |
| 10. GRASSLANDS INC. | NY | |
| 11. HAKES C & D DISPOSAL, INC. | NY | |
| 12. HIRAM HOLLOW REGENERATION CORP. | NY | |
| 13. NATURAL ENVIRONMENTAL, INC. | NY | |

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| 14. NEWBURY WASTE MANAGEMENT, INC. | VT | |
| 15. NEW ENGLAND WASTE SERVICES, INC. | VT | NH, NY |
| 16. NEW ENGLAND WASTE SERVICES OF VERMONT, INC. | VT | |
| 17. NEW ENGLAND WASTE SERVICES OF MASSACHUSETTS, INC. | MA | |
| 18. NEW ENGLAND WASTE SERVICES OF N.Y., INC. | NY | |
| 19. NORTH COUNTRY ENVIRONMENTAL SERVICES, INC. | VA | NH |
| 20. NORTHERN SANITATION, INC. | NY | |
| 21. PINE TREE WASTE, INC. | ME | NS |
| 22. RESOURCE RECOVERY OF CAPE COD, INC. | MA | |
| 23. RESOURCE TRANSFER SERVICES, INC. | MA | |
| 24. RESOURCE WASTE SYSTEMS, INC. | MA | |
| 25. ROCHESTER ENVIRONMENTAL PARK LLC | MA | |
| 26. SAWYER ENVIRONMENTAL RECOVERY FACILITIES, INC. | ME | |
| 27. SAWYER ENVIRONMENTAL SERVICES | ME | |
| 28. SCHULTZ LANDFILL, INC. | NY | |
| 29. SUNDERLAND WASTE MANAGEMENT, INC. | VT | |
| 30. WASTE-STREAM INC. | NY | |

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| 31. WESTFIELD DISPOSAL SERVICE, INC. | NY | |
| 32. WINTERS BROTHERS, INC. | VT | |
| II. KTI BORROWERS | | |
| 33. ADVANCED ENTERPRISES RECYCLING INC. | NJ | |
| 34. AFA PALLET CO., INC. | NJ | |

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| 35. THE AFA GROUP, INC. | NJ | |
| 36. AGRO PRODUCTS, INC. | NJ | |
| 37. ALLIED EQUIPT. & SALES CORP., INC. | NJ | |
| 38. AMERICAN SUPPLIES SALE GROUP, INC. | | |
| 39. ARTiC, INC. | NJ | |
| 40. ATLANTIC COAST FIBERS, INC. (f/k/a KTI RECYCLING, INC.) | DE | NJ |
| 41. ATLANTIC TRANSPORTATION TECHNOLOGIES INC. | NJ | |
| 42. DATA DESTRUCTION SERVICES, INC. | ME | MA, NH |
| 43. FAIRFIELD COUNTY RECYCLING, INC. | DE | CT |
| 44. FCR, INC. | DE | NC |
| 45. FCR CAMDEN, INC. | DE | NJ |
| 46. FCR FLORIDA, INC. | DE | FL |
| 47. FCR GEORGIA, INC. | DE | GA |
| 48. FCR GREENSBORO, INC. | DE | NC |
| 3 | | |
| 49. FCR GREENVILLE, INC. | DE | SC |
| 50. FCR MORRIS, INC. | DE | NJ |
| 51. FCR REDEMPTION, INC. | DE | CT |
| 52. FCR TENNESSEE, INC. | DE | TN |
| 53. FCR VIRGINIA, INC. | DE | VA |
| 54. K-C INTERNATIONAL, LTD. | OR | NJ, CA, MA, PA |
| 55. KTI, INC. | NJ | ME |
| 56. KTI BIO FUELS, INC. | ME | |
| 57. KTI ENVIRONMENTAL GROUP, INC. | NJ | ME |
| 58. KTI ENERGY OF MARTINSVILLE, INC. | VA | |
| 59. KTI ENERGY OF VIRGINIA, INC. | VA | |
| 60. KTI NEW JERSEY FIBERS, INC. | DE | NJ, CT, NY, OR |
| 61. KTI OPERATIONS, INC. | DE | FL, GA, IL, ME, MA, NH, NJ, TX, VA, OR |
| 62. KTI RECYCLING OF ILLINOIS, INC. | DE | IL |
| 63. KTI RECYCLING OF NEW ENGLAND, INC. | DE | MA |
| 64. KTI RECYCLING OF NEW JERSEY, INC. | DE | NJ |
| 65. KTI SPECIALTY WASTE SERVICES, INC. | ME | FL |
| 66. KTI TRANSPORTATION SERVICES, INC. | ME | NJ |
| 67. MECKLENBURG COUNTY | | |

RECYCLING, INC.

CT

NC

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68. U.S. FIBER, INC.

NC

FL, AZ, CA, OH,
OR, PA, TX

II. EXCLUDED SUBSIDIARIES:

69. AMERICAN ASH RECYCLING OF TENNESSEE, LTD.

70. CASELLA INSURANCE COMPANY

71. FOREST ACQUISITIONS, INC.

72. MAINE ENERGY RECOVERY
COMPANY, LIMITED PARTNERSHIP

73. NORTH COUNTRY COMPOSTING SERVICES, INC.

74. NORTHERN PROPERTIES CORPORATION OF PLATTSBURGH

[TO BE MERGED INTO
NORTHERN SANITATION INC.]

75. PORTLAND C & D SITE, INC.

76. TIMBER ENERGY RESOURCES, INC.

III. TIRE BUSINESS SUBSIDIARIES:

77. 1316991 ONTARIO INC.

ON

78. ATLANTIC RECYCLED RUBBER INC.

NS

79. CASELLA T.I.R.E.S., INC.

ME

RI

80. NEW HEIGHTS RECOVERY & POWER, LLC

DE

81. OAKHURST COMPANY, INC.

DE

82. PRAIRIE RUBBER CORPORATION

SK

83. RECI INDUSTRIES DE RECICLAGEN,
SGPL, S.A.

PORTUGAL

84. RECOVERY TECHNOLOGIES
(CANADA), INC. (FORMERLY KTI
RECYCLING OF CANADA, INC.)

ON

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85. RECOVERY TECHNOLOGIES OPERATIONS, LLC

IL

IN, NJ

86. RECOVERY TECHNOLOGIES GROUP, INC.

DE

GA, IL, NJ

87. RECOVERY TECHNOLOGIES
COLLECTION SERVICES, LLC

DE

GA, LA, SC, TN,
TX

SCHEDULE 4

MERC L/C Documents

1. ING Credit Agreement
 2. First Mortgage, Leasehold Mortgage and Security Agreement dated as of April 30, 1996 from the Borrower as mortgagor and the Agent as mortgagee (as amended, supplemented or otherwise modified from time to time)
 3. Second Mortgage, Leasehold Mortgage and Security Agreement dated as of April 30, 1996 from the Borrower as mortgagor and the Agent as mortgagee (as amended, supplemented or otherwise modified from time to time)
 4. Pledge and Security Agreement dated as of April 30, 1996 among Kuhr Technologies, Inc. ("KTI"), the Borrower and the Agent (as amended, supplemented or otherwise modified from time to time)
 5. Pledge and Security Agreement dated as of April 30, 1996 among KTI Limited Partners, Inc. ("KTI Limited Partners"), the Borrower and the Agent (as amended, supplemented or otherwise modified from time to time)
 6. Security Agreement dated as of April 30, 1996 between the Borrower and the Agent (as amended, supplemented or otherwise modified from time to time)
 7. Lockbox Agreement dated as of May 3, 1996 among the Agent, the Borrower and Key Bank of Maine (as amended, supplemented or otherwise modified from time to time)
 8. Subordination Agreement dated as of May 3, 1996 by and among KTI, KTI Limited Partners, Energy National, Inc. ("ENI"), CNA Realty, Corp. ("CNA Realty"), the Agent and the Borrower (as amended, supplemented or otherwise modified from time to time)
 9. Subordination Agreement dated as of August 1, 2000 by and among KTI, Inc., the Agent and the Borrower (as amended, supplemented or otherwise modified from time to time)
 10. Note Subordination Agreement dated as of May 3, 1996 by and among CNA Realty, CLE Inc., the Agent and the Borrower as amended by Note Subordination Agreement dated as of December 30, 1998 by and among KTI, the Agent and the Borrower (as amended, supplemented or otherwise modified from time to time)
- 2-
11. Note Subordination Agreement dated as of May 3, 1996 by and among ENI, the Agent and the Borrower (as amended, supplemented or otherwise modified from time to time)
 12. Note Subordination Agreement dated as of May 3, 1996 by and among Project Capital 1985, the Agent and the Borrower (as amended, supplemented or otherwise modified from time to time)
 13. Negative Pledge Agreement dated as of May 3, 1996 by and among ENI, the Agent and the Borrower (as amended, supplemented or otherwise modified from time to time)
 14. Consent and Agreement (PPA) dated as of April 30, 1996 by and between Central Maine Power Company ("CMPC"), the Agent and the Borrower (as amended, supplemented or otherwise modified from time to time)
 15. Lessor's Estoppel and Consent dated as of April 30, 1996 by CMPC in favor of the Agent (as amended, supplemented or otherwise modified from time to time)

16. Consent and Agreement (Water Agreements) dated as of April 30, 1996 by CMPC in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
17. Consent and Agreement dated as of April 30, 1996 by CL Power Sales One, LLC ("CL One"), in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
18. Operator Consent and Agreement dated as of April 30, 1996 by KTI Operations, Inc., in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
19. Municipality Consent and Agreement dated as of July 10, 1996 by the City of Saco in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
20. Municipality Consent and Agreement read and passed on June 18, 1996 by the City of Biddeford in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
21. Municipality Consent and Agreement dated as of August 6, 1996 by the Town of Acton in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
22. Municipality Consent and Agreement dated as of August 27, 1996 by the Town of Alfred in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)

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23. Municipality Consent and Agreement dated as of July 1, 1996 by the Town of Old Orchard Beach in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
24. Municipality Consent and Agreement dated as of June 17, 1996 by the Town of North Berwick in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
25. Municipality Consent and Agreement dated as of June 19, 1996 by the Town of Buxton in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
26. Municipality Consent and Agreement dated as of June 26, 1996 by the Town of Kennebunk in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
27. Municipality Consent and Agreement dated as of November 19, 1996 by the Town of Sanford in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
28. Municipality Consent and Agreement dated as of September 3, 1996 by the Town of Shapleigh in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
29. Municipality Consent and Agreement dated as of June 24, 1996 by the Town of Dayton in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
30. Municipality Consent and Agreement dated as of July 10, 1996 by the Town of Wells in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)

31. Municipality Consent and Agreement dated as of June 10, 1996 by the Town of Denmark in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
32. Municipality Consent and Agreement dated as of July 31, 1996 by the Town of Cornish in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
33. Municipality Consent and Agreement dated as of June 27, 1996 by the Town of Kennebunkport in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
34. Municipality Consent and Agreement dated as of June 17, 1996 by the Town of South Berwick in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)

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35. Municipality Consent and Agreement dated as of June 17, 1996 by the Town of Brownfield in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
36. Front-End Process Residue Consent and Agreement dated as of April 30, 1996 by Arthur Schofield, Inc., in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
37. Material Disposal and Transportation Consent and Agreement dated as of April 30, 1996 by Waste Management Disposal Services of Maine, Inc. (formerly known as Consolidated Waste Services, Inc.), Waste Management of New Hampshire, Inc., Waste Management of Maine, Inc., in favor of the Agent and acknowledged by the Borrower (as amended, supplemented or otherwise modified from time to time)
38. Indemnity Agreement dated as of April 30, 1996 among Lehman Brothers Holdings, Inc., the Borrower and the Issuer as amended by Indemnity Agreement dated as of May 8, 1997 among The Energy Group PLC, the Borrower and Issuer and as amended by Indemnity Agreement dated as of August 8, 2000 among TXU Europe Limited, the Borrower and the Issuer (as amended, supplemented or otherwise modified from time to time)
39. Escrow Agreement dated as of April 30, 1996 among Key Trust Company of Ohio, N.A. (the "Escrow Agent"), CMPC, the Borrower, CL One and the Agent (as amended, supplemented or otherwise modified from time to time)
40. Inter-Creditor Agreement dated as of April 30, 1996 (the "Inter-Creditor Agreement") by and among CL One, CMPC, the Borrower, the Escrow Agent, John Hancock Mutual Life Insurance Company, John Hancock Variable Life Insurance Company, John Hancock Life Insurance Company of America, Mellon Bank, N.A., Allstate Life Insurance Company, and Connecticut General Life Insurance Company (as amended, supplemented or otherwise modified from time to time)
41. Financing Statement filed with the Secretary of State of Maine (UCC No. 1171447) with respect to the Borrower in relation to document nos. 2 and 3 above
42. Financing Statement filed with the Secretary of State of New Jersey (UCC-1 No. 1696612) with respect to KTI in connection with document no. 4 above
43. Financing Statement filed with the Secretary of State of Maine (UCC-1 No. 1171057) with respect to KTI in connection with document no. 4 above

44. Financing Statement filed with the Secretary of State of Delaware (UCC-1 No. 9612047) with respect to KTI Limited Partners in connection with document no. 5 above

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45. Financing Statement filed with the Secretary of State of Maine (UCC-1 No. 1171056) with respect to KTI Limited Partners in connection with document no. 5 above
46. Financing Statement filed with the Secretary of State of Maine (UCC-1 No. 1171059) with respect to the Borrower in connection with document nos. 6 and 7 above
47. Financing Statement filed with the Secretary of State, New Jersey (UCC-1 No. 1696616) with respect to the Borrower in connection with document nos. 6 and 7 above
48. Non-Disturbance and Attornment Agreement (the "Non-Disturbance and Attornment Agreement") dated as of April 30, 1996 by and between the Agent, CL One and CMPC (as amended, supplemented or otherwise modified from time to time)

SIXTH AMENDMENT TO AMENDED AND RESTATED
REVOLVING CREDIT AND TERM LOAN AGREEMENT
AND WAIVER

THIS SIXTH AMENDMENT TO AMENDED AND RESTATED REVOLVING CREDIT AND TERM LOAN AGREEMENT AND WAIVER (this "Sixth Amendment") is made and entered into as of the 4th day of June, 2001, by and among CASELLA WASTE SYSTEMS, INC., a Delaware corporation (the "Parent"), its Subsidiaries (other than Excluded Subsidiaries) listed on Schedule 1 to the Credit Agreement defined below (together with the Parent, collectively the "Borrowers"), FLEET NATIONAL BANK (f/k/a BankBoston, N.A., "Fleet") and such banks or other financial institutions which may become a party thereto (the "Banks"), Fleet as Administrative Agent for the Banks (the "Administrative Agent"), KEYBANK NATIONAL ASSOCIATION as Documentation Agent, and BANK OF AMERICA, N.A. as Syndication Agent.

WHEREAS, the Borrowers, the Banks and the Bank Agents are parties to an Amended and Restated Revolving Credit and Term Loan Agreement dated as of December 14, 1999, (as amended by a First Amendment to Revolving Credit and Term Loan Agreement dated as of February 2, 2000, a Second Amendment to Revolving Credit and Term Loan Agreement dated as of February 14, 2000, a Third Amendment to Revolving Credit and Term Loan Agreement dated as of April 14, 2000, a Fourth Amendment to Revolving Credit and Term Loan Agreement dated as of August 4, 2000, a Fifth Amendment to Revolving Credit and Term Loan Agreement dated as of February 22, 2001, and as the same may be further amended and in effect from time to time, the "Credit Agreement"), pursuant to which the Banks have extended credit to the Borrowers on the terms set forth therein;

WHEREAS, the Borrowers have requested that the Banks and the Administrative Agent make certain amendments to the Credit Agreement, and grant certain waivers, and the Banks and the Administrative Agent are willing to amend the Credit Agreement and grant such certain waivers on the terms set forth herein;

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. DEFINITIONS. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Credit Agreement.

2. AMENDMENTS TO SECTION 1.1 OF THE CREDIT AGREEMENT. Section 1.1 of the Credit Agreement is hereby amended by:

(a) deleting the definitions of "Applicable Rate", "Consolidated Net Income (or Deficit)", "Term Loan Base Rate Margin" and "Term Loan Eurodollar Margin" and respectively replacing such definitions in their entirety with the following new definitions:

"Applicable Rate. The applicable rate per annum set forth in the following table:

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| LEVEL | PRICING RATIO | APPLICABLE RATE FOR REVOLVING CREDIT BASE RATE LOANS | APPLICABLE RATE FOR REVOLVING CREDIT EURODOLLAR RATE LOANS | APPLICABLE FACILITY FEE RATE |
|-------|--|--|--|---------------------------------|
| ===== | ===== | ===== | ===== | ===== |
| I | less than 2.50:1 | Base Rate plus 0.625% per annum | Eurodollar Rate plus 2.125% per annum | 0.375% |
| II | greater than or equal to 2.50:1 and less than 3.00:1 | Base Rate plus 0.875% per annum | Eurodollar Rate plus 2.375% per annum | 0.375% |
| III | greater than or equal to 3.00:1 and less than 3.50:1 | Base Rate plus 1.000% per annum | Eurodollar Rate plus 2.500% per annum | 0.500% |
| IV | greater than or equal to 3.50:1 | Base Rate plus 1.250% per annum | Eurodollar Rate plus 2.750% per annum | 0.500% |

Each Applicable Rate shall become effective on the first day after receipt by the Banks of financial statements delivered pursuant to ss.7.4(a) or (b) hereof which indicate a change in the Pricing Ratio and in the Applicable Rate in accordance with the above table, provided that for the period from the Sixth Amendment Effective Date through six (6) months after the Sixth Amendment Effective Date, the Applicable Rate shall be Level IV. If at any time the financial statements required to be delivered pursuant to ss.7.4(a) or (b) hereof are not delivered within 10 days after the time periods specified in such subsections, the Applicable Rate shall be the rate set forth for Level IV, subject to adjustment upon actual receipt of such financial statements.

Consolidated Net Income (or Deficit). The consolidated net income (or deficit) of the Borrowers after deduction of all expenses, taxes, and other proper charges determined in accordance with GAAP, plus, to the extent deducted and without duplication, (a) non-cash non-recurring charges related to restructuring charges or asset impairment charges with respect to the Cellulose Joint Venture not exceeding \$7,750,000, (b) non-cash non-recurring charges related to losses from asset impairment charges from the Resource Technology Group or the sale of the Resource Technology Group not exceeding \$24,000,000, and (c) other non-recurring charges, such charges in an amount to be approved by the Administrative Agent, but in any event not to exceed [\$110,000,000], taken in the fiscal quarter ending April 30, 2001, less, to the extent included therein, (x) any extraordinary gains, (y) any income from non-continuing operations, and (z) income attributable to any minority equity or other Investment in any non-Borrower except to the extent of actual cash received with respect to the Cellulose Joint Venture or the New Heights Equity Investment paid to the Borrowers in the form of cash dividends or cash partnership distributions during the applicable period.

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Term Loan Base Rate Margin. In the event the Pricing Ratio for the Applicable Term Loan Rate is at Level I, the Term Loan Base Rate Margin shall be 2.000%, and in the event the Pricing Ratio for the Applicable Term Loan Rate is at Level II, the Term Loan Base Rate Margin shall be 2.250%.

Term Loan Eurodollar Margin. In the event the Pricing Ratio for the Applicable Term Loan Rate is at Level I, the Term Loan Eurodollar Rate Margin shall be 3.750%, and in the event the Pricing Ratio for the Applicable Term Loan Rate is at Level II, the Term Loan Eurodollar Rate Margin shall be 4.000%."

(b) deleting the date "August 22, 2001" in the definition of "Adjustment Period" and replacing it with the date "June 4, 2001";

and (c) by inserting the following new definitions in proper alphabetical order:

"Applicable Term Loan Rate. The applicable rate per annum set forth in the following table:

| LEVEL | PRICING RATIO | APPLICABLE TERM LOAN RATE FOR TERM LOAN BASE RATE LOANS | APPLICABLE TERM LOAN RATE FOR TERM LOAN EURODOLLAR RATE LOANS |
|-------|------------------------------------|---|---|
| ===== | ===== | ===== | ===== |
| I | less than 3.00:1 | Base Rate plus 2.000% per annum | Eurodollar Rate plus 3.750% per annum |
| II | greater than or equal to 3.00:1 | Base Rate plus 2.250% per annum | Eurodollar Rate plus 4.000% per annum |

Each Applicable Term Loan Rate shall become effective on the first day after receipt by the Banks of financial statements delivered pursuant to ss.7.4(a) or (b) hereof which indicate a change in the Pricing Ratio and in the Applicable Term Loan Rate in accordance with the above table, provided that for the period from the Sixth Amendment Effective Date through six (6) months after the Sixth Amendment

Effective Date, the Applicable Rate shall be Level II. If at any time the financial statements required to be delivered pursuant to ss.7.4(a) or (b) hereof are not delivered within 10 days after the time periods specified in such subsections, the Applicable Term Loan Rate shall be the rate set forth for Level II, subject to adjustment upon actual receipt of such financial statements.

Sixth Amendment Effective Date. June 4, 2001."

3. AMENDMENTS TO SECTION 2.2.1 OF THE CREDIT AGREEMENT. Section 2.2.1 of the Credit Agreement is hereby amended by inserting in proper alphabetical order, the following new subsection (d):

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"(d) On the Sixth Amendment Effective Date, the Total Commitment shall be irrevocably reduced to \$280,000,000, and any payments required by ss.2.5 shall be made on each such date, together with any and all accrued and unpaid interest thereon. On the Sixth Amendment Effective Date, each Revolving Bank's Domestic Commitment shall be reduced pro rata in accordance with such Bank's Domestic Commitment Percentage. The Domestic Borrowers jointly and severally promise to pay on the Sixth Amendment Effective Date all Domestic Revolving Credit Loans, unpaid Reimbursement Obligations with respect to Domestic Letters of Credit and any and all unpaid interest accrued thereon, exceeding the amount of the reduced Total Domestic Commitment as of such date."

4. AMENDMENTS TO SECTION 4A.6.1 OF THE CREDIT AGREEMENT. Section 4A.6.1 of the Credit Agreement is hereby amended by deleting ss.4A.6.1 in its entirety and restating it as follows:

"Except as otherwise provided in ss.5. 7, the Term Loan shall bear interest during each Interest Period relating to all or any portion of the Term Loan at the rate per annum equal to the Applicable Term Loan Rate."

5. AMENDMENTS TO SECTION 8.4.1(J) OF THE CREDIT AGREEMENT. Section 8.4.1(j) of the Credit Agreement is hereby amended by deleting subsection (j) thereof in its entirety and replacing it with the following:

"(j) (i) in the event that the ratio of (A) Total Consolidated Funded Indebtedness to (B) EBITDA under ss.9.5 hereof is greater than or equal to 3.50:1.00, no Borrower shall become a party to an acquisition without the consent of the Administrative Agent and the Required Banks, and (ii) in the event that the ratio of (A) Total Consolidated Funded Indebtedness to (B) EBITDA under ss.9.5 hereof is less than 3.50:1.00, cash consideration to be paid by any Borrower in connection with any acquisition or series of related acquisitions (including cash deferred payments, contingent or otherwise, and the aggregate amount of all liabilities assumed), shall not exceed \$15,000,000 without the consent of the Administrative Agent and the Required Banks; provided, further, in each case, that, taking into account such acquisition and any borrowing made in connection therewith, (x) there shall remain at least \$20,000,000 of availability under the Total Commitment, and (y) the Borrowers shall be in compliance with ss.9.5 hereof on a pro forma basis (with the \$20,000,000 of availability in clause (x) hereof included as Total Consolidated Funded Indebtedness for purposes of calculating compliance)."

6. AMENDMENT TO SS.8.4.2. Section 8.4.2 of the Credit Agreement is amended by deleting the figure "\$24,000,000" therein and replacing it with the figure "\$10,000,000".

7. AMENDMENTS TO SECTION 8.8 OF THE CREDIT AGREEMENT. Section 8.8 of the Credit Agreement is hereby amended by deleting ss.8.8 in its entirety and substituting in place thereof the following new ss.8.8:

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"ss.8.8. CAPITAL EXPENDITURES. Commencing with the fiscal quarter ending July 31, 2001, as at the end of any fiscal quarter (a) through the fiscal quarter ending April 30, 2002, the Borrowers will not permit the amount of Capital Expenditures (excluding any acquisitions permitted by ss.8.4 hereof) made by the Borrowers for such fiscal quarters to exceed the amount set forth opposite such period set forth in the following table:

| QUARTER ENDED | TOTAL | CUMULATIVE |
|---------------|-------|------------|
|---------------|-------|------------|

| ----- | ----- | ----- |
|-------------|--------------|--------------|
| 7/31/01 | \$19,700,000 | \$19,700,000 |
| 10/31/01 | \$14,900,000 | \$34,600,000 |
| 1/31/02 | \$5,900,000 | \$40,500,000 |
| 4/30/02 | \$5,500,000 | \$46,000,000 |
| FISCAL YEAR | | |
| ENDED 2002 | \$46,000,000 | \$46,000,000 |

and (b) thereafter, the Borrowers will not permit the amount of Capital Expenditures (excluding any acquisitions permitted by ss.8.4 hereof) made by the Borrowers in the period of four (4) consecutive fiscal quarters then ended to exceed the lesser of (i) 0.5 times EBITDA for such period, or (ii) the sum of depreciation and landfill amortization expense for such period (calculated in accordance with GAAP). If during any of the fiscal quarters through April 30, 2002, any permitted Capital Expenditures are not utilized, such unutilized amount may be utilized in the next succeeding quarter, provided however, that, (x) such amount does not exceed the cumulative Capital Expenditures as set forth in the above table and (y) annual Capital Expenditures for the fiscal year ending 2002 do not exceed \$46,000,000."

8. AMENDMENTS TO SECTION 9.1 OF THE CREDIT AGREEMENT. Section 9.1 of the Credit Agreement is hereby amended by deleting ss.9.1 in its entirety and substituting in place thereof the following new ss.9.1:

"ss.9.1. INTEREST COVERAGE RATIOS. As of the end of any fiscal quarter, the ratio of EBITDA to Consolidated Total Interest Expense shall not be less than the stated ratio for the respective periods set forth below:

| PERIOD | RATIO |
|--------------------------------|--------|
| ----- | ----- |
| Effective Date through 1/31/02 | 2.50:1 |
| 4/30/02 through 1/31/03 | 2.60:1 |
| 4/30/03 through 1/31/04 | 3.25:1 |
| Thereafter | 3.50:1 |

provided, that any adjustments made pursuant to clause (e) of the definition of EBITDA shall not be included in the calculation of this ss.9.1 and EBITDA shall be calculated for the period of four (4) fiscal quarters ending on the date of calculation."

9. AMENDMENTS TO SECTION 9.3 OF THE CREDIT AGREEMENT. Section 9.3 of the Credit Agreement is hereby amended by deleting ss.9.3 in its entirety and substituting in place thereof the following new ss.9.3:

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"SS.9.3. BORROWERS' FUNDED DEBT TO EBITDA RATIO. The Borrowers will not permit the ratio of (a) Consolidated Funded Indebtedness to (b) EBITDA as at the end of any fiscal quarter to exceed the stated ratio for the respective periods set forth below:

| PERIOD | RATIO |
|--------------------------------|--------|
| ----- | ----- |
| Effective Date through 7/31/01 | 4.00:1 |
| 10/31/01 | 4.10:1 |
| 1/31/02 | 4.15:1 |
| 4/30/02 through 7/31/02 | 3.90:1 |
| 10/31/02 through 1/31/03 | 3.75:1 |
| Thereafter | 3.50:1 |

For the purposes of this ss.9.3, EBITDA shall be calculated for the period of four (4) consecutive fiscal quarters ending on the date of calculation."

10. AMENDMENTS TO SECTION 9.4 OF THE CREDIT AGREEMENT. Section 9.4 of the Credit Agreement is hereby amended by deleting ss.9.4 in its entirety and substituting in place thereof the following new ss.9.4:

"SS.9.4. FUNDED DEBT TO CAPITALIZATION. As of the end of any fiscal quarter, the Borrowers shall not permit the ratio of (a) Consolidated Funded Indebtedness to (b) the sum of (i) Consolidated Funded Indebtedness plus (ii) shareholder's equity in the Parent as determined in accordance with GAAP (including, without duplication, any preferred stock of the Parent) ("Capitalization") to exceed the stated ratio for the respective

periods set forth below:

| PERIOD | RATIO |
|-------------------------|----------|
| ----- | ----- |
| 7/31/01 through 1/31/02 | 0.75:1 |
| 4/30/02 through 1/31/03 | 0.72:1 |
| 4/30/03 through 1/31/04 | 0.70:1 |
| Thereafter | 0.65:1." |

11. AMENDMENTS TO SCHEDULES AND EXHIBITS OF THE CREDIT AGREEMENT. Exhibit D is hereby amended by deleting the current Exhibit D attached to the Credit Agreement and replacing it with the new Exhibit D attached hereto.

12. WAIVER. Each of the Required Banks hereby waives the Borrowers' compliance with the covenants set forth in ss.8.8 and 9 of the Credit Agreement solely for the fiscal period ending April 30, 2001.

13. REPRESENTATIONS AND WARRANTIES. Each of the Borrowers represents and warrants as follows:

(a) The execution, delivery and performance of each of this Sixth Amendment and the Credit Agreement, as amended as of the date hereof and the transactions contemplated hereby and thereby are within the corporate power and authority of such Borrower and have been or will be authorized by proper corporate

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proceedings, and do not (a) require any consent or approval of the stockholders of such Borrower, (b) contravene any provision of the charter documents or by-laws of such Borrower or any law, rule or regulation applicable to such Borrower, or (c) contravene any provision of, or constitute an event of default or event which, but for the requirement that time elapse or notice be given, or both, would constitute an event of default under, any other material agreement, instrument or undertaking binding on such Borrower.

(b) This Sixth Amendment and the Credit Agreement as amended as of the date hereof and all of the terms and provisions hereof and thereof are the legal, valid and binding obligations of such Borrower enforceable in accordance with their respective terms except as limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting the enforcement of creditors' rights generally, and except as the remedy of specific performance or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

(c) The execution, delivery and performance of this Sixth Amendment and the Credit Agreement as amended as of the date hereof and the transactions contemplated hereby and thereby do not require any approval or consent of, or filing or registration with, any governmental or other agency or authority, or any other party.

(d) The representations and warranties contained in ss.6 of the Credit Agreement are true and correct in all material respects as of the date hereof as though made on and as of the date hereof.

(e) After giving effect to this Sixth Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing.

14. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement, the other Loan Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect, provided, however that the Borrowers hereby acknowledge that due to their non-activation of the Canadian line, all references in the Loan Documents to the Canadian line are of no force and effect. This Sixth Amendment and the Credit Agreement shall hereafter be read and construed together as a single document, and all references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended by this Sixth Amendment.

15. GOVERNING LAW. THIS SIXTH AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

16. RELEASE. In order to induce the Administrative Agent and the Banks to

enter into this Amendment, each of the Borrowers acknowledges and agrees that:
(a) none of the Borrowers has any claim or cause of action against the Administrative Agent or any Bank (or any of its respective directors, officers, employees or agents); (b) none of the Borrowers has any offset right, counterclaim or defense of any kind against any of their respective obligations, indebtedness or liabilities to the Administrative Agent or any Bank; and (c) each of the Administrative Agent and the Banks has heretofore properly performed and satisfied in a timely manner all of its obligations to

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the Borrowers. The Borrowers wish to eliminate any possibility that any past conditions, acts, omissions, events, circumstances or matters would impair or otherwise adversely affect any of the Administrative Agent's and the Banks' rights, interests, contracts, collateral security or remedies. Therefore, each of the Borrowers unconditionally releases, waives and forever discharges (x) any and all liabilities, obligations, duties, promises or indebtedness of any kind of the Administrative Agent or any Bank to any of the Borrowers, except the obligations to be performed by the Administrative Agent or any Bank on or after the date hereof as expressly stated in this Amendment, the Credit Agreement and the other Loan Documents, and (y) all claims, offsets, causes of action, suits or defenses of any kind whatsoever (if any), whether arising at law or in equity, whether known or unknown, which the Borrowers might otherwise have against the Administrative Agent, any Bank or any of its directors, officers, employees or agents, in either case (x) or (y), on account of any past or presently existing condition, act, omission, event, contract, liability, obligation, indebtedness, claim, cause of action, defense, circumstance or matter of any kind.

17. DELIVERY BY FACSIMILE. This Amendment, to the extent signed and delivered by means of a facsimile machine, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto or to any such agreement or instrument shall raise the use of a facsimile machine to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine as a defense to the formation of a contract and each party forever waives such defense.

18. COUNTERPARTS. This Sixth Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which counterparts taken together shall be deemed to constitute one and the same instrument.

19. EFFECTIVENESS. This Sixth Amendment shall become effective (the "Sixth Amendment Effective Date") upon the receipt by the Agent of:

(a) a counterpart of this Sixth Amendment, executed by the Required Banks and the Borrowers;

(b) an amendment fee in an aggregate amount equal to 20.0 basis points on the Commitment (as reduced hereby) or outstanding principal portion of the Term Loan, as applicable, of each Bank which consents to this Sixth Amendment on or prior to 5:00 p.m. (Boston time) on June 4, 2001; and

(c) payment of all fees and expenses of the Administrative Agent's legal counsel in the connection with the preparation of this Sixth Amendment and ancillary documentation and filings.

EXHIBIT D

FORM OF COMPLIANCE CERTIFICATE

CASELLA WASTE SYSTEMS, INC.
Compliance Certificate dated _____

I, _____, Chief Financial Officer of Casella Waste Systems, Inc., certify that the Borrowers are in compliance with ss.7, 8 and 9 of the Amended and Restated Revolving Credit and Term Loan Agreement dated as of December 14,

1999, as the same may be amended, [as of the end of the quarter dated _____] [giving effect to the acquisition of _____]. Computations to evidence such compliance are detailed below.

Chief Financial Officer

ss.1.1.1 "Pricing Ratio"

For the Borrowers (unless a non-Borrower obligation is guaranteed by a Borrower, in which case such obligation shall be included):

| | |
|--|-------------|
| 1. Indebtedness for borrowed money or similar obligations | \$ _____ |
| 2. Obligations evidenced by debt instruments | \$ _____ |
| 3. Unpaid reimbursement obligations under any letter of credit | \$ _____ |
| 4. Obligations under Capitalized Leases corresponding to principal | \$ _____ |
| 5. Guarantees of items in lines 1-4 | \$ _____ |
| 6. Consolidated Funded Indebtedness (total of line 1 plus line 2 plus line 3 plus line 4 plus line 5) | \$ _____ |
| 7. (a) Consolidated net income or deficit of the Borrowers* (after deduction of proper charges in accordance with GAAP) | \$ _____ |
| (b) Non-cash non-recurring charges related to the Cellulose Joint Venture (not to exceed \$7,750,000) | \$ _____ |
| (C) Non-cash non-recurring charges related to the Resource Technology Group (not to exceed \$24,000,000) | \$ _____ |
| (d) Other non-recurring charges approved by the Administrative Agent and taken in the fiscal quarter ending April 30, 2001 (but in any event not to exceed \$110,000,000) | \$ _____ |
| (e) Extraordinary gains | \$ _____ |
| (f) Income from non-continuing operations | \$ _____ |
| (g) Income attributable to any minority equity or other Investment in any non-Borrower (except to the extent of actual cash received with respect to the Cellulose Joint Venture or the New Heights Equity Investment) | \$ _____ |
| 8. Consolidated Net Income or Deficit of the Borrowers (total of line 7(a) plus line 7(b) plus line 7(c) plus line 7(d) minus line 7(e) minus line 7(f) minus line 7(g)) | \$ _____ |
| 9. (a) Interest expense of the Borrowers* | \$ _____ |
| (b) Income taxes of the Borrowers* | \$ _____ |
| (c) Amortization Expense of the Borrowers* | \$ _____ |
| (d) Depreciation Expense of the Borrowers* | \$ _____ |
| 10. Non-cash non-recurring charges related to Oakhurst operations to be taken through the fiscal quarter ending January 31, 2001 | \$1,680,000 |
| 11. EBITDA of the Borrowers (sum of line 8 plus lines 9(a)-(d) plus line 10) (*annualized if necessary) | \$ _____ |
| 12. Consolidated Net Income or Deficit for Acquired Businesses (other than Excluded Subsidiaries)* | \$ _____ |
| 13. (a) Interest expense for Acquired Businesses* | \$ _____ |
| (b) Income taxes for Acquired Businesses* | \$ _____ |
| (c) Amortization Expense for Acquired Businesses* | \$ _____ |

(d) Depreciation Expense for Acquired Businesses* \$ _____

14. Acquired EBITDA \$ _____
 (sum of line 12 plus lines 13(a)-(d))
 (*annualized if necessary)

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* EBITDA calculations shall be based on the period of four (4) consecutive fiscal quarters then ended.

15. Total EBITDA \$ _____
 (sum of line 11 plus line 14)

16. Pricing Ratio
 (ratio of line 6 to line 15)

ss.8.3(i) Other Investments in PERC and Timber

The following is a description of all other Investments in PERC and Timber by the Borrowers pursuant to ss.8.3(i) of the Credit Agreement:

17. Total of Investments in PERC and Timber listed on Schedule 8.3(f) \$ _____

| Description ----- | Amount ----- |
|----------------------|-----------------|
|----------------------|-----------------|

| | |
|--|-------------|
| 18. Total of Investments in PERC and Timber listed above | \$ _____ |
| Total of line 17 plus line 18 | \$ _____ |
| MAXIMUM ALLOWED | \$5,000,000 |

ss.8.8 Capital Expenditures

| | |
|---|----------|
| 19. Total Capital Expenditures for the Borrowers for period of four (4) consecutive fiscal quarters then ended (excluding acquisitions permitted by ss.8.4) | \$ _____ |
| 20. Cumulative Capital Expenditures for the Borrowers through the fiscal quarter then ended (excluding acquisitions permitted by ss.8.4) | \$ _____ |
| 21. Sum of depreciation and landfill amortization expense for the Borrowers for four (4) consecutive fiscal quarters then ended | \$ _____ |
| 22. EBITDA from line 15 above | \$ _____ |
| 23. Line 21 multiplied by 0.5 | \$ _____ |

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| | |
|---|--------------|
| Maximum Total Capital Expenditures Allowed through 7/31/01 | \$19,700,000 |
| Maximum Cumulative Capital Expenditures Allowed through 7/31/01 | \$19,700,000 |
| Maximum Total Capital Expenditures Allowed for the quarter ending 10/31/01 | \$14,900,000 |
| Maximum Cumulative Capital Expenditures Allowed for the quarter ending 10/31/01 | \$34,600,000 |
| Maximum Total Capital Expenditures Allowed for the quarter ending 1/31/02 | \$5,900,000 |
| Maximum Cumulative Capital Expenditures Allowed for the quarter ending 1/31/02 | \$40,500,000 |

Maximum Total Capital Expenditures Allowed
for the quarter ending 4/30/02 \$5,500,000
Maximum Cumulative Capital Expenditures Allowed
for the quarter ending 4/30/02 \$46,000,000

Maximum Total Capital Expenditures Allowed
after 4/30/02 \$ _____
(insert lesser of amounts from line 21 and line 23)

ss.9.1 Interest Coverage Ratio

For the Borrowers (unless a non-Borrower obligation is guaranteed by a Borrower,
in which case such obligation shall be included), for the four quarters then
ending:

24. EBITDA from line 15 above \$ _____
25. Consolidated Total Interest Expense
of the Borrowers \$ _____
26. Ratio of line 24 to line 25 _____

MINIMUM REQUIRED:
Through 1/31/02 2.50:1
4/30/02 through 1/31/03 2.60:1
4/30/03 through 1/31/04 3.25:1
Thereafter 3.50:1

ss.9.2 Profitable Operations

27. Consolidated Net Income for Borrowers for the
fiscal quarter ending on the statement date \$ _____

MINIMUM REQUIRED \$0

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ss.9.3 Borrowers' Funded Debt-to-EBITDA Ratio

28. Consolidated Funded Indebtedness \$ _____
(from line 6 above)
29. EBITDA \$ _____
(from line 15 above)
30. Pro-forma credit related to the purchase
of certain assets in July 2000 \$ _____
(not to exceed \$959,000 for the fiscal
quarter ending January 31, 2001, and \$384,000
for the fiscal quarter ending April 30, 2001)
31. EBITDA for ss.9.3 \$ _____
(sum of line 29 plus line 30)
32. Ratio of line 28 to line 31

MAXIMUM ALLOWED:
Through 7/31/01 4.00:1
For the quarter ending 10/31/01 4.10:1
For the quarter ending 1/31/02 4.15:1
4/30/02 through 7/31/02 3.90:1
10/31/02 through 1/31/03 3.75:1
Thereafter 3.50:1

ss.9.4 Funded Debt to Capitalization

For the fiscal quarter then ended:

33. Consolidated Funded Indebtedness \$ _____
(from line 6 above)

| | |
|---|----------|
| 34. Shareholder's equity in the Parent (including, without duplication, preferred stock) | \$ _____ |
| 35. Line 33 plus line 34 | \$ _____ |
| 36. Ratio of line 33 to line 35 | _____ |
| MAXIMUM ALLOWED: | |
| Through 1/31/02 | 0.75:1 |
| 4/30/02 through 1/31/03 | 0.72:1 |
| 4/30/03 through 1/31/04 | 0.70:1 |
| Thereafter | 0.65:1 |

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ss.9.5 Total Funded Debt to EBITDA

For the Borrowers and the Excluded Subsidiaries:

| | |
|---|----------|
| 37. Indebtedness for borrowed money or similar obligations | \$ _____ |
| 38. Obligations evidenced by debt instruments | \$ _____ |
| 39. Face amount of all Financial L/Cs and any unpaid reimbursement obligations under any Financial L/C | \$ _____ |
| 40. Obligations under capitalized leases corresponding to principal | \$ _____ |
| 41. Guarantees of items in lines 37 - 40 | \$ _____ |
| 42. Total Consolidated Funded Indebtedness (total of line 37 plus line 38 plus line 39 plus line 40 plus line 41) | \$ _____ |
| 43. EBITDA (from line 15 above) | \$ _____ |
| 44. Ratio of line 42 to line 43 | _____ |
| MAXIMUM ALLOWED | 4.00:1 |

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BORROWERS

ALL CYCLE WASTE, INC.
BRISTOL WASTE MANAGEMENT, INC.
CASELLA T.I.R.E.S., INC.
CASELLA TRANSPORTATION, INC.
CASELLA WASTE MANAGEMENT, INC.
CASELLA WASTE MANAGEMENT OF N.Y., INC.
CASELLA WASTE MANAGEMENT OF PENNSYLVANIA, INC.
CASELLA WASTE SYSTEMS, INC.
GRASSLANDS INC.
HAKES C & D DISPOSAL, INC.
HIRAM HOLLOW REGENERATION CORP.
NATURAL ENVIRONMENTAL, INC.
NEWBURY WASTE MANAGEMENT, INC.
NEW ENGLAND WASTE SERVICES, INC.
NEW ENGLAND WASTE SERVICES OF MASSACHUSETTS, INC.
NEW ENGLAND WASTE SERVICES OF N.Y., INC.
NEW ENGLAND WASTE SERVICES OF VERMONT, INC.
NORTH COUNTRY ENVIRONMENTAL SERVICES, INC.
NORTHERN SANITATION, INC.
PINE TREE WASTE, INC.
RESOURCE RECOVERY OF CAPE COD, INC.
RESOURCE TRANSFER SERVICES, INC.
RESOURCE WASTE SYSTEMS, INC.
SAWYER ENVIRONMENTAL RECOVERY FACILITIES, INC.

SAWYER ENVIRONMENTAL SERVICES
SCHULTZ LANDFILL, INC.
SUNDERLAND WASTE MANAGEMENT, INC.
WASTE-STREAM INC.
WESTFIELD DISPOSAL SERVICE, INC.
WINTERS BROTHERS, INC.

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

[SIGNATURES CONTINUED ON NEXT PAGE]

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ADVANCED ENTERPRISES RECYCLING INC.
THE AFA GROUP, INC.
AFA PALLET, INC.
AGRO PRODUCTS, INC.
ALLIED EQUIPT. & SALES CORP, INC.
AMERICAN SUPPLIES SALES GROUP, INC.
ARTIC INC.
ATLANTIC TRANSPORTATION TECHNOLOGIES INC.
DATA DESTRUCTION SERVICES, INC.
FAIRFIELD COUNTY RECYCLING, INC.
FCR CAMDEN, INC.
FCR FLORIDA, INC.
FCR GEORGIA, INC.
FCR GREENSBORO, INC.
FCR GREENVILLE, INC.
FCR MORRIS, INC.
FCR PLASTICS, INC.
FCR REDEMPTION, INC.
FCR TENNESSEE, INC.
FCR VIRGINIA, INC.
FCR, INC.
KTI BIO FUELS, INC.
KTI ENERGY OF MARTINSVILLE, INC.
KTI ENERGY OF VIRGINIA, INC.
KTI ENVIRONMENTAL GROUP, INC.
KTI NEW JERSEY FIBERS, INC.
KTI OPERATIONS, INC.
KTI RECYCLING OF ILLINOIS, INC.
KTI RECYCLING OF NEW ENGLAND, INC.
KTI RECYCLING OF NEW JERSEY, INC.
KTI RECYCLING, INC.
KTI SPECIALTY WASTE SERVICES, INC.
KTI TRANSPORTATION SERVICES, INC.
KTI, INC.
MECKLENBURG COUNTY RECYCLING, INC.
POWER SHIP TRANSPORT, INC.
TOTAL WASTE MANAGEMENT CORP.
U.S. FIBER, INC.

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

[SIGNATURES CONTINUED ON NEXT PAGE]

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PENOBSCOT ENERGY RECOVERY COMPANY,

LIMITED PARTNERSHIP

By: PERC Management Company Limited
Partnership, general partner
By: PERC, Inc., general partner

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

PERC MANAGEMENT COMPANY, LIMITED
PARTNERSHIP

By: PERC, Inc., general partner

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

KTI RECYCLING OF CANADA, INC.
1316991 ONTARIO, INC.

By: /s/ Jerry S. Cifor

Name: Jerry S. Cifor
Title: Treasurer

IN WITNESS WHEREOF, each of the undersigned have duly executed this Sixth
Amendment as of the date first set forth above.

FLEET NATIONAL BANK
(f/k/a BankBoston, N.A.),
individually and as Administrative Agent

By: /s/ Timothy M. Laurion
Name: Timothy M. Laurion
Title: Managing Director

KEYBANK NATIONAL ASSOCIATION,
individually and as Documentation Agent

By: /s/ Lawrence A. Mack
Name: Lawrence A. Mack
Title: Senior Vice President

BANK OF AMERICA, N.A.,
individually and as Syndication Agent

By: /s/ Steven Arentsen
Name: Steven Arentsen
Title: Senior Vice President

COMERICA BANK

By: /s/ Joseph G. Ursa
Name: Joseph G. Ursa
Title: Officer

CANADIAN IMPERIAL BANK OF COMMERCE

By:
Name:
Title:

CIBC INC.

By: /s/ Lindsay Gordon
Name: Lindsay Gordon
Title: Executive Director
CIBC World Markets Corp. As Agent

SEQUILS-ING I (HBDGM), LTD.

By: ING Capital Advisors LLC,
as Collateral Manager and Authorized
Signatory

By: /s/ Jonathan David
Name: Jonathan David
Title: Vice President

THE TRAVELERS INSURANCE COMPANY

By: /s/ Denise T. Duffee
Name: Denise T. Duffee
Title: Investment Officer

TRAVELERS CORPORATE LOAN FUND INC.

By: Travelers Asset Management
International Company LLC

By: /s/ Denise T. Duffee
Name: Denise T. Duffee
Title: Investment Officer

VAN KAMPEN SENIOR INCOME TRUST

By: Van Kampen Investment Advisory Corp.

By: /s/ Darvin D. Pierce
Name: Darvin D. Pierce
Title: Principal

VAN KAMPEN PRIME RATE INCOME TRUST

By: Van Kampen investment Advisory Corp.

By: /s/ Darvin D. Pierce
Name: Darvin D. Pierce
Title: Principal

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

HARBOURVIEW CDO II, LIMITED

By:
Name:
Title:

INDOSUEZ CAPITAL FUNDING IIA, LIMITED
By: Indosuez Capital as
Portfolio Advisor

By: /s/ Melissa Marano
Name: Melissa Marano
Title: Vice President

MAGNETITE ASSET INVESTORS, LLC

By:
Name:
Title:

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

CERES II FINANCE LTD.
By: INVESCO Senior Secured Management,
Inc., as Sub-Managing Agent (Financial)

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

FLOATING RATE PORTFOLIO
By: INVESCO Senior Secured Management,
Inc., as Attorney in fact

By:
Name:
Title:

TRITON CBO III, LIMITED
By: INVESCO Senior Secured Management,
Inc., as Investment Advisor

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

OLYMPIC FUNDING TRUST, SERIES 1999-1

By: /s/ Ann E. Morris
Name: Ann E. Morris
Title: Authorized Agent

KZH CYPRESSTREE-1 LLC

By: /s/ Kimberly Rowe
Name: Kimberly Rowe
Title: Authorized Agent

NORSE CBO, LTD.

By: /s/ Timothy S. Peterson
Name: Timothy S. Peterson

Title: PRESIDENT

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

ELT LTD.

By: /s/ Ann E. Morris
Name: Ann E. Morris
Title: Authorized Agent

THERMOPYLAE FUNDING CORP.

By: /s/ Frank B. Bilotta
Name: Frank B. Bilotta
Title: VICE PRESIDENT

STRATEGIC MANAGED LOAN PORTFOLIO

By:
Name:
Title:

KZH SHOSHONE LLC

By: /s/ Kimberly Rowe
Name: Kimberly Rowe
Title: Authorized Agent

PILGRIM AMERICA HIGH INCOME
INVESTMENTS, LTD.

By: ING Pilgrim Investments,
as its investment manager

By: /s/ Charles E. LeMieux
Name: Charles E. LeMieux, CFA
Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

NORTH AMERICAN SENIOR FLOATING RATE FUND

By: /s/ Jonathan D. Sharkey
Name: Jonathan D. Sharkey
Title: Principal

KEMPER FLOATING RATE FUND

By: /s/ Kenneth Weber
Name: Kenneth Weber
Title: Sr. Vice President

CARLYLE HIGH YIELD PARTNERS II, LTD.

By: /s/ Linda Pace
Name: Linda Pace
Title: Vice President

CARLYLE HIGH YIELD PARTNERS III, LTD.

By: /s/ Linda Pace
Name: Linda Pace
Title: Vice President

CYPRESSTREE INVESTMENT PARTNERS I, LTD

By: /s/ Jonathan D. Sharkey
Name: Jonathan D. Sharkey
Title: Principal

OPPENHEIMER SENIOR FLOATING RATE FUND

By:
Name:
Title:

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

PILGRIM CLO 1999-1 LTD.

By: Pilgrim Investments, Inc., as its
investment manager

By: /s/ Charles E. LeMieux
Name: Charles E. LeMieux, CFA
Title: Vice President

ARCHIMEDES FUNDING III, LTD.

By: ING Capital Advisors LLC,
as Collateral Manager

By: /s/ Jonathan David
Name: Jonathan David
Title: Vice President

CYPRESSTREE INVESTMENT PARTNERS II, LTD.

By: /s/ Jonathan D. Sharkey
Name: Jonathan D. Sharkey
Title: Principal

KZH-ING-1 LLC

By: /s/ Kimberly Rowe
Name: Kimberly Rowe
Title: Authorized Agent

KZH-ING-2 LLC

By: /s/ Kimberly Rowe
Name: Kimberly Rowe
Title: Authorized Agent

KZH-ING-3 LLC

By: /s/ Kimberly Rowe
Name: Kimberly Rowe
Title: Authorized Agent

NEMEAN CLO, LTD.
By: ING Capital Advisors LLC, as
investment Manager

By: /s/ Jonathan David
Name: Jonathan David
Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

LASALLE BANK NATIONAL ASSOCIATION

By: /s/ Paul M. Casey
Name: Paul M. Casey
Title: Vice president

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Deborah Bradley
Name: Deborah Bradley
Title: First Vice President

FIRST VERMONT BANK AND TRUST COMPANY

By: /s/ E. Kirice Hart
Name: E. Kirice Hart
Title: Vice President

CANADIAN IMPERIAL BANK OF COMMERCE,
individually and as Canadian Agent

By: /s/ Lindsay Gordon
Name: Lindsay Gordon
Title: CIBC World Markets Corp.
as Agent

SANKATY HIGH YIELD PARTNERS II, L.P.

By: /s/ Diane J. Exter
Name: Diane J. Exter
Title: Managing Director
Portfolio Manager

SANKATY ADVISORS, INC.,
as Collateral Manager for GREAT POINT
CLO 1999-1 LTD., as Term Lender

By: /s/ Diane J. Exter
Name: Diane J. Exter
Title: Managing Director
Portfolio Manager

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

FIRST ALLAMERICA FINANCIAL LIFE
INSURANCE CO.

By: /s/ Jonathan D. Sharkey
Name: Jonathan D. Sharkey
Title: Principal

AVALON CAPITAL LTD.
By: INVESCO Senior Secured Management,
Inc., as Portfolio Advisor

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

AVALON CAPITAL LTD. 2
By: INVESCO Senior Secured Management,
Inc., as Portfolio Advisor

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

CHARTER VIEW PORTFOLIO
By: INVESCO Senior Secured Management,
Inc., as Investment Advisor

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

AERIES FINANCE - II LTD.
By: INVESCO Senior Secured Management,
Inc., as Sub-Managing Agent

By: /s/ Joseph Rotondo
Name: Joseph Rotondo
Title: Authorized Signatory

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

COLUMBUS LOAN FUNDING LTD.
By: Travelers Asset Management
International Company LLC

By: /s/ Denise T. Duffee
Name: Denise T. Duffee
Title: Investment Officer

MUIRFIELD TRADING LLC

By: /s/ Ann F. Morris
Name: Ann F. Morris
Title: Asst. Vice President

VAN KAMPEN CLO I, LIMITED
By Van Kampen Management Inc,
as Collateral Manager

By:
Name:
Title:

VAN KAMPEN CLO II, LIMITED
By Van Kampen Management Inc.,
as Collateral Manager

By:
Name:
Title:

TITANIUM CBO I

By:
Name:
Title:

SUBSIDIARIES OF THE REGISTRANT

| NAME | JURISDICTION OF INCORPORATION |
|---|-------------------------------|
| ---- | ----- |
| 1316991 Ontario, Inc. | Ontario |
| Advanced Enterprises Recycling, Inc. | New Jersey |
| AFA Pallet Co., Inc. | New Jersey |
| Agro Products, Inc. | New Jersey |
| All Cycle Waste, Inc. | Vermont |
| Allied Equipt. & Sales Corp., Inc. | New Jersey |
| Alternate Energy, Inc. | Massachusetts |
| American Ash Recycling of Tennessee, Ltd. | Florida |
| American Supplies Sales Group, Inc. | New Jersey |
| ARTiC, Inc. | New Jersey |
| Atlantic Coast Fibers, Inc. | Delaware |
| Atlantic Recycled Rubber, Inc. | Nova Scotia |
| Atlantic Transportation Technologies, Inc. | New Jersey |
| B. and C. Sanitation Corporation | New York |
| BBC LLC | New York |
| Better Bedding Corp. | New York |
| Blasdell Development Group, Inc. | New York |
| Bristol Waste Management, Inc. | Vermont |
| Casella Insurance Company | Vermont |
| Casella T.I.R.E.S., Inc. | Maine |
| Casella Transportation, Inc. | Vermont |
| Casella Waste Management, Inc. | Vermont |
| Casella Waste Management of Massachusetts, Inc. | Massachusetts |
| Casella Waste Management of N.Y., Inc. | New York |
| Casella Waste Management of Pennsylvania, Inc. | Pennsylvania |
| Corning Community Disposal Service, Inc. | New York |
| Data Destruction Services, Inc. | Maine |
| Fairfield County Recycling, Inc. | Delaware |
| FCR Camden, Inc. | Delaware |
| FCR Florida, Inc. | Delaware |
| FCR Georgia, Inc. | Delaware |
| FCR Greensboro, Inc. | Delaware |
| FCR Greenville, Inc. | Delaware |
| FCR, Inc. | Delaware |
| FCR Morris, Inc. | Delaware |
| FCR Plastics, Inc. | Delaware |
| FCR Redemption, Inc. | Delaware |
| FCR Tennessee, Inc. | Delaware |
| FCR Virginia, Inc. | Delaware |
| Forest Acquisitions, Inc. | New Hampshire |
| Grasslands, Inc. | New York |
| Hakes C & D Disposal, Inc. | New York |
| Hiram Hollow Regeneration Corp. | New York |
| Hyland Facility Associates | New York |
| K-C International, Ltd. | Oregon |
| KTI Bio Fuels, Inc. | Maine |
| KTI Energy of Martinsville, Inc. | Virginia |
| KTI Energy of Virginia, Inc. | Virginia |
| KTI Environmental Group, Inc. | New Jersey |
| KTI New Jersey Fibers, Inc. | Delaware |
| KTI Operations, Inc. | Delaware |
| KTI Recycling of Illinois, Inc. | Delaware |
| KTI Recycling of New Jersey, Inc. | Delaware |
| KTI Specialty Waste Services, Inc. | Maine |
| KTI Transportation Services, Inc. | Maine |
| KTI, Inc. | New Jersey |
| KTI Recycling of New England, Inc. | Maine |
| Maine Energy Recovery Company LP | Maine |
| Manner Resins, Inc. | Delaware |
| Maple City Refuse Corp. | New York |
| Mecklenburg County Recycling, Inc. | Connecticut |
| Natural Environmental, Inc. | New York |
| New England Waste Services of Massachusetts, Inc. | Massachusetts |
| New England Waste Service of ME, Inc. | Maine |
| New England Waste Services of N.Y., Inc. | New York |

| | |
|--|----------------|
| New England Waste Services of Vermont, Inc. | Vermont |
| New England Waste Services, Inc. | Vermont |
| Newbury Waste Management, Inc. | Vermont |
| North Country Environmental Services, Inc. | Virginia |
| North Country Trucking, Inc. | New York |
| North Country Composting Services, Inc. | New Hampshire |
| Northern Properties Corporation of Plattsburgh | New York |
| Northern Sanitation, Inc. | New York |
| NTC LLC | New York |
| PERC Management Company, LP | Maine |
| PERC, Inc. | Delaware |
| Pine Tree Waste, Inc. | Maine |
| Portland C & D Site, Inc. | New York |
| Prairie Rubber Company | Saskatchewan |
| R.A. Bronson, Inc. | New York |
| Recovery Technologies (Canada), Inc. | Ontario |
| Recovery Technologies Collection Services, LLC | Delaware |
| Recovery Technologies Group, Inc. | Delaware |
| Recovery Technologies Operations, LLC | Illinois |
| Resource Optimization Technologies | New Hampshire |
| Resource Recovery of Cape Cod, Inc. | Massachusetts |
| Resource Recovery Systems of MOSA, Inc. | New York |
| Resource Recovery Systems of Sarasota, Inc. | Florida |
| Resource Recovery Systems, Inc. | Delaware |
| Resource Transfer Services, Inc. | Massachusetts |
| Resource Waste Systems, Inc. | Massachusetts |
| | |
| Rochester Environmental Park, LLC | Massachusetts |
| Schultz Landfill, Inc. | New York |
| Sunderland Waste Management, Inc. | Vermont |
| The AFA Group, Inc. | New Jersey |
| Timber Energy Resources, Inc. | Texas |
| Total Waste Management Corp. | New Hampshire |
| U.S. Fiber, Inc. | North Carolina |
| Waste-Stream, Inc. | New York |
| Westfield Disposal Service, Inc. | New York |
| Winters Brothers, Inc. | Vermont |

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8, File No. 333-31022, File No. 333-40267, File No. 333-43537, File No. 333-43539, File No. 333-43541, File No. 333-43543, File No. 333-43635, File No. 333-67487, File No. 333-92735, and on Form S-3, File No. 333-31268, File No. 333-85279, File No. 333-88097 and File No. 333-95841.

ARTHUR ANDERSEN LLP

/s/ Arthur Andersen LLP

Boston, Massachusetts
July 27, 2001