

CASELLA WASTE SYSTEMS INC
Form 10-Q
September 03, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2010

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, Vermont

(Address of principal executive offices)

05701

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of August 31, 2010:

Class A Common Stock, \$0.01 par value per share:	25,180,637
Class B Common Stock, \$0.01 par value per share:	988,200

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(in thousands)**

	April 30, 2010	July 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,035	\$ 2,295
Restricted cash	76	76
Accounts receivable - trade, net of allowance for doubtful accounts of \$1,641 and \$2,085	61,722	64,425
Notes receivable - officer/employees	139	139
Refundable income taxes	1,316	1,270
Prepaid expenses	5,710	5,715
Inventory	3,604	4,054
Deferred income taxes	5,461	5,010
Other current assets	2,001	2,310
Total current assets	82,064	85,294
Property, plant and equipment, net of accumulated depreciation and amortization of \$595,023 and \$610,410	480,053	478,771
Goodwill	125,792	125,792
Intangible assets, net	3,085	2,840
Restricted assets	228	222
Notes receivable - officer/employees	1,149	1,140
Deferred income taxes	553	555
Investments in unconsolidated entities	40,965	38,579
Other non-current assets	17,217	18,095
Non-current assets held for sale	3,708	
	672,750	665,994
	\$ 754,814	\$ 751,288

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

(in thousands, except for share and per share data)

	April 30, 2010	July 31, 2010
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital leases	\$ 2,000	\$ 2,473
Current maturities of financing lease obligations	1,449	1,476
Accounts payable	40,139	41,632
Accrued payroll and related expenses	4,596	3,819
Accrued interest	11,769	11,584
Current accrued capping, closure and post-closure costs	7,765	4,154
Other accrued liabilities	22,362	24,488
Total current liabilities	90,080	89,626
Long-term debt and capital leases, less current maturities	556,130	553,927
Financing lease obligations, less current maturities	10,832	10,453
Accrued capping, closure and post-closure costs, less current portion	32,237	33,680
Deferred income taxes	6,277	6,214
Other long-term liabilities	8,962	8,839
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Class A common stock -		
Authorized - 100,000,000 shares, \$0.01 par value per share, issued and outstanding - 24,944,000 and 25,180,000 shares as of April 30, 2010 and July 31, 2010, respectively	249	252
Class B common stock -		
Authorized - 1,000,000 shares, \$0.01 par value per share, 10 votes per share, issued and outstanding - 988,000 shares	10	10
Accumulated other comprehensive loss	(785)	(421)
Additional paid-in capital	281,899	282,687
Accumulated deficit	(231,077)	(233,979)
Total stockholders equity	50,296	48,549
	\$ 754,814	\$ 751,288

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands)

	Three Months Ended July 31,	
	2010	2009
Revenues	\$ 139,841	\$ 132,457
Operating expenses:		
Cost of operations	94,845	87,628
General and administration	17,225	16,225
Depreciation and amortization	16,727	19,492
Gain on divestiture	(3,502)	
	125,295	123,345
Operating income	14,546	9,112
Other expense/(income), net:		
Interest income	(15)	(32)
Interest expense	14,646	9,846
Loss from equity method investments	2,132	1,219
Loss on debt modification		511
Other income	(94)	(46)
Other expense, net	16,669	11,498
Loss from continuing operations before income taxes and discontinued operations	(2,123)	(2,386)
Provision for income taxes	779	562
Loss from continuing operations before discontinued operations	(2,902)	(2,948)
Discontinued operations:		
Income from discontinued operations (net of income tax provision of \$87)		129
Income on disposal of discontinued operations (net of income tax provision of \$28)		41
Net loss applicable to common stockholders	\$ (2,902)	\$ (2,778)

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

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

(Unaudited)

(in thousands, except for per share data)

	Three Months Ended	
	July 31,	
	2010	2009
Earnings per share:		
Basic and diluted:		
Loss from continuing operations before discontinued operations applicable to common stockholders	\$ (0.11)	\$ (0.12)
Income from discontinued operations, net		0.01
Income on disposal of discontinued operations, net		
Net loss per common share applicable to common stockholders	\$ (0.11)	\$ (0.11)
Basic and diluted weighted average common shares outstanding	25,905	25,688

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Three Months Ended	
	2010	July 31, 2009
Cash Flows from Operating Activities:		
Net loss	\$ (2,902)	\$ (2,778)
Income from discontinued operations, net		(129)
Income on disposal of discontinued operations, net		(41)
Adjustments to reconcile net loss to net cash provided by operating activities -		
Gain on divestiture	(3,502)	
Gain on sale of equipment	(101)	(428)
Depreciation and amortization	16,727	19,492
Depletion of landfill operating lease obligations	2,192	1,520
Interest accretion on landfill and environmental remediation liabilities	845	959
Amortization of premium on senior subordinated notes	(191)	(176)
Amortization of discount on term loan and second lien notes	538	122
Loss from equity method investments	2,132	1,219
Loss on debt modification		511
Stock-based compensation	630	530
Deferred income taxes	659	505
Changes in assets and liabilities, net of effects of acquisitions and divestitures -		
Accounts receivable	(2,703)	(4,840)
Accounts payable	1,493	645
Prepaid expenses, inventories and other assets	675	2,129
Accrued expenses and other liabilities	(3,188)	4,998
	16,206	27,186
Net Cash Provided by Operating Activities	13,304	24,238
Cash Flows from Investing Activities:		
Additions to property, plant and equipment - growth	(882)	(841)
- maintenance	(14,938)	(17,405)
Payments on landfill operating lease contracts	(789)	(1,327)
Proceeds from divestiture	7,533	
Proceeds from sale of equipment	308	583
Net Cash Used In Investing Activities	(8,768)	(18,990)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	32,900	374,044
Principal payments on long-term debt	(37,347)	(366,204)
Payment of financing costs	(215)	(13,906)
Proceeds from exercise of stock options	160	85
Net Cash Used in Financing Activities	(4,502)	(5,981)
Discontinued Operations:		
Net cash provided by operating activities		254
Net cash provided by investing activities	226	278
Cash Provided by Discontinued Operations	226	532
Net increase (decrease) in cash and cash equivalents	260	(201)

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Cash and cash equivalents, beginning of period		2,035		1,838
Cash and cash equivalents, end of period	\$	2,295	\$	1,637
Supplemental Disclosures of Cash Flow Information:				
Cash paid (received) during the period for -				
Interest	\$	13,352	\$	3,983
Income taxes, net of refunds	\$	65	\$	(54)

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

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

(Unaudited)

(In thousands, except for per share data)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements include the accounts of Casella Waste Systems, Inc. (the Parent) and its subsidiaries (collectively, we , us , or our). We are a regional, integrated solid waste services company which provides a full range of solid waste services including collection, transfer, recycling and disposal of non-hazardous solid waste. We also generate electricity through our solid waste processing facilities and market recyclable paper, metals, aluminum, plastics and glass which have been processed at our facilities or purchased from third parties.

The consolidated balance sheet as of July 31, 2010, the consolidated statements of operations for the three months ended July 31, 2010 and 2009 and the consolidated statements of cash flows for the three months ended July 31, 2010 and 2009 are unaudited. In the opinion of management, such financial statements, together with the consolidated balance sheet as of April 30, 2010, include all adjustments (which include normal recurring and nonrecurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented.

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our significant accounting policies are more fully discussed in Item 7 of our Annual Report on Form 10-K for the year ended April 30, 2010 (the Annual Report), which was filed with the Securities and Exchange Commission (the SEC) on June 11, 2010. The consolidated financial statements presented herein should be read in conjunction with our audited consolidated financial statements as of and for the twelve months ended April 30, 2010 included in the Annual Report. The results for the three month period ended July 31, 2010 may not be indicative of the results that may be expected for any other interim period or the fiscal year ending April 30, 2011.

We consider events or transactions that have occurred after the balance sheet date of July 31, 2010, but prior to the filing of the financial statements with the SEC on this Form 10-Q to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date of the filing with the SEC of this Quarterly Report on Form 10-Q.

Adoption of New Accounting Pronouncements

Variable Interest Entities

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In June 2009, the Financial Accounting Standards Board (FASB) issued guidance for determining whether an entity is a variable interest entity (VIE) and requires an enterprise to perform an analysis to determine whether the enterprise 's variable interest or interests give it a controlling financial interest in a VIE. Under this guidance, an enterprise has a controlling financial interest when it has (i) the power to direct the activities of a VIE that most significantly impact the entity 's economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This guidance requires an enterprise to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has power to direct the activities of the VIE that most significantly impact the entity 's economic performance. This guidance also requires ongoing assessments of whether an enterprise is the primary

beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. We adopted this guidance effective May 1, 2010 with no effect on our consolidated financial position or results of operations.

Fair Value Measurements and Disclosures

In January 2010, FASB issued additional guidance on fair value disclosures. The new guidance clarifies two existing disclosure requirements and requires two new disclosures as follows: (1) a gross presentation of activities (purchases, sales, and settlements) within the Level 3 rollforward reconciliation, and (2) detailed disclosures about the transfers in and out of Level 1 and 2 measurements. This guidance is effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward information, which is required for annual reporting periods beginning after December 15, 2010, and for interim reporting periods within those years. We adopted this guidance with no effect on our consolidated financial position or results of operations.

2. RECLASSIFICATION

We have made reclassifications in our Consolidated Statements of Operations to conform information for the three months ended July 31, 2009 to the Company's current period presentation. The supplementary financial information included in this section has also been updated to reflect these changes.

3. GOODWILL AND INTANGIBLE ASSETS

The following table shows the balances related to goodwill at both April 30, 2010 and July 31, 2010:

Eastern Region	Central Region	Western Region	FCR Recycling	Total
\$ 38	\$ 32,996	\$ 55,302	\$ 37,456	\$ 125,792

Intangible assets at April 30, 2010 and July 31, 2010 consist of the following:

	Covenants not to compete	Client Lists	Licensing Agreements	Contract Acquisition Costs	Patents	Total
Balance, April 30, 2010						
Intangible assets	\$ 14,488	\$ 2,177	\$ 920	\$ 424	\$ 250	\$ 18,259
Less accumulated amortization	(13,666)	(922)	(302)	(111)	(173)	(15,174)
	\$ 822	\$ 1,255	\$ 618	\$ 313	\$ 77	\$ 3,085
Balance, July 31, 2010						
Intangible assets	\$ 14,478	\$ 2,177	\$ 920	\$ 424	\$ 250	\$ 18,249

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Less accumulated amortization	(13,739)	(973)	(381)	(120)	(196)	(15,409)					
\$	739	\$	1,204	\$	539	\$	304	\$	54	\$	2,840

Intangible amortization expense for the three months ended July 31, 2010 and 2009 was \$250 and \$152, respectively. The intangible amortization expense estimated for the five fiscal years following fiscal year 2010 and thereafter is as follows:

	2011		2012		2013		2014		2015		Thereafter
\$	840	\$	511	\$	449	\$	401	\$	350	\$	289

4. LONG-TERM DEBT

On July 9, 2009, we successfully completed the refinancing of our existing senior credit facility with a senior secured first lien credit facility (the Senior Secured Credit Facility), consisting of a \$177,500 revolving credit facility (the New Revolver) and a \$130,000 aggregate principal term loan (the New Term Loan). In connection with the Senior Secured Credit Facility, we simultaneously completed the offering of \$180,000 aggregate principal amount of 11% senior second lien notes due 2014 (the Second Lien Notes). The net proceeds from the Senior Secured Credit Facility and from the Second Lien Notes offering were used to refinance the borrowings under our \$525,000 senior credit facility due April 2010.

For the first two fiscal quarters after July 9, 2009, the interest rate for borrowings under the New Revolver was LIBOR plus a margin of 4.50% per annum, and thereafter the applicable margin will be determined in accordance with the pricing grid as set forth in the Senior Secured Credit Facility Agreement dated July 9, 2009. The interest rate for the New Term Loan is LIBOR plus a margin of 5.00% per annum, provided that LIBOR shall not be less than 2.00% per annum. The New Term Loan was issued at an original issue price of 94.5% of the principal amount of the loan.

The Senior Secured Credit Facility is subject to customary affirmative, negative, and financial covenants, generally consistent with our prior credit agreement. The New Revolver is due December 31, 2012 and the New Term Loan is due April 9, 2014. If we fail to refinance our 9.75% Senior Subordinated Notes due February 2013 on or before October 31, 2012, the due date for the New Term Loan shall be December 31, 2012. We have the right to request an increase in the amount of the Senior Secured Credit Facility by an aggregate amount of \$42,500, in our discretion, subject to certain conditions of the Senior Secured Credit Facility Agreement.

Further advances were available under the New Revolver in the amount of \$95,655 as of July 31, 2010. The available amount is net of outstanding irrevocable letters of credit totaling \$49,845 as of July 31, 2010, at which date no amount had been drawn.

The Second Lien Notes were issued at an original issue price of 97.2% of the principal amount. The Second Lien Notes pay interest on a semi-annual basis and are due on July 15, 2014.

The Second Lien Notes were sold in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and to non-U.S. persons outside the United States under Regulation S under the Securities Act.

We recorded a charge of \$511 as a loss on debt modification in the quarter ended July 31, 2009 relating to the unamortized deferred financing costs associated with the refinancing of our existing senior credit facility.

On May 27, 2010, we entered into an amendment to the Senior Secured Credit Facility to create additional capital structure flexibility. As amended, the Senior Secured Credit Facility permits us to use net proceeds of up to \$150,000 from equity offerings to repurchase our 9.75% senior subordinated notes due 2013 (the Senior Subordinated Notes) or our outstanding Second Lien Notes, subject to the restrictions as described in the amendment. We are also permitted to use up to \$50,000 of borrowings under the Senior Secured Credit Facility to repurchase the Senior Subordinated Notes, subject to the restrictions as described in the amendment.

5. COMMITMENTS AND CONTINGENCIES

(a) Legal Proceedings

North Country Landfill Expansion

Our subsidiary, North Country Environmental Services, Inc. (NCES) is located in Bethlehem, New Hampshire, and is currently permitted to accept municipal solid waste and C&D material from a wide geographic region. NCES projects that its permitted and uncontested capacity will last into fiscal year 2012.

NCES and the Town of Bethlehem (the Town) have been in prolonged zoning litigation over NCES's expansion of the landfill. Currently, there are two court actions between NCES and the Town: a declaratory judgment action initiated by NCES on September 12, 2001, and a zoning enforcement action initiated by the Town on February 2, 2009. In the declaratory judgment action, the New Hampshire Supreme Court ruled that NCES has all necessary local approvals to expand its landfill within a 51-acre area, but remanded to the New Hampshire Superior Court issues related to the validity of the Town's zoning ordinance as it relates to a proposed landfill expansion outside that 51-acre area. In the enforcement action, the Town has requested an injunction requiring NCES to remove a leachate force main, a landfill gas line, storm water drainage lines, catch basins and outfalls, a landfill liner anchor trench, and storm water detention ponds that are located outside the 51-acre area. NCES and the Town filed cross-motions for summary judgment on the validity of the ordinance the Town is attempting to enforce, and the court denied both motions in October 2009. On February 5, 2010, the court granted NCES's motion to consolidate the remanded action with the enforcement action and continued the March 2010 trial date that had been set in the enforcement action. The trial of the consolidated actions has been set for January 2011, but NCES expects to file a motion to continue the trial in early September 2010.

On December 12, 2008, the New Hampshire Department of Environmental Services (NHDES) denied a request by NCES to modify its standard permit to develop approximately eight years of capacity within the bounds of the 51-acre area. NCES revised and resubmitted its request, and the NHDES denied the revised request on March 25, 2009. NCES appealed each of these denials to the New Hampshire Waste Management Council. NCES obtained a stay of both appeals pending the outcome of the action for declaratory and injunctive relief described below.

NCES filed a petition for declaratory and injunctive relief with the New Hampshire Superior Court on February 10, 2009 related to the NHDES's December 12, 2008 denial. NCES amended this petition following NHDES's March 25, 2009 denial. In its amended petition, NCES sought declarations that NHDES's denials were unlawful on several grounds. NCES also sought preliminary injunctive relief that would have required NHDES to immediately resume its consideration of NCES's request to modify its standard permit. In addition, NCES sought permanent injunctive relief that would require NHDES to review the permit modification application in conformity with the Superior Court's declarations. In October 2009, NCES moved successfully with NHDES's concurrence to stay the litigation so that NHDES could consider the results of certain remedial work NCES undertook during the 2009 construction season. NCES sought the stay because the outcome of this review by NHDES could affect the scope of the litigation.

On April 29, 2010, NCES filed another application with NHDES to modify its standard permit to develop the capacity that was the subject of the denials in December 2008 and March 2009. On August 27, 2010, NHDES granted the application, thereby authorizing NCES to develop approximately one million cubic yards of disposal capacity. Any appeal of this decision must be filed no later than September 26, 2010. NCES is currently considering whether NHDES's August 27, 2010 decision moots or otherwise renders unnecessary the pending litigation in the Waste Management Council and in the superior court against NHDES.

Southbridge Landfill Site Assignment Appeal

On June 9, 2008, the Southbridge Board of Health (Southbridge BOH) issued a Decision and Statement of Findings pursuant to Massachusetts General Laws ch.111, §§150A and 150 A1/2 and 310 CMR 16.00 (2008 Site Assignment) granting our subsidiary, Southbridge Recycling and Disposal Park, a minor modification to the existing site assignment for the Southbridge Sanitary Landfill (the Landfill). The 2008 Site Assignment allows Southbridge Recycling and Disposal Park, subject to numerous conditions, to accept into the Landfill up to 405,000 tons of waste per year without regard to geographic origin.

On or about July 14, 2008, the Sturbridge Board of Health (Sturbridge BOH), an abutting municipality to Southbridge, together with several 10-citizen groups, filed a complaint in Worcester County Superior Court contesting the 2008 Site Assignment (the Appeal). The Appeal named as defendants the Southbridge BOH, its individual members and Southbridge Recycling and Disposal Park. On August 21, 2008, Southbridge Recycling and Disposal Park reached a settlement with the Sturbridge BOH, pursuant to which Southbridge Recycling and Disposal Park agreed to fund an escrow account to be controlled by the Sturbridge BOH, in the amount of \$50. The Sturbridge BOH withdrew as a party to the Appeal on August 22, 2008.

On December 11, 2009, the Worcester County Superior Court dismissed the plaintiffs' complaint following briefing and a court hearing. Plaintiffs appealed that decision, and we have filed a joint motion with the Sturbridge BOH to dismiss contending that the appeal was filed late and is subject to dismissal as a matter of law. While it is too early to assess the outcome of the appellate action, Southbridge Recycling and Disposal Park will continue to aggressively defend the appellate action.

In July 2008, Southbridge Recycling and Disposal Park filed an application with the Massachusetts Department of Environmental Protection (MADEP) for a minor modification to the existing landfill operating permit, to allow Southbridge Recycling and Disposal Park to operate in a manner consistent with the Site Assignment (conversion from 180,960 tons per year of construction and demolition debris to 180,960 tons per year of any combination of construction and demolition debris and municipal solid waste, with no geographic limitations). The MADEP issued a provisional final permit granting this minor modification on April 23, 2010, and invited public comment through May 19, 2010. On May 28, 2010, the MADEP issued a final permit granting the minor modification to Southbridge Recycling and Disposal Park's existing operating permit (the Conversion Permit). On July 1, 2010, the Board of Health of the Town of Sturbridge filed a complaint challenging MADEP's issuance of the Conversion Permit, despite its prior settlement. However, due to procedural irregularities in the Board of Health's filing, the court has not accepted the filing as complete and the lawsuit has therefore not officially been initiated. MADEP as the issuing agency and defendant will be required to defend the Final Permit. We will assist to the extent required or requested.

CRMC Bethlehem, LLC Litigation

CRMC Bethlehem, LLC and Commonwealth Bethlehem Energy, LLC (collectively, CRMC), have filed claims in the US District Court for the District of New Hampshire against NCES. CRMC seeks declaratory and injunctive relief and damages. CRMC alleges that NCES has breached the terms of a Gas

Lease and Easement Agreement by and between CRMC and NCES, entered into on September 10, 1998, as amended on March 1, 2000 (the Gas Lease). CRMC alleges that NCES has inappropriately interfered with CRMC rights pursuant to the Gas Lease to develop a landfill gas-to-energy project to be sited on the Landfill. CRMC also alleges that NCES has violated the terms of an Operations and Maintenance Agreement in operating the landfill gas management system. NCES denies these allegations, and intends to vigorously defend against these claims. We do not believe that this matter will have a material adverse effect on our business, financial condition or results of operations or cash flows.

Vermont Attorney General Matter

We have been a party to an Assurance of Discontinuance (AOD) entered into on May 17, 2002 with the Vermont Attorney General's Office, which relates to our business activities in Vermont regarding certain contract terms, and certain acquisition guidelines. On March 23, 2010, we were the recipient of a Civil Investigative Subpoena requesting information and documents regarding our compliance with the AOD. We have been, and will continue to be, responsive to the inquiries proffered by the Vermont Attorney General's office. We do not believe that this matter will have a material adverse effect on our business, financial condition or results of operations or cash flows.

Other

We are 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, we believe are material to its financial condition, results of operations or cash flows.

We offer no prediction of the outcome of any of the proceedings or negotiations described above. We are vigorously defending each of these lawsuits and claims. However, there can be no guarantee we will prevail or that any judgments against us, if sustained on appeal, will not have a material adverse effect on our business, financial condition or results of operations or cash flows.

(b) Environmental Liability

We are subject to liability for environmental damage, including personal injury and property damage, that our 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 we acquired the facilities. We may also be subject to liability for similar claims arising from off-site environmental contamination caused by pollutants or hazardous substances if we or our predecessors arrange or arranged to transport, treat or dispose of those materials.

On December 20, 2000, the State of New York Department of Environmental Conservation (DEC) issued an Order on Consent (Order) which named Waste-Stream, Inc. (WSI), a Casella subsidiary, General Motors Corporation (GM) and Niagara Mohawk Power Corporation (NiMo) as Respondents. The Order required that the Respondents undertake certain work on a 25-acre scrap yard and solid waste transfer station owned by WSI, including the drafting of a Remedial Investigation and Feasibility Study (the Study). A draft of the Study was submitted to DEC in January 2009 (followed by a final report in May 2009). The Study estimates that the undiscounted costs associated with implementing the preferred remedies will be approximately \$10,219 and it is unlikely that any costs relating to onsite remediation will be incurred until fiscal year 2012. WSI is jointly and severally liable for the total cost to remediate but is expected to be responsible for approximately 30% upon

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implementation of a cost-sharing agreement with NiMo and GM. Based on these estimates, we recorded an environmental remediation charge of \$2,823 in third quarter of fiscal 2009. In the fourth quarter of fiscal year 2009, we recognized an additional charge of \$1,532, representing an additional 15% of the estimated costs, in recognition of

the deteriorating financial condition and eventual bankruptcy filing of GM. In the fourth quarter of fiscal year 2010, we recognized an additional charge of \$335 based on changes in the expected timing of cash outflows. Such charges could be significantly higher if costs exceed estimates, or one or more of the other responsible parties fail to meet their obligation. We inflate these estimated costs in current dollars until the expected time of payment and discounts the cost to present value using an appropriate discount rate (3.12%). As of April 30, 2010 and July 31, 2010, we recorded \$4,551 and \$4,585, respectively, related to this liability including the recognition of \$55 and \$34 of accretion expense in the three months ended July 31, 2009 and 2010.

6. STOCK-BASED COMPENSATION

On June 2010, we granted a combination of restricted stock units and performance stock units under the 2006 Stock Incentive Plan (the 2006 Plan) to certain employees. The stock units are subject to vesting, one half of which is based on the attainment of a targeted annual return on assets in fiscal year 2013 (performance stock units) and the other half of which vests based on continued employment over a three year period starting on the first anniversary of the grant (restricted stock grants). As of July 31, 2010, the performance stock units included in the June 2010 grant could result in the issuance of up to 586 shares of Class A Common Stock based on the attainment of a targeted annual return on assets in fiscal 2013 and the restricted stock units could result in the issuance of up to 469 shares of Class A Common Stock based on vesting over a three year period starting on the first anniversary of the grant. The performance and restricted stock units were granted at a grant date fair value of \$3.83 per share.

As of July 31, 2010 there were 430 Class A Common Stock equivalents available for future grant under the 2006 Plan inclusive of additional Class A Common Stock equivalents which were previously issued under our terminated plans but which have become available for grant because such awards expired or otherwise resulted in shares not being issued.

Stock options granted generally vest over a one to four year period from the date of grant and are granted at prices at least equal to the prevailing fair market value at the issue date. In general, options are issued with a life not to exceed ten years. Shares issued by us upon exercise of stock options are issued from the pool of authorized shares of Class A Common Stock.

A summary of stock option activity for the three months ended July 31, 2010 is as follows:

	Stock Options		Weighted Average Exercise Price
Outstanding, April 30, 2010	2,639	\$	11.28
Granted	250	\$	3.81