CASELLA WASTE SYSTEMS INC
Form 10-Q
December 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2008

OR

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

For the transition period from to

Commission file number 000-23211

CASELLA WASTE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of November 28, 2008:

Class A Common Stock	24,628,702
Class B Common Stock	988,200

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands)

	April 30, 2008	October 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,814	$ 3,110
Restricted cash	95	96
Accounts receivable - trade, net of allowance for doubtful accounts of $1,752 and $1,263	62,233	66,222
Notes receivable - officer/employees	132	134
Refundable income taxes	2,020	885
Prepaid expenses	6,930	6,048
Inventory	3,876	4,582
Deferred income taxes	15,433	12,368
Other current assets	1,692	8,189
Current assets of discontinued operations	260	
Total current assets	95,485	101,634
Property, plant and equipment, net of accumulated depreciation and amortization of $484,620 and $519,206	488,028	501,263
Goodwill	179,716	179,930
Intangible assets, net	2,608	2,680
Restricted assets	13,563	13,602
Notes receivable - officer/employees	1,101	1,117
Investments in unconsolidated entities	44,617	41,832
Other non-current assets	10,487	14,398
Non-current assets of discontinued operations	482	
	740,602	754,822
	$ 836,087	$ 856,456

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

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

	April 30, 2008	October 31, 2008
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 2,758	$ 1,736
Current maturities of financing lease obligations		266
Accounts payable	51,731	47,340
Accrued payroll and related expenses	11,251	7,176
Accrued interest	8,668	8,005
Current accrued capping, closure and post-closure costs	9,265	5,507
Other accrued liabilities	28,202	26,824
Current liabilities of discontinued operations	949	
Total current liabilities	112,824	96,854
Long-term debt, less current maturities	559,227	562,280
Financing lease obligations, less current maturities		11,674
Accrued capping, closure and post-closure costs, less current portion	32,864	36,219
Deferred income taxes	313	5,043
Other long-term liabilities	6,007	7,144
Non-current liabilities of discontinued operations	170	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Class A common stock - Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 24,466,000 and 24,601,000 shares as of April 30, 2008 and October 31, 2008, respectively	245	246
Class B common stock - Authorized - 1,000,000 shares, $0.01 par value, 10 votes per share, issued and outstanding - 988,000 shares	10	10
Accumulated other comprehensive income (loss)	(2,568)	3,395
Additional paid-in capital	276,189	278,543
Accumulated deficit	(149,194)	(144,952)
Total stockholders equity	124,682	137,242
	$ 836,087	$ 856,456

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands)

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2008	Six Months Ended October 31, 2007	Six Months Ended October 31, 2008
Revenues	$ 150,483	$ 157,538	$ 299,009	$ 315,442
Operating expenses:				
Cost of operations	95,621	103,728	192,525	208,170
General and administration	18,898	18,299	36,766	36,739
Depreciation and amortization	20,136	19,505	40,044	38,975
	134,655	141,532	269,335	283,884
Operating income	15,828	16,006	29,674	31,558
Other expense/(income), net:				
Interest income	(246)	(85)	(674)	(267)
Interest expense	11,031	10,338	22,073	20,494
Loss from equity method investments	1,487	1,045	3,638	2,173
Other (income)/expense	35	(64)	(2,360)	(152)
Other expense, net	12,307	11,234	22,677	22,248
Income from continuing operations before income taxes and discontinued operations	3,521	4,772	6,997	9,310
Provision (benefit) for income taxes	(416)	2,706	714	5,023
Income from continuing operations before discontinued operations	3,937	2,066	6,283	4,287
Discontinued Operations:				
Loss from discontinued operations (net of income tax benefit of $384, $0, $734 and $8)	(670)		(1,274)	(11)
Loss on disposal of discontinued operations (net of income tax benefit (provision) of $122, $0, $122 and ($262))	(437)		(437)	(34)
Net income available to common stockholders	$ 2,830	$ 2,066	$ 4,572	$ 4,242

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(Unaudited)

(in thousands, except for per share data)

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2008	Six Months Ended October 31, 2007	Six Months Ended October 31, 2008
Earnings Per Share:				
Basic:				
Income from continuing operations before discontinued operations available to common stockholders	$ 0.16	$ 0.08	$ 0.25	$ 0.17
Loss from discontinued operations, net	(0.03)		(0.05)	
Loss on disposal of discontinued operations, net	(0.02)		(0.02)	
Net income per common share available to common stockholders	$ 0.11	$ 0.08	$ 0.18	$ 0.17
Basic weighted average common shares outstanding	25,343	25,561	25,335	25,517
Diluted:				
Income from continuing operations before discontinued operations available to common stockholders	$ 0.16	$ 0.08	$ 0.25	$ 0.17
Loss from discontinued operations, net	(0.03)		(0.05)	
Loss on disposal of discontinued operations, net	(0.02)		(0.02)	
Net income per common share available to common stockholders	$ 0.11	$ 0.08	$ 0.18	$ 0.17
Diluted weighted average common shares outstanding	25,652	25,745	25,592	25,720

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended October 31, 2007	Six Months Ended October 31, 2008
Cash Flows from Operating Activities:		
Net income	$ 4,572	$ 4,242
Loss from discontinued operations, net	1,274	11
Loss on disposal of discontinued operations, net	437	34
Adjustments to reconcile net income to net cash provided by operating activities -		
Gain on sale of equipment	(418)	(577)
Depreciation and amortization	40,045	38,975
Depletion of landfill operating lease obligations	3,348	3,520
Income from assets under contractual obligation	(1,367)	(114)
Preferred stock dividend (included in interest expense)	1,038	
Amortization of premium on senior notes	(307)	(331)
Maine Energy settlement	(2,142)	
Loss from equity method investments	3,638	2,173
Stock-based compensation	505	954
Excess tax benefit on the exercise of stock options	(16)	(157)
Deferred income taxes	691	4,647
Changes in assets and liabilities, net of effects of acquisitions and divestitures -		
Accounts receivable	(4,620)	(3,978)
Accounts payable	(4,247)	(4,400)
Other assets and liabilities	(7,121)	(5,782)
	29,027	34,930
Net Cash Provided by Operating Activities	35,310	39,217
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(93)	(458)
Additions to property, plant and equipment - growth	(7,965)	(8,232)
- maintenance	(35,025)	(29,964)
Payments on landfill operating lease contracts	(2,413)	(1,825)
Proceeds from divestitures		670
Proceeds from sale of equipment	1,217	895
Investment in unconsolidated entities	(85)	(2,510)
Proceeds from assets under contractual obligation	1,422	114
Net Cash Used In Investing Activities	(42,942)	(41,310)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	221,605	60,000
Principal payments on long-term debt	(149,468)	(59,104)
Redemption of Series A redeemable, convertible preferred stock	(75,056)	
Proceeds from exercise of stock options	286	1,289
Excess tax benefit on the exercise of stock options	16	157
Net Cash Provided by (Used in) Financing Activities	(2,617)	2,342
Discontinued Operations:		
Provided by (Used in) Operating Activities	(211)	47
Provided by Investing Activities	262	

Cash Provided by Discontinued Operations		51		47
Net increase (decrease) in cash and cash equivalents		(10,198)		296
Cash and cash equivalents, beginning of period		12,366		2,814
Cash and cash equivalents, end of period	$	2,168	$	3,110

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(in thousands)

	Six Months Ended October 31, 2007	Six Months Ended October 31, 2008
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for -		
Interest	$ 19,154	$ 20,463
Income taxes, net of refunds	$ 1,770	$ 258
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Summary of entities acquired in purchase business combinations -		
Fair value of assets acquired	$ 93	$ 458
Cash paid, net	(93)	(458)
Notes payable, liabilities assumed and holdbacks to sellers	$	$
Note receivable recorded upon divestiture	$ 4,836	$
Property, plant and equipment acquired through financing arrangement	$	$ 11,940

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

CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except for per share data)

1. ORGANIZATION

The consolidated balance sheet of Casella Waste Systems, Inc. (the Parent) and Subsidiaries (collectively, the Company) as of October 31, 2008, the consolidated statements of operations for the three and six months ended October 31, 2007 and 2008 and the consolidated statements of cash flows for the six months ended October 31, 2007 and 2008 are unaudited. In the opinion of management, such financial statements together with the consolidated balance sheet as of April 30, 2008 include all adjustments (which include normal recurring and nonrecurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The consolidated financial statements presented herein should be read in conjunction with the Company s audited consolidated financial statements as of and for the twelve months ended April 30, 2008 included as part of the Company s Annual Report on Form 10-K for the year ended April 30, 2008 (the Annual Report). The results for the three and six month periods ended October 31, 2008 may not be indicative of the results that may be expected for the fiscal year ending April 30, 2009.

2. BUSINESS COMBINATIONS

During the six months ended October 31, 2008, the Company acquired two solid waste hauling operations. The transactions were in exchange for total consideration of $458 in cash. During the six months ended October 31, 2007, the Company acquired three solid waste hauling operations. These transactions were in exchange for total consideration of $93 in cash. The operating results of these businesses are included in the consolidated statements of operations from the dates of acquisition. The purchase prices have been allocated to the net assets acquired based on their fair values at the dates of acquisition, including the value of non-compete agreements and client lists, with the residual amounts allocated to goodwill. The pro forma effect, as if each of the acquisitions had been made on May 1, 2007, do not vary materially from actual reported results for the three and six months ended October 31, 2007 and 2008.

3. GOODWILL AND INTANGIBLE ASSETS

The following table shows the activity and balances related to goodwill from April 30, 2008 through October 31, 2008:

	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling	Total
Balance, April 30, 2008	$ 23,655	$ 31,645	$ 31,960	$ 54,804	$ 37,652	$ 179,716
Acquisitions		18		196		214
Balance, October 31, 2008	$ 23,655	$ 31,663	$ 31,960	$ 55,000	$ 37,652	$ 179,930

Intangible assets at April 30, 2008 and October 31, 2008 consist of the following:

	Covenants not to compete	Client Lists	Licensing Agreements	Contract Acquisition Costs	Total
Balance, April 30, 2008					
Intangible assets	$ 15,125	$ 1,597	$ 920	$ 58	$ 17,700
Less accumulated amortization	(14,189)	(726)	(167)	(10)	(15,092)
	$ 936	$ 871	$ 753	$ 48	$ 2,608
Balance, October 31, 2008					
Intangible assets	$ 13,870	$ 1,597	$ 920	$ 389	$ 16,776
Less accumulated amortization	(13,097)	(772)	(201)	(26)	(14,096)
	$ 773	$ 825	$ 719	$ 363	$ 2,680

Intangible amortization expense for the three and six months ended October 31, 2007 and 2008 was $151, $154, $301 and $301, respectively. The intangible amortization expense estimated as of October 31, 2008 for the five fiscal years following fiscal year 2008 is as follows:

2009	2010	2011	2012	2013	Thereafter
$ 588	$ 444	$ 347	$ 268	$ 211	$ 822

4. NEW ACCOUNTING STANDARDS

In February 2007, the FASB issued SFAS No.159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 155* (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. A company shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected are recognized in earnings as incurred and not deferred. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company adopted this statement on May 1, 2008, but it did not have any impact on the Company s financial position or results of operations as the Company did not make any fair value elections under this standard.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (revised - 2007)* (SFAS No. 141(R)). SFAS No. 141(R) is a revision to previously existing guidance on accounting for business combinations. The statement retains the fundamental concept of the purchase method of accounting, and introduces new requirements for the recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests. SFAS No. 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of adoption of this statement on the Company s Consolidated Financial Statements is dependent on the nature and volume of future acquisitions, and, therefore, cannot be determined at this time.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and requires entities to provide enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and disclosures about credit-risk-related contingent features in derivative agreements. This statement applies to all entities and all derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As SFAS No. 161 relates specifically to

9

disclosures, the adoption will have no impact on the Company s financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS No. 142-3). FSP FAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). FSP FAS No. 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. FSP FAS No. 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP FAS No. 142-3 to have a material impact on its financial position or results of operations.

5. LEGAL PROCEEDINGS

On September 12, 2001, the Company s subsidiary, North Country Environmental Services, Inc. (NCES), petitioned the New Hampshire Superior Court (Superior Court) for a declaratory judgment concerning the extent to which the Town of Bethlehem, New Hampshire (Town) could lawfully prohibit NCES s expansion of its landfill in Bethlehem. The Town filed counterclaims seeking contrary declarations and other relief. The parties appealed the Superior Court s decision to the New Hampshire Supreme Court (Supreme Court). On March 1, 2004, the Supreme Court ruled that NCES had all necessary local approvals to landfill within a 51-acre portion of its 105-acre parcel and the Town could not prevent expansion in that area. A significant portion of NCES s Stage IV expansion as originally designed and approved by the New Hampshire Department of Environmental Services (NHDES), however, was to lie outside the 51 acres. With respect to expansion outside the 51 acres, the Supreme Court remanded four issues to the Superior Court for further proceedings. On April 25, 2005, the Superior Court rendered summary judgment in NCES s favor on two of the four issues, leaving the other two issues for trial. The two issues that were decided on summary judgment remain subject to appeal by the Town. In March of 2005, the Town adopted a new zoning ordinance that prohibited landfilling outside of a new District V, which corresponded to the 51 acres. The Town then amended its pleadings to seek a declaration that the new ordinance was valid. The parties each filed motions for partial summary judgment. Following the court s decisions on those motions, the validity of the new ordinance remained subject to trial based on two defenses raised by NCES. On March 30, 2007, NCES applied to the NHDES for a permit modification under which all Stage IV capacity (denominated Stage IV, Phase II) would be relocated within the 51 acres. That application was superseded by a new application, filed on November 30, 2007, that would bring all berms along the perimeter of the landfill s footprint within the 51 acres as well. NCES sought a stay of the litigation on the ground that, if NHDES were to grant the permit modification, there would be no need for NCES to expand beyond the 51 acres for eight or more years, and the case could be dismissed as moot or unripe. The Superior Court granted the stay pending a decision by NHDES. The permit modification application currently remains pending before NHDES. The NHDES conducted public hearings in July and September 2008. The NHDES decision to grant the permit modification is expected to be made during the fourth quarter of calendar year 2008.

The Company, on behalf of itself, its subsidiary FCR, LLC (FCR), and as a Majority Managing Member of Green Mountain Glass, LLC (GMG), initiated a declaratory judgment action against GR Technologies, Inc. (GRT), Anthony C. Lane and Robert Cameron Billmyer (the Defendants) on June 8, 2007, to resolve issues raised by GRT as the minority shareholder of GMG. The issues addressed in the action included exercise of management discretion, right to intellectual property, and other related disputes. The Defendants counterclaimed in May 2008 seeking unspecified damages on a variety of bases including, among others, breach of contract, breach of fiduciary duty, fraud, tortious interference with business relations, induced infringement and other matters. Management intends to vigorously contest those allegations, and it believes that the claims have no merit substantively or as a matter of law. Additionally, the Defendants filed a Derivative Action in Rutland Superior Court as a Managing Member of GMG on July 2, 2008 against several employees of the Company and its subsidiary FCR, LLC, making similar allegations. On September 16, 2008, the Company filed a Motion for Summary Judgment, and a Proposed Order Decreeing Dissolution and Appointing a Special Master, alleging that the relationship of GRT and FCR in GMG is irretrievably broken. All litigation is in its early stages and, accordingly, it is not possible at this time to evaluate the likelihood of an unfavorable outcome or provide meaningful estimates as to amount or range of potential loss, but management currently believes that the litigation, regardless of its outcome, will not have a material adverse affect on the Company s financial condition, results of operations or cash flows.

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

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.

6. ENVIRONMENTAL LIABILITIES

The Company is subject to liability for 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 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 a Remedial Investigation and Feasibility Study (the Study), and permitted the Respondents to propose and implement, if approved by DEC, interim remedial measures for the site. It is anticipated that the Study will be submitted to the DEC in the next ninety days. It is presently impossible to meaningfully determine a range of the dollar cost of our potential participation in the remediation, principally because (i) there is a wide range of remediation options under consideration, and (ii) other Respondents will be required to contribute to the remediation.

Any substantial liability incurred by the Company arising from environmental damage could have a material adverse effect on the Company s business, financial condition and results of operations. The Company is not presently aware of any situations that it expects would have a material adverse impact on its business, financial condition, results of operations, or cash flows.

7. STOCK-BASED COMPENSATION

On July 28, 2008, the Company granted restricted stock units under the 2006 Stock Incentive Plan (the 2006 Plan) in the form of performance shares to certain employees. Receipt of these shares is contingent upon the Company s attainment of certain performance metrics on an average basis over a three fiscal year period. At the one hundred percent level of attainment the grantee pool would be entitled to a total of 212 shares of Class A Common Stock. These units were granted at a value of $12.14 per share and are unvested and unissued at October 31, 2008.

On October 14, 2008, the Company granted 27 restricted stock units under the 2006 plan to non-employee directors of the Company. These shares will vest in equal amounts over a three year period starting on the first anniversary of the grant date.

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 the Company 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 six months ended October 31, 2008 is as follows:

	Total Shares		**Weighted Average Exercise Price**
Outstanding, April 30, 2008	3,782	$	12.82
Granted	5		12.62
Exercised	(111)		9.98
Forfeited	(279)		21.27
Outstanding, October 31, 2008	3,397		12.22
Exercisable, October 31, 2008	2,961	$	12.21

The weighted average grant date fair value of options granted was $5.09 and $5.49 per option for the six months ended October 31, 2007 and 2008, respectively. There are 1,841 Class A Common Stock equivalents available for future grant under the 2006 plan.

The Company recorded $259, $536, $452 and $899 of stock based compensation expense related to stock options and restricted stock units during the three and six months ended October 31, 2007 and 2008, respectively. The Company also recorded $29, $28, $53 and $55 of stock based expense for the Company s Employee Stock Purchase Plan during the three and six months ended October 31, 2007 and 2008, respectively.

The Company s calculations of stock-based compensation expense for the three and six months ended October 31, 2007 and 2008 were made using the Black-Scholes valuation model. The fair value of the Company s stock option grants was estimated assuming no expected dividend yield and the following weighted average assumptions were used for the three and six months ended October 31, 2007 and 2008:

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2008	Six Months Ended October 31, 2007	Six Months Ended October 31, 2008
Stock Options:				
Expected life	6 years		6 years	6 years
Risk-free interest rate	4.71%		4.82%	3.73%
Expected volatility	37.83%		37.83%	36.80%
Stock Purchase Plan:				
Expected life	0.5 years		0.5 years	0.5 years
Risk-free interest rate	5.02%		5.07%	2.49%
Expected volatility	37.22%		35.10%	36.44%

Expected life is calculated based on the weighted average historical life of the vested stock options, giving consideration to vesting schedules and historical exercise patterns. Risk-free interest rate is based on the U.S. treasury yield curve for the period of the expected life of the stock option. For stock options granted during the three and six months ended October 31, 2007 and 2008, expected volatility is calculated using the average of weekly historical volatility of the Company s Class A Common Stock over the last six years.

The Black-Scholes valuation model requires extensive use of accounting judgment and financial estimation, including estimates of the expected term option holders will retain their vested stock options before exercising them, the estimated volatility of the Company s Class A Common Stock price over the expected term, and the number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation and consequently, the related amounts recognized in the Consolidated Statements of Operations.

8. EARNINGS PER SHARE

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

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2008	Six Months Ended October 31, 2007	Six Months Ended October 31, 2008
Numerator:				
Net income available to common stockholders	$ 2,830	$ 2,066	$ 4,572	$ 4,242
Denominator:				
Number of shares outstanding, end of period:				
Class A common stock	24,363	24,601	24,363	24,601
Class B common stock	988	988	988	988
Effect of weighted average shares outstanding during period	(8)	(28)	(16)	(72)
Weighted average number of common shares used in basic EPS	25,343	25,561	25,335	25,517
Impact of potentially dilutive securities:				
Dilutive effect of options and restricted stock	309	184	257	203
Weighted average number of common shares used in diluted EPS	25,652	25,745	25,592	25,720

For the three and six months ended October 31, 2007, 2,373 and 2,933 common stock equivalents related to options and warrants were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

For the three and six months ended October 31, 2008, 2,715 and 2,713 common stock equivalents related to options, warrants and restricted stock units were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

9. COMPREHENSIVE INCOME

Comprehensive income is defined as the change in net assets of a business enterprise during a period from transactions generated from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive income (loss) included in the accompanying balance sheets consists of changes in the fair value of the Company s interest rate derivatives and commodity hedge agreements. Also included in accumulated other comprehensive income (loss) is the change in fair value of certain securities classified as available for sale as well as the Company s portion of the change in the fair value of commodity hedge agreements of the Company s equity method investment, US GreenFiber, LLC (GreenFiber).

Comprehensive income for the three and six months ended October 31, 2007 and 2008 is as follows:

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2008	Six Months Ended October 31, 2007	Six Months Ended October 31, 2008
Net income	$ 2,830	$ 2,066	$ 4,572	$ 4,242
Other comprehensive income (loss)	(101)	4,805	(285)	5,963
Comprehensive income	$ 2,729	$ 6,871	$ 4,287	$ 10,205

The components of other comprehensive income (loss) for the three and six months ended October 31, 2007 and 2008 are shown as follows:

Three Months Ended October 31,	2007 Gross	2007 Tax effect	2007 Net of Tax	2008 Gross	2008 Tax effect	2008 Net of Tax
Changes in fair value of marketable securities during the period	$ 91	$ 32	$ 59	$ (89)	$ (32)	$ (57)
Change in fair value of interest rate derivatives and commodity hedges during period	(840)	(340)	(500)	6,525	2,627	3,898
Reclassification to earnings for interest rate derivatives and commodity hedge contracts	571	231	340	1,614	650	964
	$ (178)	$ (77)	$ (101)	$ 8,050	$ 3,245	$ 4,805

Six Months Ended October 31,	2007 Gross	2007 Tax effect	2007 Net of Tax	2008 Gross	2008 Tax effect	2008 Net of Tax
Changes in fair value of marketable securities during the period	$ 60	$ 21	$ 39	$ (186)	$ (65)	$ (121)
Change in fair value of interest rate derivatives and commodity hedges during period	(1,539)	(612)	(927)	7,118	2,865	4,253
	999	396	603	3,081	1,250	1,831

Reclassification to earnings for interest rate derivatives and commodity hedge contracts						
	$ (480)	$ (195)	$ (285)	$ 10,013	$ 4,050	$ 5,963

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective May 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) as it relates to financial assets and liabilities that are being measured and reported at fair value on a recurring basis.

SFAS No. 157 provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The Company s financial assets and liabilities recorded at fair value on a recurring basis include derivative instruments as well as certain investments included in restricted assets. The Company s restricted assets measured at fair value include investments in fixed-maturity securities which serve as collateral for the Company s self-insurance claims liability, self insurance reserves and landfill post closure obligations.

The Company s derivative instruments include interest rate swaps and collars along with commodity hedges. The Company uses interest rate derivatives to hedge the risk of adverse movements in interest rates. The fair value of these cash flow hedges are based primarily on the LIBOR index. The Company uses commodity hedges to hedge the risk of adverse movements in commodity pricing. The fair value of these hedges is based on futures pricing in the underlying commodities.

The Company uses valuation techniques that maximize the use of market prices and observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company s financial assets and liabilities, the Company relies on market data or assumptions that the Company believes market participants would use in pricing an asset or liability. As of October 31, 2008, our assets and liabilities that are measured at fair value on a recurring basis include the following:

	Fair Value Measurement at October 31, 2008 Using:					
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
Assets:						
Restricted assets - available for sale securities	$	13,602	$		$	
Commodity derivatives				9,414		
Total	$	13,602	$	9,414	$	
Liabilities						
Interest rate derivatives	$		$	1,390	$	
Total	$					