CASELLA WASTE SYSTEMS INC
Form 10-Q
March 07, 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 January 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, 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 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 February 29, 2008:

Class A Common Stock	24,448,193
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, 2007	January 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,366	$ 2,898
Restricted cash	73	95
Accounts receivable - trade, net of allowance for doubtful accounts of $1,587 and $1,955	61,246	61,652
Notes receivable - officers/employees	87	118
Refundable income taxes	1,340	3,072
Prepaid expenses	5,477	6,885
Inventory	3,454	3,692
Deferred income taxes	8,215	13,618
Other current assets	1,631	1,628
Current assets of discontinued operations	911	430
Total current assets	94,800	94,088
Property, plant and equipment, net of accumulated depreciation and amortization of $415,996 and $472,212	483,277	488,845
Goodwill	171,735	171,385
Intangible assets, net	2,217	2,778
Restricted cash	12,734	13,587
Notes receivable - officers/employees	916	1,192
Deferred income taxes	1,546	747
Investments in unconsolidated entities	49,969	46,060
Net assets under contractual obligation	55	
Other non-current assets	10,885	11,459
Non-current assets of discontinued operations	5,959	
	739,293	736,053
	$ 834,093	$ 830,141

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

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CASELLA WASTE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

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

	April 30, 2007	January 31, 2008
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 1,215	$ 2,156
Current maturities of capital lease obligations	1,104	633
Series A redeemable, convertible preferred stock	74,018	
Accounts payable	51,440	43,783
Accrued payroll and related expenses	8,489	9,258
Accrued interest	9,275	12,894
Current accrued capping, closure and post-closure costs	8,921	5,964
Other accrued liabilities	32,285	31,676
Current liabilities of discontinued operations	1,405	268
Total current liabilities	188,152	106,632
Long-term debt, less current maturities	476,225	546,188
Capital lease obligations, less current maturities	650	4,789
Accrued capping, closure and post-closure costs, less current portion	29,451	34,313
Other long-term liabilities	10,119	7,146
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Class A common stock -		
Authorized - 100,000,000 shares, $0.01 par value; issued and outstanding - 24,332,000 and 24,448,000 shares as of April 30, 2007 and January 31, 2008, respectively	243	244
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 loss	(1,001)	(2,960)
Additional paid-in capital	273,345	275,709
Accumulated deficit	(143,101)	(141,930)
Total stockholders equity	129,496	131,073
	$ 834,093	$ 830,141

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 January 31, 2007	Three Months Ended January 31, 2008	Nine Months Ended January 31, 2007	Nine Months Ended January 31, 2008
Revenues	$ 128,839	$ 141,359	$ 409,637	$ 442,799
Operating expenses:				
Cost of operations	85,879	96,663	267,078	291,738
General and administration	16,862	18,362	56,223	55,472
Depreciation and amortization	16,960	19,055	53,702	59,178
	119,701	134,080	377,003	406,388
Operating income	9,138	7,279	32,634	36,411
Other expense/(income), net:				
Interest income	(313)	(291)	(910)	(965)
Interest expense	9,768	10,827	28,632	33,072
Loss (income) from equity method investments	(988)	907	(1,978)	4,545
Other income	(49)	(56)	(350)	(2,417)
Other expense, net	8,418	11,387	25,394	34,235
Income (loss) from continuing operations before income taxes and discontinued operations	720	(4,108)	7,240	2,176
Provision for income taxes	1,026	496	4,420	960
Income (loss) from continuing operations before discontinued operations	(306)	(4,604)	2,820	1,216
Discontinued Operations:				
Loss from discontinued operations (net of income tax benefit of $337, $830 and $484)	(539)		(1,329)	(811)
Loss on disposal of discontinued operations (net of income tax benefit of $122)				(437)
Net (loss) income	(845)	(4,604)	1,491	(32)
Preferred stock dividend	902		2,674	
Net loss applicable to common stockholders	$ (1,747)	$ (4,604)	$ (1,183)	$ (32)

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 January 31, 2007	Three Months Ended January 31, 2008	Nine Months Ended January 31, 2007	Nine Months Ended January 31, 2008
Earnings Per Share:				
Basic and diluted:				
Income (loss) from continuing operations before discontinued operations applicable to common stockholders	$ (0.05)	$ (0.18)	$ 0.01	$ 0.05
Loss from discontinued operations, net	(0.02)		(0.06)	(0.03)
Loss on disposal of discontinued operations, net				(0.02)
Net loss per common share applicable to common stockholders	$ (0.07)	$ (0.18)	$ (0.05)	$
Basic and diluted weighted average common shares outstanding	25,273	25,415	25,257	25,362

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)

	Nine Months Ended January 31, 2007	Nine Months Ended January 31, 2008
Cash Flows from Operating Activities:		
Net (loss) income	$ 1,491	$ (32)
Loss from discontinued operations, net	1,329	811
Loss on disposal of discontinued operations, net		437
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	53,702	59,178
Depletion of landfill operating lease obligations	5,543	4,815
Income from assets under contractual obligation		(1,463)
Preferred stock dividend (included in interest expense)		1,038
Maine Energy settlement		(2,142)
Loss (income) from equity method investments	(1,978)	4,545
Gain on sale of equipment	(591)	(54)
Stock-based compensation	511	1,022
Excess tax benefit on the exercise of stock options	(145)	(111)
Deferred income taxes	464	(1,311)
Changes in assets and liabilities, net of effects of acquisitions and divestitures -		
Accounts receivable	(1,587)	7
Accounts payable	(4,911)	(8,723)
Other assets and liabilities	2,620	(6,339)
	53,628	50,462
Net Cash Provided by Operating Activities	56,448	51,678
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(2,087)	(745)
Additions to property, plant and equipment - growth	(25,757)	(14,281)
- maintenance	(50,939)	(44,834)
Payments on landfill operating lease contracts	(4,500)	(6,735)
Proceeds from divestitures		2,154
Proceeds from sale of equipment	1,369	1,932
Restricted cash from revenue bond issuance	5,535	
Investment in unconsolidated entities	(2,328)	(107)
Proceeds from assets under contractual obligation	849	1,518
Net Cash Used In Investing Activities	(77,858)	(61,098)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	239,950	260,700
Principal payments on long-term debt	(213,459)	(187,049)
Redemption of Series A redeemable, convertible preferred stock		(75,057)
Proceeds from exercise of stock options	1,572	1,216
Excess tax benefit on the exercise of stock options	145	111
Net Cash (Used in) Provided by Financing Activities	28,208	(79)
Discontinued Operations:		
Used in Operating Activities	(645)	(231)
Provided by (Used in) Investing Activities	(1,653)	262
Cash Provided by (Used in) Discontinued Operations	(2,298)	31

Net (decrease) increase in cash and cash equivalents		4,500		(9,468)
Cash and cash equivalents, beginning of period		7,429		12,366
Cash and cash equivalents, end of period	$	11,929	$	2,898

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)

	Nine Months Ended January 31, 2007		Nine Months Ended January 31, 2008	
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for -				
Interest	$	20,094	$	27,129
Income taxes, net of refunds	$	2,241	$	1,851
Supplemental Disclosures of Non-Cash Investing and Financing Activities:				
Summary of entities acquired in purchase business combinations -				
Fair value of assets acquired	$	2,332	$	1,169
Cash paid, net		(2,087)		(745)
Notes payable, liabilities assumed and holdbacks to sellers	$	245	$	424
Note receivable recorded upon divestiture	$		$	2,500
Property, plant and equipment acquired through financing arrangement	$		$	497

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 January 31, 2008, the consolidated statements of operations for the three and nine months ended January 31, 2007 and 2008 and the consolidated statements of cash flows for the nine months ended January 31, 2007 and 2008 are unaudited. In the opinion of management, such financial statements along with the consolidated balance sheet as of April 30, 2007 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, 2007 included as part of the Company s Annual Report on Form 10-K for the year ended April 30, 2007 (the Annual Report). The results for the three and nine month periods ended January 31, 2008 may not be indicative of the results that may be expected for the fiscal year ending April 30, 2008.

2. RECLASSIFICATIONS

The Company has made reclassifications in the Company s consolidated statements of operations to conform information for the three and nine months ended January 31, 2007 to the Company s current period presentation. The supplementary financial information included in this section has also been updated to reflect these changes. During the fourth quarter of fiscal year 2007, the Company began recording personnel costs associated with engineering and permitting activities as a cost of operations where previously these costs had been recorded as general and administration. This resulted in costs reclassified amounting to $460 and $1,385 for the three and nine months ended January 31, 2007, respectively.

3. BUSINESS COMBINATIONS

During the nine months ended January 31, 2008, the Company acquired five solid waste hauling operations. These transactions were in exchange for total consideration of $1,169 including $745 in cash and $424 in liabilities assumed. During the nine months ended January 31, 2007, the Company acquired eleven solid waste hauling operations. These transactions were in exchange for total consideration of $2,332 including $2,087 in cash and $245 in liabilities assumed. The operating results of these businesses are included in the consolidated statements of operations from the dates of acquisition. The purchase prices have been allocated to the net assets acquired based on their fair values at the dates of acquisition, including the value of non-compete agreements and client lists, with the residual amounts allocated to goodwill.

The following unaudited pro forma combined information shows the results of the Company s operations as though each of the acquisitions made in the nine months ended January 31, 2007 and 2008 had been completed as of May 1, 2006.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2007	2008	2007	2008
Revenue	$ 129,837	$ 141,668	$ 413,495	$ 445,025
Net income (loss)	(802)	(4,592)	1,698	54
Diluted net income (loss) per common share	$ (0.03)	$ (0.18)	$ (0.03)	$

The foregoing pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisitions taken place as of May 1, 2006 or the results of future operations of the Company. Furthermore, such pro forma results do not give effect to all cost savings or incremental costs that may occur as a result of the integration and consolidation of the completed acquisitions.

4. GOODWILL AND INTANGIBLE ASSETS

The following table shows the activity and balances related to goodwill from April 30, 2007 through January 31, 2008:

	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling	Total
Balance, April 30, 2007	$ 26,025	$ 31,645	$ 31,960	$ 54,716	$ 27,389	$ 171,735
Acquisitions				119		119
Other (1)	(65)		(1)		(403)	(469)
Balance, January 31, 2008	$ 25,960	$ 31,645	$ 31,959	$ 54,835	$ 26,986	$ 171,385

(1) Consists primarily of a reduction associated with the adoption of FIN No. 48. See Note 5.

Intangible assets at April 30, 2007 and January 31, 2008 consist of the following:

	Covenants not to compete	Client Lists	Licensing Agreements	Contract Acquisition Costs	Total
Balance, April 30, 2007					
Intangible assets	$ 15,224	$ 688	$ 920	$ 58	$ 16,890
Less accumulated amortization	(13,881)	(688)	(100)	(4)	(14,673)
	$ 1,343	$	$ 820	$ 54	$ 2,217
Balance, January 31, 2008					
Intangible assets	$ 15,259	$ 1,597	$ 920	$ 58	$ 17,834
Less accumulated amortization	(14,193)	(704)	(151)	(8)	(15,056)
	$ 1,066	$ 893	$ 769	$ 50	$ 2,778

Intangible amortization expense for the three and nine months ended January 31, 2007 and 2008 was $151, $171, $689 and $472, respectively. The intangible amortization expense estimated as of January 31, 2008 for the five fiscal years following fiscal year 2007 is as follows:

2008	2009	2010	2011	2012
$ 643	$ 530	$ 417	$ 326	$ 248

5. NEW ACCOUNTING STANDARDS

Effective May 1, 2007, the Company adopted the provisions of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). FIN No. 48 prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. Additionally, FIN No. 48 provides guidance on de recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under FIN No. 48, an entity may only recognize or continue to recognize tax positions that meet a more likely than not threshold.

As a result of the adoption of FIN No. 48, the cumulative effect of the changes to the Company s reserve for uncertain tax positions was accounted for as a $1,202 adjustment to increase the beginning balance of retained earnings and a $468 decrease to goodwill on the Company s balance sheet. As of May 1, 2007, the Company had approximately $5,879 of total gross unrecognized tax benefits. Of this total, approximately $3,488 (net of the federal benefit on state issues) represented the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. The Company does not anticipate that total unrecognized tax benefits will significantly change within the next 12 months due to the settlement of audits and the expiration of statute of limitations.

The Company s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of May 1, 2007 and January 31, 2008, the Company had accrued interest and penalties related to uncertain tax positions of $813 and $941, respectively.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax of multiple state jurisdictions. Due to federal and state net operating loss carryforwards, income tax returns from 1998 through 2007 remain open for examination, with limited exceptions.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to other existing accounting pronouncements that require or permit fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the application of this statement may change the current practice for fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, in February 2008, the FASB issued a final Staff Position to allow filers to defer the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB Staff Position (FSP) does not defer recognition and disclosure requirements for financial assets and financial liabilities or for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. The Company is currently evaluating the impact this statement will have on its financial position and results of operations.

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. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact this statement will have on its financial position and results of operations.

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 Company is currently evaluating the impact this statement will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160). The Statement requires that noncontrolling interests be reported as stockholders equity, a change that will affect the Company s financial statement presentation of minority interests in its consolidated subsidiaries. The Statement also establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary as long as that ownership change does not result in deconsolidation. The statement is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS No. 160 and does not expect this statement to have a material impact on its financial position and results of operations.

6. LEGAL PROCEEDINGS

The Company is a defendant in certain 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.

7. 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. 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.

8. STOCK-BASED COMPENSATION

On July 31, 1997, the Company adopted the 1997 Stock Option Plan (the 1997 Plan) a stock option plan for employees, officers and directors of, and consultants and advisors to the Company. As of April 30, 2007, options to purchase 3,403 shares of Class A Common Stock at a weighted average exercise price of $13.19 were outstanding under the 1997 Plan. As of January 31, 2008, options to purchase 3,538 shares of Class A Common Stock at a weighted average exercise price of $13.08 were outstanding under the 1997 Plan. The 1997 Plan terminated as of July 31, 2007 and as a result no additional awards may be made pursuant to the 1997 Plan.

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 (the Non-Employee Director Plan) provides for the issuance of a maximum of 200 shares of Class A Common Stock pursuant to the grant of non-statutory options. As of April 30, 2007 and January 31, 2008, options to purchase 189 shares of Class A

Common Stock at a weighted average exercise price of $11.87 were outstanding. The Non-Employee Director Plan terminated as of July 31, 2007.

On October 10, 2006, the Company adopted the 2006 Stock Incentive Plan (the 2006 Plan). Up to an aggregate amount equal to the sum of: (i) 1,275 shares of Class A Common Stock (subject to adjustment in the event of stock splits and other similar events), of which 275 are reserved for issuance to non-employee directors pursuant to the formula grants described below, plus (ii) such additional number of shares of Class A Common Stock as are currently subject to options granted under the Company s 1993 Incentive Stock Option Plan, 1994 Non-statutory Stock Option Plan, 1996 Option Plan, and 1997 Plan (the Prior Plans) which are not actually issued under the Prior Plans because such options expire or otherwise result in shares not being issued, may be issued pursuant to awards granted under the 2006 Plan. As of April 30, 2007, options to purchase 45 shares of Class A Common Stock at a weighted average exercise price of $10.22 were outstanding under the 2006 plan. As of January 31, 2008, options to purchase 190 shares of Class A Common Stock at a weighted average exercise price of $12.87 were outstanding under the 2006 Plan and awards for 1,500 options were available for future grant which includes 423 options which were available for future grant under the 1997 Plan upon termination.

Options granted under the plans described above 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 nine months ended January 31, 2008 is as follows:

	Total Shares		**Weighted Average Exercise Price**
Outstanding, April 30, 2007	3,737	$	13.17
Granted	371		12.00
Exercised	(77)		11.33
Forfeited	(114)		16.07
Outstanding, January 31, 2008	3,917		13.01
Exercisable, January 31, 2008	3,244	$	13.15

Stock options exercisable as of January 31, 2008 have a weighted-average contractual term remaining of 4.0 years and an aggregate intrinsic value of $3,281 based on the market value of the Company s Class A common stock as of January 31, 2008.

As a result of adopting SFAS No. 123(R) effective May 1, 2006, the Company recorded $166, $489, $436 and $942 of stock based compensation expense related to stock options and restricted stock units during the three and nine months ended January 31, 2007 and 2008, respectively. The Company also recorded $24, $28, $74 and $80 of stock based expense for the Company s Employee Stock Purchase Plan during the three and nine months ended January 31, 2007 and 2008, respectively. The total unrecognized compensation cost at January 31, 2008 related to unvested stock option and restricted stock unit awards was $2,931 and that future expense will be recognized over the remaining vesting period of the stock option and restricted stock unit awards which currently extends to fiscal year 2011. The weighted average remaining vesting period of those awards is 1.79 years.

The Company s calculations of stock-based compensation expense for the three and nine months ended January 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 nine months ended January 31, 2007 and 2008:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2007	2008	2007	2008
Stock Options:				
Expected life		6 years	6 years	6 years
Risk-free interest rate		3.32%	5.10%	4.41%
Expected volatility		37.83%	31.02%	37.83%
Stock Purchase Plan:				
Expected life	0.5 years	0.5 years	0.5 years	0.5 years
Risk-free interest rate	5.11%	3.32%	5.10%	4.81%
Expected volatility	33.50%	37.22%	32.87%	36.59%

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 nine months ended January 31, 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.

9. EARNINGS PER SHARE

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2007	2008	2007	2008
Numerator:				
Net (loss) income	$ (845)	$ (4,604)	$ 1,491	$ (32)
Less: preferred stock dividends	(902)		(2,674)	
Net loss applicable to common stockholders	$ (1,747)	$ (4,604)	$ (1,183)	$ (32)
Denominator:				
Number of shares outstanding, end of period:				
Class A common stock	24,329	24,448	24,329	24,448
Class B common stock	988	988	988	988
Effect of weighted average shares outstanding during period	(44)	(21)	(60)	(74)
Weighted average number of common shares used in basic EPS	25,273	25,415	25,257	25,362
Impact of potentially dilutive securities:				

Dilutive effect of options and contingent stock				
Weighted average number of common shares used in diluted EPS	25,273	25,415	25,257	25,362

For the three and nine months ended January 31, 2007, 7,957 and 7,312 common stock equivalents related to options, warrants and redeemable convertible preferred stock, respectively, were excluded from the calculation of dilutive shares since the inclusion of such shares would be anti-dilutive.

For the three and nine months ended January 31, 2008, 4,006 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.

10. COMPREHENSIVE (LOSS) 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 loss included in the accompanying balance sheets consists of changes in the fair value of the Company s interest rate swap and commodity hedge agreements. Also included in accumulated other comprehensive 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 (loss) income for the three and nine months ended January 31, 2007 and 2008 is as follows:

	Three Months Ended January31,		Nine Months Ended January 31,	
	2007	**2008**	**2007**	**2008**
Net (loss) income	$ (845)	$ (4,604)	$ 1,491	$ (32)
Other comprehensive loss	(708)	(1,673)	(506)	(1,959)
Comprehensive (loss) income	$ (1,553)	$ (6,277)	$ 985	$ (1,991)

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

	Three Months Ended January 31,					
	2007			2008		
	Gross	Tax effect	Net of Tax	Gross	Tax effect	Net of Tax
Changes in fair value of marketable securities during the period	$ (28)	$ (10)	$ (18)	$ 272	$ 95	$ 177
Change in fair value of interest rate derivatives and commodity hedges during period	(800)	(324)	(476)	(3,623)	(1,466)	(2,157)
Reclassification to earnings for interest rate derivatives and commodity hedge contracts	(360)	(146)	(214)	515	208	307
	$ (1,188)	$ (480)	$ (708)	$ (2,836)	$ (1,163)	$ (1,673)

	Nine Months Ended January 31,					
	2007			2008		
	Gross	Tax effect	Net of Tax	Gross	Tax effect	Net of Tax
Changes in fair value of marketable securities during the period	$ 108	$ 38	$ 70	$ 332	$ 116	$ 216
Change in fair value of interest rate derivatives and commodity hedges during period	50	21	29	(5,163)	(2,078)	(3,085)
Reclassification to earnings for interest rate derivatives and commodity hedge contracts	(1,019)	(414)	(605)	1,514	604	910
	$ (861)	$ (355)	$ (506)	$ (3,317)	$ (1,358)	$ (1,959)

11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company s strategy to hedge against fluctuations in the commodity prices of recycled paper is to enter into hedges to mitigate the variability in cash flows generated from the sales of recycled paper at floating prices, resulting in a fixed price being received from these sales. The Company was party to thirty-two commodity hedge contracts as of January 31, 2008. These contracts expire between February 2008 and December 2009. The Company has evaluated these hedges and believes that these instruments qualify for hedge accounting pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* (SFAS No. 133) as amended. As of January 31, 2008 the fair value of these hedges was an obligation of $2,179, with the net amount (net of taxes of $882) recorded as an unrealized loss in accumulated other comprehensive loss.

The Company is party to four separate interest rate swap agreements with four banks for a notional amount of $105,000. Three agreements, for a notional amount of $75,000, effectively fix the interest index rate on the entire notional amount at 4.4% from May 4, 2006 through May 5, 2008. The remaining agreement for a notional amount of $30,000 effectively fixes the interest rate index at 4.47% from November 4, 2007 through May 7, 2009. These agreements are specifically designated to interest payments under the Company s term B loan and are accounted for as effective cash flow hedges pursuant to SFAS No. 133.

On August 22, 2007, the Company entered into two separate interest rate swap agreements for a notional amount of $75,000, which effectively fix the interest rate index at 4.68% from May 6, 2008 through May 6, 2009. These agreements will be specifically designated to interest payments under the Company s term B loan and will be accounted for as effective cash flow hedges pursuant to SFAS No. 133.

As of January 31, 2008, the fair value of the Company s interest rate swaps was an obligation of $2,570, with the net amount (net of taxes of $1,040) recorded as an unrealized loss in accumulated other comprehensive loss.

The Company is party to two separate interest rate zero-cost collars with two banks for a notional amount of $60,000. The collars have an interest index rate cap of 6.00% and an interest index rate floor of approximately 4.48% and are effective from November 6, 2006 through May 5, 2009. These agreements are specifically designated to interest payments under the revolving credit facility and are accounted for as effective cash flow hedges pursuant to SFAS No. 133. As of January 31, 2008, the fair value of these collars was an obligation of $1,381, with the net amount (net of taxes of $558) recorded as an unrealized loss in accumulated other comprehensive loss.

The Company terminated an interest rate collar in the notional amount of $20,000 during the three months ended July 31, 2007. The Company paid net proceeds of $18, which was recorded to accumulated other comprehensive loss and is being amortized against interest expense over the remaining original term of the contract.

12. DISCONTINUED OPERATIONS

During the fourth quarter of fiscal year 2007, the Company completed the sale of the assets of the Holliston Transfer Station in the South Eastern region. The transaction required discontinued operations treatment under SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (SFAS No.144); therefore the operating results of the Holliston Transfer Station have been reclassified from continuing to discontinued operations for the three and nine months ended January 31, 2007.

During the quarter ended October 31, 2007, the Company completed the sale of the Company s Buffalo, N.Y. transfer station, hauling operation and related equipment in the Western region for proceeds of $4,836 including a note receivable for $2,500 and expected net cash proceeds of $2,336 subject to a true up of working capital. The transaction required discontinued operations treatment under SFAS No. 144; therefore the operating results have been reclassified from continuing to discontinued operations for the three and nine months ended January 31, 2007. Also in connection with the discontinued operations treatment, the loss (net of tax) from the sale amounting to $437 has been classified as a loss on disposal of discontinued operations.

Revenues and loss before income taxes attributable to discontinued operations for the three and nine months ended January 31, 2007 and 2008 were as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2007	**2008**	**2007**	**2008**
Revenue	$ 4,654	$	$ 15,192	$ 4,845
Loss before income tax benefit	$ (876)	$	$ (2,159)	$ (1,855)

The Company has recorded contingent liabilities associated with these divestitures amounting to approximately $1,183 at January 31, 2008. A summary of discontinued operations on the consolidated balance sheets at April 30, 2007 and January 31, 2008 is as follows:

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	April 30, 2007	January 31, 2008
Accounts receivable - trade, net	$ 798	$
Prepaid expenses	41	
Inventory	70	
Other current assets	2	430
Current assets of discontinued operations	$ 911	$ 430
Property, plant and equipment, net	$ 4,344	$
Goodwill	1,615	
Other non - current assets		
Non - current assets of discontinued operations	$ 5,959	$
Accounts payable	$ 931	$ 268
Accrued payroll and related expenses	66	
Other accrued liabilities	408	
Current liabilities of discontinued operations	$ 1,405	$ 268

13. SEGMENT REPORTING

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131), 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 North Eastern, South Eastern, Central, Western, FCR Recycling and Other. The Company s revenues in the North Eastern, South Eastern, Central and Western segments are derived mainly from one industry segment, which includes the collection, transfer, recycling and disposal of non-hazardous solid waste. The North Eastern region also includes Maine Energy, which generates electricity from non-hazardous solid waste. The Company s revenues in the FCR Recycling segment are derived from integrated waste handling services, including processing and recycling of paper, metals, aluminum, plastics and glass. Ancillary operations, major customer accounts, discontinued operations and earnings from equity method investees, are included in Other.

Three Months Ended January 31, 2007	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 28,458	$ 15,341	$ 29,018	$ 23,987	$ 25,896
Depreciation and amortization	4,882	2,127	4,544	3,490	1,408
Operating income	777	(1,001)	2,747	3,360	3,956
Total assets	$ 190,855	$ 146,378	$ 150,442	$ 162,733	$ 94,289

Three Months Ended January 31, 2007	Other	Total
Outside revenues	$ 6,139	$ 128,839
Depreciation and amortization	509	16,960
Operating income	(701)	9,138
Total assets	$ 106,489	$ 851,186

Three Months Ended January 31, 2008	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 28,327	$ 16,357	$ 28,938	$ 25,172	$ 34,210
Depreciation and amortization	5,903	2,740	4,159	4,018	1,755
Operating income	(366)	(1,292)	1,703	1,636	6,096
Total assets	$ 176,535	$ 128,603	$ 151,080	$ 178,643	$ 98,458

Three Months Ended January 31, 2008	Other	Total
Outside revenues	$ 8,355	$ 141,359
Depreciation and amortization	480	19,055
Operating income	(498)	7,279
Total assets	$ 96,822	$ 830,141

Nine Months Ended January 31, 2007	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 89,501	$ 54,170	$ 97,275	$ 76,513	$ 74,081
Depreciation and amortization	14,325	7,622	14,889	11,123	4,209
Operating income	5,584	(2,070)	11,317	9,858	10,250
Total assets	$ 190,855	$ 146,378	$ 150,442	$ 162,733	$ 94,289

Nine Months Ended January 31, 2007	Other	Total
Outside revenues	$ 18,097	$ 409,637
Depreciation and amortization	1,534	53,702
Operating income	(2,305)	32,634
Total assets	$ 106,489	$ 851,186

Nine Months Ended January 31, 2008	North Eastern Region	South Eastern Region	Central Region	Western Region	FCR Recycling
Outside revenues	$ 91,328	$ 51,332	$ 98,686	$ 81,651	$ 96,034
Depreciation and amortization	18,051	7,471	14,480	12,594	5,121
Operating income	1,038	(3,429)	12,922	10,076	17,032
Total assets	$ 176,535	$ 128,603	$ 151,080	$ 178,643	$ 98,458

Nine Months Ended January 31, 2008	Other	Total
Outside revenues	$ 23,768	$ 442,799
Depreciation and amortization	1,461	59,178
Operating income	(1,228)	36,411
Total assets	$ 96,822	$ 830,141

Amounts of the Company s total revenue attributable to services provided are as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2007 (1)	2008	2007 (1)	2008
Collection	$ 62,132	$ 64,649	$ 198,983	$ 202,981
Landfill / disposal facilities	24,183	23,979	82,590	82,147
Transfer	4,948	5,606	18,774	20,644
Recycling	37,576	47,125	109,290	137,027
Total revenues	$ 128,839	$ 141,359	$ 409,637	$ 442,799

(1) Revenue attributable to services provided for the three and nine months ended January 31, 2007 has been revised to conform with the classification of revenue attributable to services provided in the current fiscal year.

14. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The Company entered into an agreement in July 2000 with Louisiana-Pacific Corporation to combine their respective cellulose insulation businesses into a single operating entity, GreenFiber, under a joint venture agreement effective August 1, 2000. The Company s investment in GreenFiber amounted to $33,054 and $30,570 at April 30, 2007 and January 31, 2008, respectively. The Company accounts for its 50% ownership in GreenFiber under the equity method of accounting.

Summarized financial information for GreenFiber is as follows:

		April 30, 2007		January 31, 2008
Current assets	$	25,432	$	26,595
Noncurrent assets		70,955		70,451
Current liabilities		18,371		17,546
Noncurrent liabilities	$	11,833	$	