

CASELLA WASTE SYSTEMS INC
Form 10-K
June 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended April 30, 2012

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

03-0338873
(I.R.S. Employer
Identification No.)

25 Greens Hill Lane, Rutland, VT
(Address of principal executive offices)

05701
(Zip Code)

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

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

Title of each class
Class A common stock, \$.01 per share par value

Name of each exchange on which registered
The NASDAQ Stock Market LLC
(NASDAQ Global Select Market)

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. 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 (§232.405 of this chapter) 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 checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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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 the 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

The aggregate market value of the common equity held by non-affiliates of the registrant, based on the last reported sale price of the registrant's Class A common stock on the NASDAQ Stock Market at the close of business on October 31, 2011 was \$162,961,956. The Company does not have any non-voting common stock outstanding.

There were 25,996,371 shares of Class A common stock, \$.01 par value per share, of the registrant outstanding at May 31, 2012. There were 988,200 shares of Class B common stock, \$.01 par value per share, of the registrant outstanding at May 31, 2012.

Documents Incorporated by Reference

Items 10, 11, 12, 13 and 14 of Part III (except for information required with respect to executive officers of the Company, which is set forth under Part I "Business - Executive Officers of the Company" and with respect to certain equity compensation plan information which is set forth under Part III "Equity Compensation Plan Information") have been omitted from this Annual Report on Form 10-K because the Company expects to file with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, a definitive proxy statement pursuant to Regulation 14A. The information required by Items 10, 11, 12, 13 and 14 of Part III of this report, which will appear in the definitive proxy statement, is incorporated by reference into this Annual Report on Form 10-K.

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ANNUAL REPORT ON FORM 10-K

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains or incorporates a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended (the Exchange Act), including statements regarding:

- expected future revenues, operations, expenditures and cash needs;

- fluctuations in the commodity pricing of our recyclables, increases in landfill tipping fees and fuel costs and general economic and weather conditions;

- projected future obligations related to capping, closure and post-closure costs of our existing landfills and any disposal facilities which we may own or operate in the future;

- expected liquidity and financing plans;

- our ability to use our net operating losses and tax positions;

- the projected development of additional disposal capacity or expectations regarding permits for existing capacity;

- the recoverability or impairment of any of our assets or goodwill;

- estimates of the potential markets for our products and services, including the anticipated drivers for future growth;

- sales and marketing plans or price and volume assumptions;

- the outcome of any legal or regulatory matter;
- potential business combinations or divestitures; and
- projected improvements to our infrastructure and impact of such improvements on our business and operations.

In addition, any statements contained in or incorporated by reference into this report that are not statements of historical fact should be considered forward-looking statements. You can identify these forward-looking statements by the use of the words believes , expects , anticipates , plans , may , will , would , intends , estimates and other similar expressions, whether in the negative or affirmative. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate as well as management s beliefs and assumptions, and should be read in conjunction with our consolidated financial statements and notes thereto. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in the forward-looking statements made. The occurrence of the events described and the achievement of the expected results depends on many events, some or all of which are not predictable or within our control. Actual results may differ materially from those set forth in forward-looking statements.

There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. These risks and uncertainties include, without limitation, those detailed in Item 1A, Risk Factors of this Annual Report on Form 10-K. We explicitly disclaim any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise, except as otherwise required by law.

ITEM 1. BUSINESS

Overview

Casella Waste Systems, Inc. is a vertically-integrated solid waste, recycling, and resource management services company. We provide resource management expertise and services to residential, commercial, municipal, and industrial customers, primarily in the areas of solid waste collection, transfer, disposal, recycling, and organics services. We operate in six states - Vermont, New Hampshire, New

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York, Massachusetts, Maine, and Pennsylvania, with our headquarters being located in Rutland, Vermont. We manage our solid waste operations on a geographic basis through two regional operating segments, the Eastern and Western regions, each of which includes a full range of solid waste services, and our larger-scale recycling operations and commodity brokerage operations through our Recycling segment. Ancillary operations, major customer accounts, discontinued operations and earnings from equity method investees are included in our Other segment.

As of May 31, 2012, we owned and/or operated 32 solid waste collection operations, 31 transfer stations, 17 recycling facilities, nine Subtitle D landfills, four landfill gas-to-energy facilities, one landfill permitted to accept construction and demolition, or C&D, materials and one waste-to-energy facility. We also hold 50% membership interests in US GreenFiber LLC (GreenFiber), a joint venture that manufactures, markets and sells cellulose insulation made from recycled fiber, and Tompkins County Recycling LLC (Tompkins), a joint venture that operates a material recovery facility (MRF) located in Tompkins County, New York and processes and sells commodities delivered to the facility, a 51% membership interest in Casella-Altela Regional Environmental Services, LLC (CARES), a joint venture that develops, owns and operates water treatment projects for the natural gas drilling industry in Pennsylvania and New York and can also be used to treat leachate at our landfills, a 19.9% ownership interest in Evergreen National Indemnity Company (Evergreen), a surety company which provides surety bonds to secure contractual performance for municipal solid waste, or MSW, collection contracts and landfill closure and post-closure obligations, an 11.9% membership interest in AGreen Energy LLC (AGreen), a joint venture that brings advanced nutrient management, renewable energy, and water technologies to small and medium sized farms, a 6.2% ownership interest RecycleRewards, Inc. (RecycleRewards), a company that markets an incentive based recycling service, and a 6.3% ownership interest in GreenerU, Inc. (GreenerU), a company that delivers energy and sustainability solutions to the college, university and preparatory school markets.

Strategy

Our goal is to build a sustainable and profitable company by transforming traditional solid waste streams into renewable resources. We believe that global competition for limited resources is creating significant business opportunities for companies that can sustain and extract value in the form of energy and raw materials from resources previously considered an irretrievable waste stream. Since the opening of our first recycling facility in Vermont in 1977, our business strategy has been firmly tied to creating a sustainable resource management model and we continue to be rooted in these same tenets today. We strive to create long-term value for all stakeholders, which include customers, employees, communities, and shareholders, by helping them manage their resources in a sustainable and financially sound manner.

Our key objective is to maximize long-term shareholder value through a combination of financial performance and strategic asset positioning. Annually, we complete a comprehensive strategic planning process to recalibrate our strategic objectives and current asset mix against our current market environment. This process helps the management team allocate resources to a range of business opportunities to maximize long-term financial returns and competitive positioning. As part of the strategic review, business activities have been classified into four categories: Core operations , Catalyst activities , Complementary activities , or Strategic Non-fits.

Core operations are the primary drivers of our long-term financial success, and include our collection, landfill, and MSW processing operations. These are operations that we would look to expand. Catalyst activities are businesses or investments that enhance growth in the Core operations, such as sludge processing or water treatment. Complimentary activities are businesses or investments intended to leverage existing assets to improve performance, such as landfill gas-to-energy facilities. We would not look to grow Complimentary activities unless it was to further enhance returns on existing assets or to take advantage of existing assets and infrastructure to support growth in our Core operations. Strategic Non-fits are activities that no longer enhance or complement the Core operations and may be divested at the appropriate time, such as Maine Energy Recovery Company (Maine Energy) or our investments in GreenFiber and RecycleRewards.

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In fiscal year 2013, our strategy will remain similar to that of fiscal year 2012, with a focus on improving performance of base operations and increasing cash flow generation through: (1) profitable revenue growth and pricing initiatives; (2) cost controls and operating efficiencies; (3) landfill development initiatives; and (4) balance sheet management.

Profitable revenue growth and pricing initiatives

In late fiscal year 2011, we reorganized the solid waste sales organization by moving revenue generation and sales force reporting responsibility to the regional and divisional management teams, implementing customer profitability analytical tools and realigning the sales incentive compensation programs.

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By placing revenue generation and customer responsibility with local teams, each team is able to more quickly react to local conditions, cross-sell customers with differentiated resource transformation solutions (e.g., Zero-Sort Recycling® and organics offerings), help to steward local marketing programs and retain more existing business. The shared services model discussed below has helped to create additional margin for these managers, so they can focus more of their time on revenue generation.

Our team has developed and implemented a comprehensive customer profitability tool that allows our pricing team, division managers, and sales force to calculate the profitability of all of our collection customers. This tool, combined with our knowledge of local markets, has enabled our team to begin addressing customer pricing at a granular level, implementing larger price increases for customers who do not meet our return metrics and smaller price increases on higher margin customers to cover increased cost inflation.

To implement these pricing programs, we changed the sales incentive compensation structure in late fiscal year 2011. Commissions are now directly tied to the profitability of each sales person's book of business. By making this change, we incentivized our sales people to price customers appropriately, to work to retain existing high margin customers and to work with operating teams to reduce costs.

These pricing and compensation initiatives worked well and we recognized 2.6% price growth in the collection line-of-business for fiscal year 2012.

As part of the restructuring of our sales efforts, we moved price increases from an annual process to a core process that a divisional team examines frequently. We believe that this move to a core process positions us well going forward to continue to yield pricing of 50 basis points above the consumer price index.

Landfill sales and major accounts sales continue to be managed centrally in order to optimize cross-selling and internalization benefits. Over the past two years, we have increased our sales efforts in the major accounts business. While the major accounts business negatively impacts overall company margins, this business generates positive free cash flow because it requires little to no direct capital investment. This business is focused on winning new contracts that can be serviced, either directly by us, or through a contracted third party.

The Recycling operating segment derives revenue from a combination of commodity sales and tipping fees paid for material processing. Fluctuations in commodity pricing are managed by a number of risk mitigation strategies including: financial hedging instruments, floor prices, forward sales contracts, index purchases, floating customer revenue shares and tipping fees. Our goal is to offset the variability in commodity revenues with tipping fees to maintain stable cash flows and returns across a spectrum of commodity pricing. This is achieved by sharing commodity revenues with municipal partners and lowering tipping fees in high commodity price environments, while lowering commodity revenue shares and increasing tipping fees in lower priced environments.

During fiscal year 2012, our Recycling operating segment had strong same store volume increases as residential and commercial customers continued to adopt our Zero-Sort Recycling programs. Zero-Sort Recycling makes it easier for customers to recycle, thereby driving recycling participation and yields. This growth far outpaced the regional economy and further validates our market strategy to differentiate our service offerings through resource renewal options such as Zero-Sort Recycling.

Cost controls and operating efficiencies

We continue to identify and implement best practices throughout the entire organization through standardized continuous improvement programs. The goals of these programs are to enhance customer service, increase safety for employees and reduce operating and administrative costs. We have implemented continuous improvement programs in safety, productivity, maintenance, environmental compliance, procurement, customer care and back-office functions.

In fiscal year 2012, we expanded our cost control efforts from the previous year, with a focus on reducing back-office expenses further through the new shared services center, reducing expenses through the consolidation of two of our solid waste operating regions into the new Western region and through fleet efficiency programs. We plan to continue each of these efforts in fiscal year 2013.

We launched a new shared services center in late fiscal year 2010, with the goals of improving customer care, simplifying customer interactions, improving our sales performance on standardized products such as roll-off containers, implementing new streamlined information technology tools, consolidating decentralized functions into one center and reducing costs. The initial focus on the shared services model was to centralize customer care and improve the service level to our customers. By the end of fiscal year 2012, we had

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integrated 100% of our hauling divisions into the customer care center and had substantially achieved the performance goals that we set for the center. Our customer care, sales/marketing, operating, and information technology teams have worked to introduce a number of customer centric tools to more effectively manage our customer relationships.

In fiscal year 2011, we began the second phase of the shared services center transition by consolidating all of our cash application functions into the center and introducing the necessary systems and technologies to automate the majority of our customer payments. In fiscal year 2012, we successfully consolidated accounts payable, collections and information technology operations into the center.

The fleet efficiency programs focus on dynamic fleet routing, on-board computers, front-load conversions, container upsizing, long-haul optimization and driver incentive pay with the purpose of reducing labor costs and operating hours. In fiscal year 2012, we introduced on-board computer technology to roughly half of our locations and we plan to roll out the system to our remaining sites in fiscal year 2013. The on-board computer systems help us to dynamically route our trucks to continuously improve route structure, while automatically providing critical service time and weight data for our customer profitability analytics.

Landfill Development Initiative

One of our long term goals has been to add disposal capacity to the solid waste franchise both to strengthen market position and to create a sustainable long-term foundation for the business.

We have made great strides in executing the landfill development growth strategy by adding significant total and annual permitted disposal capacity within our solid waste footprint, primarily through operating contracts for publicly-owned landfills. Since 2003, total and annual disposal capacity additions resulted from: (1) the addition of five landfills (Southbridge landfill in Massachusetts, Ontario County landfill in New York, Juniper Ridge landfill in Maine, Chemung County landfill in New York, and, most recently, McKean County landfill in Pennsylvania); and (2) permit expansions at existing landfills.

In fiscal year 2011, we acquired the McKean County, Pennsylvania landfill out of bankruptcy proceedings. This landfill adds important capacity to our Western region and will allow us to better balance annual tonnages against landfill permit levels.

Since April 30, 2003, we have added 88.4 million tons of permitted and permittable total landfill capacity to the solid waste business, bringing the total landfill capacity to 118.0 million tons as of April 30, 2012. During this same period, we also added 1.8 million tons of annual disposal capacity, bringing the total to 3.2 million tons as of April 30, 2012.

In fiscal year 2012, we had important positive outcomes in legal and administrative proceedings at three of our landfills that position us well to improve cash flows and returns:

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- In November 2011, we received a minor modification from the New York Department of Environmental Conservation to increase the annual permit at the Chemung County landfill by sixty thousand tons per year to approximately 0.3 million tons per year. This site is well positioned from a transportation standpoint from New York City and also is located close to the Marcellus Shale drilling activity in northern Pennsylvania.
- In January 2012, the Town of Bethlehem, New Hampshire voters approved a zoning change and resultant settlement of on-going litigation, allowing an expansion of approximately 1.7 million tons at our North Country Environmental Services landfill.
- In February 2012, the Massachusetts Department of Environmental Protection issued a permit to increase the annual limit at the Southbridge Sanitary Landfill by approximately 0.1 million tons per year to 0.3 million tons per year of MSW. Also in February, the Massachusetts Supreme Judicial Court reissued an opinion dismissing an appeal filed by several 10-citizen groups contesting the 2008 Site Assignment for Southbridge Sanitary Landfill. The appeal was dismissed on its merits and the court stated that their decision brings final resolution to the case. The Southbridge landfill is well positioned in the capacity constrained Massachusetts market.

We remain focused on increasing free cash flow and generating an enhanced return on invested capital at the landfill sites by maximizing annual permitted capacity and optimizing flows of waste across the northeast to obtain better integration and asset profitability.

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Balance Sheet Management

To further improve our free cash flow and operating performance, we are focused on balance sheet management, including debt refinancing, prudent deployment of capital, selective acquisitions and divestitures.

In fiscal year 2013, we plan to refinance our 11% senior second lien notes due July 15, 2014 (the Second Lien Notes). While the success of this refinancing is highly dependent upon the health of the broader capital markets, we believe that we can reduce our interest costs with a new lower cost debt instrument.

Our deployment of capital has evolved with our business strategy over the past five years from an emphasis on growth investments, primarily in long-term landfill capacity, to an approach that focuses on free cash flow generation from base operations with limited investments in high return resource transformation solutions.

From fiscal year 2003 to fiscal year 2007, we invested approximately \$177.5 million of capital to acquire and develop strategically located landfill capacity. Capital spending was elevated during this period as we built-out 25- to 30-year infrastructure and met contractual obligations associated with operating leases at certain of the landfill facilities. The heightened growth capital investment for existing landfill development projects was largely completed by the end of fiscal year 2007 when the focus shifted to extracting appropriate returns from the invested capital. The landfill capacity added to the business is the foundation of today's integrated solid waste strategy, and these sites will serve as a platform for emerging resource transformation programs into the future.

We shifted our capital strategy over the past several years to focus on three main areas: (1) improving the mix of base operations through divestitures and acquisitions; (2) implementing operating programs that improve capital efficiency and asset utilization; and (3) pursuing select strategic investment opportunities in waste transformation and resource optimization. We remain focused on these three goals in fiscal year 2013.

After the divestiture of our non-integrated recycling assets and select intellectual property assets in late fiscal year 2011, we continue to explore divestiture opportunities. As discussed earlier, we have three assets - Maine Energy, our investment in GreenFiber, and our investment in RecycleRewards - that we classify as strategic non-fits that we may divest to improve operating performance and reduce leverage. On March 30, 2012, we entered into a Memorandum of Understanding with the City of Biddeford, pursuant to which we agreed on a tentative sale of Maine Energy to the City of Biddeford, subject to agreement on final terms and documentation, to be negotiated in good faith, satisfaction of conditions precedent and closing.

Over the past several years, we have selectively invested growth capital in high-return opportunities that enhance our ability to support emerging customer and market needs in waste transformation and resource optimization. The investment strategy seeks to leverage core competencies in materials processing, organics, and clean energy to create additional value from the waste stream. We believe that these investments in Zero-Sort Recycling, landfill gas-to-energy, and organic waste solutions position us well for the evolution of the industry from waste management to resource management.

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As a key strategy to improve existing asset utilization and to advance our resource transformation strategy, we have invested in five Zero-Sort Recycling facilities. We branded our recycling process to differentiate the high quality end-use commodities produced as the result of our innovative approach. With Zero-Sort Recycling, a customer can commingle all of their recyclables (paper, cardboard, plastics, metals, and glass) into a right sized residential container or commercial dumpster. By making it easier for a customer to recycle, we increase recycling participation and yields, thereby increasing volumes through the Zero-Sort Recycling facilities and increasing asset utilization.

We now have landfill gas-to-energy facilities at six of our landfills, with four of the landfill gas-to-energy facilities owned and operated by us and two owned and operated by partners. As discussed earlier, we consider the landfill gas-to-energy facilities to be complementary to our core landfill assets because they extract additional value from the landfill methane and support our low-emission landfill model.

Our organics team has been working to develop and/or partner with firms that have developed innovative approaches to deriving incremental value from the organic portion of the waste stream. We recently introduced our Earthlife® soils products into the retail market, and we continue to offer a full array of recycled organic fertilizers, composts, and mulches that help our customers close the loop with organic waste streams. We have also recently invested in and partnered with AGreen, an innovative firm that is building small anaerobic digesters in the Northeast to generate electricity from farm and food waste streams.

Solid Waste Operations

Our solid waste operations comprise a full range of non-hazardous solid waste services, including collections, transfer stations, MRFs and disposal facilities.

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Collections. A majority of our commercial and industrial collection services are performed under one- to three-year service agreements, with prices and fees determined by such factors as collection frequency, type of equipment and containers furnished, type, volume and weight of solid waste collected, distance to the disposal or processing facility and cost of disposal or processing. Our residential collection and disposal services are performed either on a subscription basis (with no underlying contract) with individuals, or through contracts with municipalities, homeowner associations, apartment building owners or mobile home park operators.

Transfer Stations. Our transfer stations receive, compact and transfer solid waste collected primarily by our various residential and commercial collection operations, for transport to disposal facilities by larger vehicles. We believe that transfer stations benefit us by: (1) increasing the size of the wastesheds which have access to our landfills; (2) reducing costs by improving utilization of collection personnel and equipment; and (3) helping us build relationships with municipalities and other customers by providing a local physical presence and enhanced local service capabilities.

Material Recovery Facilities. Our MRFs receive, sort, bale and resell recyclable materials originating from the MSW stream, including newsprint, cardboard, office paper, containers and bottles. We operate six MRFs in geographic areas served by our collection divisions. Revenues are received from municipalities and customers in the form of processing fees, tipping fees and commodity sales. Our MRFs, two of which are located in Vermont, two in Massachusetts and two in New York, are large-scale, high-volume facilities that process over 0.4 million tons per year of recycled materials delivered to them by municipalities and commercial customers under long-term contracts. We also operate MRFs as an integral part of our core solid waste operations, which generally process recyclables collected from our various residential collection operations.

Disposal Facilities. We dispose of solid waste at our landfills and at our waste-to-energy facility.

Landfills. The following table (in thousands) reflects the aggregate landfill capacity and airspace changes, in tons, as of April 30, 2012, 2011 and 2010, for landfills we operated during the fiscal years then ended:

| | April 30, 2012 | | | April 30, 2011 | | | April 30, 2010 | | |
|---|--|--|--------------------------|--|--|--------------------------|--|--|--------------------------|
| | Estimated Remaining Permitted Capacity (1) | Estimated Additional Permittable Capacity (1)(2) | Estimated Total Capacity | Estimated Remaining Permitted Capacity (1) | Estimated Additional Permittable Capacity (1)(2) | Estimated Total Capacity | Estimated Remaining Permitted Capacity (1) | Estimated Additional Permittable Capacity (1)(2) | Estimated Total Capacity |
| Balance, beginning of year | 41,678 | 79,194 | 120,872 | 36,411 | 66,661 | 103,072 | 38,244 | 59,673 | 97,917 |
| Acquisitions, divestitures and closures | | | | 2,392 | | 2,392 | | | |
| New expansions pursued(3) | | | | | 7,255 | 7,255 | | 8,728 | 8,728 |
| Permits granted(4) | | | | 1,124 | (1,124) | | 174 | (174) | |
| Airspace consumed | (3,238) | | (3,238) | (3,257) | | (3,257) | (3,074) | | (3,074) |
| Changes in engineering estimates(5) | 1,153 | (779) | 374 | 5,008 | 6,402 | 11,410 | 1,067 | (1,566) | (499) |
| Balance, end of year | 39,593 | 78,415 | 118,008 | 41,678 | 79,194 | 120,872 | 36,411 | 66,661 | 103,072 |

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(1) We convert estimated remaining permitted capacity and estimated additional permissible capacity from cubic yards to tons generally by assuming a compaction factor equal to the historic average compaction factor applicable to the respective landfill over the last three fiscal years. In addition to a total capacity limit, certain permits place a daily and/or annual limit on capacity.

(2) Represents capacity which we have determined to be permissible in accordance with the following criteria: (i) we control the land on which the expansion is sought; (ii) all technical siting criteria have been met or a variance has been obtained or is reasonably expected to be obtained; (iii) we have not identified any legal or political impediments which we believe will not be resolved in our favor; (iv) we are actively working on obtaining any necessary permits and we expect that all required permits will be received; and (v) senior management has approved the project.

(3) The increase in fiscal year 2010 was associated with expansions at our Hyland and Chemung landfills, partially offset by a reduction of expansions pursued at the Ontario landfill site. In our fiscal year 2011, the increase was partially attributable to new expansions pursued at our Waste USA and NCES landfill sites.

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(4) The increase in permitted airspace capacity in fiscal year 2011 was the result of permits received at our NCES landfill site.

(5) The increase in airspace capacity in fiscal year 2011 was the result of a positive compaction effect due to a change in waste mix inside of the three year average, which is primarily the result of drill-cutting materials received at our Western region landfills.

NCES. The North Country Environmental Services (NCES) landfill in Bethlehem, New Hampshire serves the wastesheds of New Hampshire and certain Vermont, Maine and Massachusetts wastesheds. The facility is currently permitted to accept MSW and C&D material. Since the purchase of this landfill in 1994, we had experienced opposition from the Town of Bethlehem (the Town) through the enactment of restrictive local zoning and planning ordinances. However, based on a series of agreements reached with the Town during calendar year 2011, which agreements were approved at a Town meeting on January 17, 2012, we have received all approvals from the Town necessary to operate the landfill over an expanded footprint for an extended period of time (estimated at 20 years or more), subject to periodic approval of minor permit modifications from the New Hampshire Department of Environmental Services. All litigation between the Town and us was dismissed with prejudice, upon joint motion of the parties. See Item 3, Legal Proceedings, of this Form 10-K.

Waste USA. The Waste USA landfill in Coventry, Vermont serves the major wastesheds throughout Vermont. The landfill is permitted to accept residential and commercially generated MSW, pre-approved sludges, soils, and C&D material. Since our purchase of this landfill in 1995, we have expanded its capacity, which we expect to last through approximately fiscal year 2050.

Clinton County. The Clinton County landfill is located in Schuyler Falls, New York and serves the wastesheds of Clinton, Essex, Warren, Washington and Saratoga Counties in New York, and certain contiguous Vermont wastesheds. This landfill is permitted to accept residential and commercially generated MSW, C&D material and special waste which is approved by regulatory agencies. In fiscal year 2009, the facility received a permit for a multi-year landfill expansion, which will provide considerable additional volume. The Clinton County site commenced operations of a landfill gas-to-energy facility in fiscal year 2009 and has the capacity to generate 6.4mW/hr of energy.

Juniper Ridge. On February 5, 2004, we completed transactions with the State of Maine and Georgia-Pacific Corporation, pursuant to which the State of Maine took ownership of the landfill located in West Old Town, Maine, formerly owned by Georgia Pacific, and we became the operator of that facility under a 30-year operating and services agreement between us and the State of Maine. The site is located on approximately 780 acres, with 68 acres currently dedicated for waste disposal. The site has sufficient acreage to permit the additional airspace required for the term of the 30-year operating and services agreement. The site is currently permitted to take waste originating from Maine, consisting of C&D material, ash from MSW incinerators and fossil fuel boilers, front end processed residuals and bypass MSW from waste-to-energy facilities, treatment plant sludge and biosolids, sandblast grits, oily waste and oil spill debris, and other approved special wastes from within Maine. There are no annual tonnage limitations at Juniper Ridge landfill.

Southbridge. On November 25, 2003, we acquired Southbridge Recycling and Disposal Park, Inc. (Southbridge Recycling and Disposal). Southbridge Recycling and Disposal owns a 13-acre recycling facility and has a contract with the Town of Southbridge, Massachusetts to operate a 146-acre landfill currently permitted to accept residuals from the recycling facility and MSW. In June 2008, the Southbridge, Massachusetts Board of Health modified the landfill site assignment to allow the site to receive MSW from communities other than Southbridge and to increase the annual disposal volume from approximately 0.2 million tons per year to approximately 0.4 million tons per year. In May 2010, we received a permit from the Massachusetts Department of Environmental Protection which allowed the facility to accept approximately 0.2 million tons per year in total of C&D material and MSW without regard to the geographic origin of the waste. The Board of Health decision was appealed by opponents of the landfill and was decided in our favor by the Massachusetts Supreme Judicial Court in

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February 2012. See Item 3, Legal Proceedings, of this Form 10-K. In February 2012, we received a permit to accept 0.3 million tons of waste per year at the landfill.

Maine Energy Waste-to-Energy Facility. We own a waste-to-energy facility, Maine Energy, which generates electricity by processing non-hazardous solid waste. Maine Energy provides us with important additional disposal capacity and generates power for sale. The facility receives MSW under long-term waste handling agreements and raw materials from commercial and private waste haulers and municipalities with short-term contracts, as well as from our collection operations. Maine Energy is contractually required to sell all of the electricity generated at its facility to Nextera Energy Power Marketing, LLC, an electric utility, and guarantees 100% of its electricity generating capacity to FPL Energy Power Marketing, Inc., both pursuant to a contract that was amended to extend its term to December 31, 2014 and is based on day ahead electricity prices. On March 30, 2012, we entered into a Memorandum of Understanding with the City of Biddeford, pursuant to which we agreed on a tentative sale of Maine Energy to the City

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of Biddeford, subject to agreement on final terms and documentation, to be negotiated in good faith, satisfaction of conditions precedent and closing.

Hyland. The Hyland landfill, located in Angelica, New York, serves certain watersheds located throughout western New York. The facility is permitted to accept residential, commercial and MSW, C&D material and special waste. The site consists of approximately 624 acres, which represents considerable additional expansion capabilities. A permit for future expansion was issued in December 2006 for approximately 11 million cubic yards and we are currently seeking an additional 9.9 million cubic yards of permissible capacity. The landfill is currently permitted to accept approximately 0.3 million tons annually and has a minor modification pending with the New York State Department of Environmental Conservation to increase the annual capacity by 49%. In August 2008, the Hyland site commenced operation of a landfill gas-to-energy facility which has the capacity to generate 4.8 mW/hr of energy. The Hyland landfill benefits from waste in the form of drill cuttings from the Marcellus Shale natural gas extractions, which in fiscal year 2012 made up approximately 26% of the waste accepted at Hyland.

Ontario. We entered into a 25-year operation, management and lease agreement with the Ontario County Board of Supervisors for the Ontario County landfill, which is located in the Town of Seneca, New York. We commenced operations on December 8, 2003. This landfill serves the central New York watershed and is strategically situated to accept long haul volume from both eastern and downstate New York markets. The site consists of approximately 380 total acres with additional potential expansions to allow for acceptance of an estimated total of 12.2 million tons. During fiscal year 2008 we successfully requested and received a minor modification to increase our annual allowance of placed tons over the original permit of 0.6 million tons to 0.9 million tons. The Ontario site also houses a single stream recycling facility and a landfill-gas-to-energy plant, which has the capacity to generate 6.4 mW/hr of energy.

Hakes. The Hakes C&D landfill in Campbell, New York is permitted to accept only C&D material. The landfill serves the rural watersheds of western New York. During fiscal year 2008, we successfully requested and received a minor modification to increase our annual allowance of placed tons over the original permit of 0.3 million tons to 0.5 million tons.

Chemung. We entered into a 25-year operation, management and lease agreement with Chemung County for certain facilities located within the county utilized in the collection, management and disposal of solid waste, including the Chemung County landfill, which is located in the Town of Chemung, New York. We commenced operations on September 19, 2005. This landfill serves the central and southern tier New York watersheds and is strategically situated to accept long haul volume from both eastern and downstate markets. The site consists of approximately 38 active acres permitted to accept 0.1 million tons of MSW per year and 12.8 active acres permitted to accept approximately twenty thousand tons of C&D material per year. The landfill has further expansion capabilities of an additional 25 acres and an estimated 6.4 million tons. In addition, in April 2010 we successfully negotiated an amendment to the management and lease agreement allowing the annual tonnage to be increased to 0.4 million tons per year, subject to regulatory approval. In September 2011, we were successful in securing a minor modification to the existing permit to allow for an additional annual increase of sixty-thousand tons of MSW.

McKean. We acquired the McKean landfill, which was subject to bankruptcy reorganization, in February 2011. This facility is located in Mount Jewitt, McKean County, Pennsylvania and serves the Pennsylvania northern tier and New York southern tier watersheds. The facility consists of 131 acres, of which 52.1 acres are dedicated to landfilling, and has a daily permitted capacity to receive one thousand tons. The site has more than 3 million cubic yards of remaining airspace with future expansion capacity for an additional 30 million cubic yards. Also, the site has the capability to accept waste delivered by rail, including a daily limit of five thousand tons. We expect this site to benefit from the Marcellus Shale natural gas extractions in the watersheds served by the landfill. Additionally, construction is underway at McKean for a water treatment facility to service natural gas drillers by treating water generated from drilling activities.

Closure Projects

In April 2005, we started closure operations at the Worcester, Massachusetts landfill, a closure project with approximately 0.2 million tons of available capacity as of April 30, 2012. In January 2006, we assumed the closure contract for this landfill. The Worcester landfill is not included in the preceding table of landfill capacity. Additionally, in fiscal year 2009, as part of a planned closure, we ceased operations at the Colebrook facility and began the process of capping and closing the site.

We also own and/or manage six unlined landfills and three lined landfills that are not currently in operation. All of these landfills have been closed and capped to applicable environmental regulatory standards by us.

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We manage our solid waste operations, which include a full range of solid waste services, on a geographic basis through two regional operating segments, which we designate as the Eastern and Western regions. Our third operating segment is Recycling, which comprises our larger-scale recycling operations and our commodity brokerage operations. See Note 19 to our consolidated financial statements included under Item 8 of this Form 10-K for a summary of revenues, certain expenses, profitability, capital expenditures, goodwill, and total assets of our operating segments. Ancillary operations, major customer accounts, discontinued operations and earnings from equity method investees are included in our Other reportable segment.

Within each geographic region, we organize our solid waste services around smaller areas that we refer to as wastesheds. A wasteshed is an area that comprises the complete cycle of activities in the solid waste services process, from collection to transfer operations and recycling to disposal in either landfills or waste-to-energy facilities, some of which may be owned and operated by third parties. We typically operate several divisions within each wasteshed, each of which provides a particular service, such as collection, recycling, disposal or transfer. Each of these divisions operates interdependently with the other divisions within the wasteshed. Each wasteshed generally operates autonomously from adjoining wastesheds.

Through its six MRFs and one commodity brokerage operation, Recycling services four anchor contracts, which have original terms ranging from five to ten years and expire at various times through calendar year end 2028. The terms of each of the contracts vary, but all of the contracts provide that the municipality or a third party delivers materials to our facility. These contracts may include a minimum volume guarantee by the municipality. We also have service agreements with individual towns and cities and commercial customers, including small solid waste companies and major competitors that do not have processing capacity within a specific geographic region. The following table provides information about each operating segment (as of May 31, 2012 except revenue information, which is for the fiscal year ended April 30, 2012).

| | Eastern Region | Western Region | Recycling |
|-----------------------------------|---------------------------|---------------------------|------------------|
| Revenues (in millions) | \$172.9 | \$215.2 | \$47.9 |
| Solid waste collection operations | 12 | 20 | |
| Transfer stations | 5 | 26 | |
| Recycling facilities | 7 | 4 | 6 |
| Subtitle D landfills | 2 | 7 | |
| Other disposal facilities(1) | Maine Energy | Hakes | |

(1) In addition to the disposal facilities shown above we operate the Worcester, Massachusetts landfill, a closure project with approximately 0.2 million tons of available capacity as of April 30, 2012.

Eastern region

The Eastern region consists of wastesheds located in Maine and the assets located in eastern Massachusetts and in the New Hampshire seacoast area. The Maine wastesheds generally have been affected by the regional constraints on disposal capacity imposed by the public policies of New

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Hampshire, Maine and Massachusetts, which have, over the past ten years, either limited new landfill development or precluded development of additional capacity from existing landfills. Consequently, the Eastern region relies more heavily on non-landfill waste-to-energy disposal capacity than the Western region.

We entered Maine in 1996 with the purchase of the assets comprising New England Waste Services of ME, Inc. in Hampden, Maine. The acquisition of KTI, Inc. in 1999 significantly improved disposal capacity in this region, as the acquisition included Maine Energy, and provided an alternative internalization option for solid waste assets in eastern Massachusetts. In 2004, we obtained the right to operate the Juniper Ridge landfill under a 30-year agreement with the State of Maine.

We entered eastern Massachusetts in fiscal year 2000 with the acquisition of assets that were divested by Allied Waste Industries (prior to its merger with Republic Services, Inc.) and through the acquisition of smaller independent operators. In this market, we rely to a large extent on third party disposal capacity. We believe that there is a greater opportunity to increase internalization rates and operating efficiencies in eastern Massachusetts facilities through the operating contract with the Town of Southbridge to operate the Southbridge landfill, which is currently permitted to accept up to a combined 0.3 million tons per year of C&D and MSW.

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Western region

The Western region includes wastesheds located in Vermont, north and south western New Hampshire and eastern New York. The portion of eastern New York served by the Western region includes Clinton (operation of the Clinton County landfill), Franklin, Essex, Warren, Washington, Saratoga, Rensselaer and Albany counties. Our Waste USA landfill in Coventry, Vermont is one of only two operating permitted Subtitle D landfills in Vermont, and our NCES landfill in Bethlehem, New Hampshire is one of only six operating permitted Subtitle D landfills in New Hampshire.

The Western region also consists of wastesheds in upstate New York, which includes Ithaca, Elmira, Oneonta, Lowville, Potsdam, Geneva, Auburn, Dunkirk, Jamestown and Olean. Our entrance into these wastesheds began with our acquisition of Superior Disposal Services, Inc. s business in 1997 and has expanded largely through tuck-in acquisitions and internal growth. Our collection operations include leadership positions in nearly every rural market outside of the larger metropolitan markets such as Syracuse, Rochester, Buffalo and Albany.

While we have achieved strong market positions in the New York wastesheds, we remain focused on increasing our vertical integration through expansion of annual permitted capacity at existing landfills and densification of hauling businesses that can internalize waste to our landfills. With the ownership of the Hyland, Hakes and McKean County landfills and operation of the Ontario and Chemung County landfills, our strategy is to expand annual landfill permits to drive return on invested capital and cash flows. Future opportunities may exist to replicate our strategic partnerships with county and municipal governments for the operation and/or utilization of their landfills, and, subject to capital allocation, we expect that we would pursue these opportunities if they would enhance our shareholder returns.

Recycling

Our Recycling segment is one of the largest processors and marketers of recycled materials in the eastern United States, comprising 6 MRFs that process and then market recyclable materials that municipalities and commercial customers deliver to them under long-term contracts. Three of the six MRFs are leased, the other three are owned. In fiscal year 2012, the Recycling segment processed and/or marketed approximately 0.5 million tons of recyclable materials including tons marketed through our commodity brokerage operation. Recycling s facilities are located in the states of Vermont, New York, Massachusetts, New Hampshire and Maine.

A significant portion of the material provided to Recycling is delivered pursuant to four anchor contracts. The anchor contracts generally have an original term of five to ten years and expire at various times through calendar year end 2028. The terms of each of the contracts vary, but all of the contracts provide that the municipality or a third party delivers materials to our facility. In approximately one-quarter of the contracts, the municipalities agree to deliver a guaranteed tonnage and the municipality pays a fee for the amount of any shortfall from the guaranteed tonnage if certain other conditions are not met. Under the terms of the individual contracts, we charge the municipality a fee for each ton of material delivered to us. Some contracts contain revenue sharing arrangements under which the municipality receives a specified percentage of the revenues from the sale by us of the recovered materials.

Our Recycling segment derives a significant portion of its revenues from the sale of recyclable materials. The purchase and sale prices of recyclable materials, particularly newspaper, corrugated containers, plastics, ferrous and aluminum, can fluctuate based upon market conditions. We use long-term supply contracts with customers with floor price arrangements to reduce the commodity risk for certain recyclables,

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particularly newspaper, cardboard, plastics, aluminum and metals. Under such contracts, we obtain a guaranteed minimum price for the recyclable materials along with a commitment to receive additional amounts if the current market price rises above the floor price. The contracts are generally with large domestic companies that use the recyclable materials in their manufacturing process, such as paper, packaging and consumer goods companies. In fiscal year 2012, 25% of the revenues from the sale of residential recyclable materials were derived from sales under long-term contracts with floor prices. We also hedge against fluctuations in the commodity prices of recycled paper and corrugated containers in order to mitigate the variability in cash flows and earnings generated from the sales of recycled materials at floating prices.

Casella-Altela Regional Environmental Services, LLC

In September 2011, we entered into a joint venture with Altela, Inc. to form CARES, a joint venture that develops, owns and operates water and leachate treatment projects for the natural gas drilling industry in Pennsylvania and New York and can also be used to treat leachate at our landfills. As a part of the joint venture, we acquired a 51% membership interest in CARES in exchange for an initial cash contribution to CARES of \$1.3 million. Altela, Inc. made an initial contribution of equipment valued at \$1.3 million and acquired a 49% membership interest in CARES. In the fiscal year 2012, we and Altela, Inc. made additional cash contributions, proportionate

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with our membership interests, of \$0.6 million and \$0.5 million, respectively, for the purchase of additional equipment and to fund operations. Income and losses of CARES are to be allocated to members based on membership interest percentage.

In accordance with Accounting Standards Codification (ASC) 810-10-15, we consolidate the assets, liabilities, noncontrolling interest and results of operations of CARES into our consolidated financial statements due to our controlling financial interest in the joint venture.

GreenFiber Cellulose Insulation Joint Venture

We are a 50% partner in GreenFiber, a joint venture with Louisiana-Pacific Corporation (LP). GreenFiber, which we believe is the largest manufacturer of high quality cellulose insulation for use in residential dwellings and manufactured housing, was formed through the combination of our cellulose operations, which we acquired in our acquisition of KTI, with those of Louisiana-Pacific. Based in Charlotte, North Carolina, GreenFiber has a national manufacturing and distribution capability and sells to contractors, manufactured home builders and retailers, including Home Depot, Inc. GreenFiber has eight manufacturing facilities, located in Delphos, Ohio; Elkwood, Virginia; Norfolk, Nebraska; Phoenix, Arizona; Tampa, Florida; Albany, New York; Waco, Texas; and Salt Lake City, Utah. GreenFiber utilizes a hedging strategy to help stabilize its exposure to fluctuating newsprint costs, which generally represent approximately 27% of its raw material costs. We account for our investment in GreenFiber under the equity method of accounting.

In April 2011, we issued a guaranty of up to \$1.5 million in support of GreenFiber's amended and restated loan and security agreement in order to induce the lender to enter into a waiver and amend the agreement. In August 2011, we were required to increase the guaranty to up to \$3.4 million and make an additional investment of \$0.5 million in order to again induce the lender to enter into a waiver and amend the agreement.

On December 1, 2011, GreenFiber entered into a second amendment to its modified and restated loan and security agreement. Concurrent therewith, we made an additional investment of \$3.0 million in GreenFiber and reduced our guaranty associated with the credit facility by \$1.2 million to \$2.2 million. The guaranty can be drawn on upon an event of default and remains in place through December 1, 2014, the extended term of GreenFiber's modified and restated loan and security agreement.

As of December 31, 2011, GreenFiber performed a test for goodwill impairment. The goodwill impairment analysis indicated that the carrying value of its reporting unit exceeded the fair value of its reporting unit, and GreenFiber determined that the entire amount of its goodwill was impaired. Consequently, we recorded our portion of the goodwill impairment charge of \$5.1 million as loss on equity method investment in fiscal year 2012.

Based on the analysis performed, we determined that the current book value of our investment in GreenFiber exceeded its fair value. The analysis calculated GreenFiber's fair value based on the income approach using discounted cash flows taking into account current expectations for asset utilization, housing starts and the remaining useful life of related assets. We recorded a charge of \$10.7 million as impairment on equity method investment in fiscal year 2012.

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In April 2012, we made an additional investment of \$0.4 million in GreenFiber so that it could meet its quarterly debt covenants.

In May 2012, we and LP made identical commitments to fund any liquidity shortfalls of GreenFiber related to covenant compliance as defined in GreenFiber's modified loan and security agreement. We have agreed to provide an equity contribution of our pro-rata share of funds, based on ownership percentage, sufficient to cure such shortfall.

Our investment in GreenFiber was \$6.5 million and \$23.1 million at April 30, 2012 and April 30, 2011, respectively.

Tompkins County Recycling, LLC

During fiscal year 2012, we finalized the terms of a joint venture agreement with FCR, LLC (FCR), a subsidiary of ReCommunity, LLC to form Tompkins, a joint venture that operates a MRF located in Tompkins County, New York and processes and sells commodities delivered to the MRF. In connection with the formation of Tompkins, we acquired a 50% membership interest in Tompkins in exchange for an initial cash contribution to Tompkins of \$0.3 million. FCR made an initial cash contribution of \$0.3 million and acquired a 50% membership interest in Tompkins. Income and losses are allocated to members based on membership interest percentage. Our investment in Tompkins amounted to \$0.3 million at April 30, 2012. We account for our 50% membership interest in Tompkins using the equity method of accounting.

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AGreen Energy, LLC

In fiscal year 2012, we entered into a renewable energy project operating agreement with AGreen. As a part of the agreement, we provide certain operation, maintenance and administrative services to, as well as procure organic materials that would otherwise be disposed of from, small farm-based biogas renewable energy projects that produce renewable energy and other valuable products and services. In the first quarter of fiscal year 2012, we made an initial investment of \$0.2 million in AGreen for a 5.1% membership interest. In the third quarter of fiscal year 2012, we made an additional contribution of \$0.2 million in AGreen, increasing our membership interest to 11.9% and our investment to \$0.4 million as of April 30, 2012. We account for this investment under the cost method of accounting.

RecycleRewards, Inc.

Our investment and ownership interest in RecycleRewards, a company that markets an incentive based recycling service, amounted to \$4.5 million as of April 30, 2012 and 2011, respectively. Our common share interest in RecycleRewards was reduced from 8.2% to the current 6.2% in October 2011 due to an equity offering RecycleRewards made to a third party investor in October 2011 and the issuance of additional warrants by RecycleRewards. We account for this investment under the cost method of accounting.

Evergreen National Indemnity Company

Our investment and ownership interest in Evergreen, a surety company which provides surety bonds to us, amounted to \$10.7 million, or 19.9%, as of April 30, 2012 and 2011, respectively. We account for our investment in Evergreen under the cost method of accounting.

GreenerU, Inc.

In March 2012, we entered into a strategic partnership agreement with GreenerU, a company that delivers an extensive array of energy and sustainability solutions to the college, university and preparatory school market in order to help those institutions reduce their energy costs and carbon emissions through the formulation of programs and policies and the running of renewable energy projects. As a part of the agreement, we will work with GreenerU to co-market our respective services to colleges, universities and preparatory schools in the area of waste, recycling, energy, composting, resource conservation and other appropriate sustainability initiatives. We made a \$1.0 million investment in GreenerU through the purchase of preferred stock in two \$0.5 million tranches, the first of which was closed in April 2012 and the second of which was closed in May 2012. As a result of our investment we had a 4.2% ownership interest and a \$0.5 million investment in GreenerU as of April 30, 2012 and a 6.3% ownership interest and a \$1.0 million investment in GreenerU as of May 31, 2012. We account for this investment under the cost method of accounting.

Competition

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The solid waste services industry is highly competitive. We compete for collection and disposal volume primarily on the basis of the quality, breadth and price of our services. From time to time, competitors may reduce the price of their services in an effort to expand market share or to win a competitively bid municipal contract. These practices may also lead to reduced pricing for our services or the loss of business. In addition, competition exists within the industry for potential acquisition candidates.

The larger urban markets in which we compete are served by one or more of the large national solid waste companies, including Waste Management, Inc., Republic Services, Inc. and Waste Connections, Inc., that may be able to achieve greater economies of scale than us. We also compete with a number of regional and local companies that offer competitive prices and quality service. In addition, we compete with operators of alternative disposal facilities, including incinerators, and with certain municipalities, counties and districts that operate their own solid waste collection and disposal facilities. Public sector facilities may have certain advantages over us due to the availability of user fees, charges or tax revenues and tax-exempt financing.

The insulation industry is highly competitive and labor intensive. In our cellulose insulation manufacturing activities, GreenFiber, our joint venture with Louisiana-Pacific Corporation, competes primarily with manufacturers of fiberglass insulation such as Owens Corning, CertainTeed Corporation and Johns Manville. These manufacturers have significant market shares and are substantially better capitalized than GreenFiber.

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Marketing and Sales

We have fully integrated sales and marketing strategies, originating at the enterprise level with the primary focus of acquiring and retaining commercial, industrial, municipal and residential customers. Our business strategy for over 35 years has focused on creating a highly differentiated sustainable resource management model that meets customers' unique needs and provides value beyond the curb.

Maintenance of a local presence and identity is an important aspect of our sales and marketing strategy, and many of our divisional managers are involved in local governmental, civic and business organizations. Our name and logo, or, where appropriate, that of our divisional operations, are displayed on all of our containers and trucks. We attend and make presentations at municipal and state conferences, and we advertise in various governmental associations' membership publications.

Our sales organization has been completely realigned to incorporate a more robust sales training curriculum, fully revamped marketing collateral, as well as enhanced brand building advertising across our entire operating footprint. The realigned sales program encompasses an updated sales incentive program tied solely to the overall profitability of a territory manager's book of business; and the introduction of a redesigned prospect database management system that allows a territory manager to identify new collection customers, as well as view all existing customer data in one consolidated platform. This prospect database is also augmented by more traditional sales techniques, such as leads developed from new building permits, business licenses and other public records.

Employees

As of May 31, 2012, we employed approximately 1,800 people, including approximately 400 professionals or managers, sales, clerical, information systems or other administrative employees and approximately 1,400 employees involved in collection, transfer, disposal, recycling or other operations. Approximately 100 of our employees are covered by collective bargaining agreements. We believe relations with our employees are good.

Risk Management, Insurance and Performance or Surety Bonds

We actively maintain environmental and other risk management programs that we believe are appropriate for our business. Our environmental risk management program includes evaluating existing facilities, as well as potential acquisitions, for compliance with environmental law requirements. We also maintain a worker safety program, which focuses on safe practices in the workplace. Operating practices at all of our operations are intended to reduce the possibility of environmental contamination enforcement actions and litigation.

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

We self insure for automobile and workers compensation coverage. Our maximum exposure in fiscal year 2012 under the workers compensation plan was \$1.0 million per individual event, after which reinsurance takes effect. Our maximum exposure under the automobile plan was approximately \$0.8 million per individual event, after which reinsurance takes effect.

MSW collection contracts and landfill closure and post-closure obligations may require performance or surety bonds, letters of credit or other means of financial assurance to secure contractual performance. While we have not experienced difficulty in obtaining these financial instruments, if we were unable to obtain these financial instruments in sufficient amounts or at acceptable rates we could be precluded from entering into additional municipal contracts or obtaining or retaining landfill operating permits.

We hold a 19.9% ownership interest in Evergreen, a surety company which provides surety bonds to us to secure our contractual obligations for certain MSW collection contracts and landfill closure and post-closure obligations.

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Customers

We provide our collection services to commercial, industrial and residential customers. A majority of our commercial and industrial collection services are performed under one-to-three-year service agreements, and fees are determined by such factors as collection frequency, type of equipment and containers furnished, the type, volume and weight of the solid waste collected, the distance to the disposal or processing facility and the cost of disposal or processing. Our residential collection and disposal services are performed either on a subscription basis (with no underlying contract) with individuals, or through contracts with municipalities, homeowners associations, apartment owners or mobile home park operators.

Maine Energy is contractually required to sell all of the electricity generated at its facilities to Nextera Energy Power Marketing, LLC, an electric utility, and guarantees 100% of its electricity generating capacity to FPL Energy Power Marketing, Inc., both pursuant to a contract that was amended to extend its term to December 31, 2014 and is based on day ahead electricity prices.

Our Recycling segment provides recycling services to municipalities, commercial haulers and commercial waste generators within the geographic proximity of the processing facilities.

Our cellulose insulation joint venture, GreenFiber, sells to contractors, manufactured home builders and retailers.

Raw Materials

Maine Energy received approximately 15.6% of its solid waste in fiscal year 2012 from 17 Maine municipalities under long-term waste handling agreements. Maine Energy also receives raw materials from commercial and private waste haulers and municipalities with short-term contracts, as well as from our own collection operations.

Seasonality

Our transfer and disposal revenues historically have been lower during the months of November through March. This seasonality reflects the lower volume of waste during the late fall, winter and early spring months primarily because:

- the volume of waste relating to C&D activities decreases substantially during the winter months in the northeastern United States;
- and

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- decreased tourism in Vermont, New Hampshire, Maine and eastern New York during the winter months tends to lower the volume of waste generated by commercial and restaurant customers, which is partially offset by increased volume due to the ski industry.

Because certain of our operating and fixed costs remain constant throughout the fiscal year, operating income is therefore impacted by a similar seasonality. Particularly harsh winter weather conditions typically result in increased operating costs.

Our Recycling segment experiences increased volumes of newspaper in November and December due to increased newspaper advertising and retail activity during the holiday season. GreenFiber experiences lower sales from April through July due to lower retail activity.

Regulation

Introduction

We are subject to extensive and evolving federal, state and local environmental laws and regulations which have become increasingly stringent in recent years. Our waste-to-energy facility also is subject to federal energy law. The environmental regulations affecting us are administered by the United States Environmental Protection Agency (EPA) and other federal, state and local environmental, zoning, health and safety agencies. Failure to comply with such requirements could result in substantial costs, including civil and criminal fines and penalties. Except as described in this Form 10-K, we believe that we are currently in substantial compliance with applicable federal, state and local environmental laws, permits, orders and regulations. Other than as disclosed herein, we do not currently anticipate any material costs to bring our operations into environmental compliance, although there can be no assurance in this regard for the future. We expect that our operations in the solid waste services industry will be subject to continued and increased

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regulation, legislation and regulatory enforcement actions. We attempt to anticipate future legal and regulatory requirements and to carry out plans intended to keep our operations in compliance with those requirements.

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

The principal federal statutes and regulations applicable to our various operations are as follows:

The Resource Conservation and Recovery Act of 1976, as amended (RCRA)

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

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

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

We currently do not accept for transportation or disposal of hazardous substances (as defined in CERCLA, discussed below) in concentrations or volumes that would classify those materials as hazardous wastes. However, we have transported hazardous substances in the past and very likely will transport and dispose of hazardous substances in the future, to the extent that materials defined as hazardous substances under CERCLA are present in consumer goods and in the non-hazardous waste streams of our customers.

We do not accept hazardous wastes for incineration at our waste-to-energy facility. We typically test ash produced at our waste-to-energy facility on a regular basis; that ash generally does not contain hazardous substances in sufficient concentrations or volumes to result in the ash

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being classified as hazardous waste. However, it is possible that future waste streams accepted for incineration could contain elevated volumes or concentrations of hazardous substances or that legal requirements will change, and that the resulting incineration ash would be classified as hazardous waste.

Leachate generated at our landfills and transfer stations is tested on a regular basis, and generally is not regulated as a hazardous waste under federal law. However, there is no guarantee that leachate generated from our facilities in the future will not be classified as hazardous waste.

In October 1991, the EPA adopted the Subtitle D regulations under RCRA governing solid waste landfills. The Subtitle D regulations, which generally became effective in October 1993, include siting restrictions, facility design standards, operating criteria, closure and post-closure requirements, financial assurance requirements, groundwater monitoring requirements, groundwater remediation standards and corrective action requirements. In addition, the Subtitle D regulations require that new landfill sites meet more stringent liner design criteria (typically, composite soil and synthetic liners or two or more synthetic liners) intended to keep leachate out of groundwater and have extensive collection systems to carry away leachate for treatment prior to disposal. Regulations generally require us to install groundwater monitoring wells at virtually all landfills we operate, to monitor groundwater quality and, indirectly, the effectiveness of the leachate collection systems. The Subtitle D regulations also require facility owners or operators to control emissions of landfill gas (including methane) generated at landfills exceeding certain regulatory thresholds. State landfill regulations must meet these requirements or the EPA will impose such requirements upon landfill owners and operators in that state.

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The Federal Water Pollution Control Act of 1972, as amended (Clean Water Act)

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

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

CERCLA established a regulatory and remedial program intended to provide for the investigation and remediation of facilities where, or from which, a release of any hazardous substance into the environment has occurred or is threatened. CERCLA has been interpreted to impose retroactive strict, and under certain circumstances, joint and several, liability for investigation and cleanup of facilities on current owners and operators of the site, former owners and operators of the site at the time of the disposal of the hazardous substances, as well as the generators and certain transporters of the hazardous substances. In addition, CERCLA imposes liability for the costs of evaluating and addressing damage to natural resources. The costs of CERCLA investigation and cleanup can be very substantial. Liability under CERCLA does not depend upon the existence or disposal of hazardous waste as defined by RCRA, but can be based on the existence of any of more than 700 hazardous substances listed by the EPA, many of which can be found in household waste. In addition, the definition of hazardous substances in CERCLA incorporates substances designated as hazardous or toxic under the Federal Clean Water Act, Clean Air Act and Toxic Substances Control Act. If we were found to be a responsible party for a CERCLA cleanup, the enforcing agency could hold us, under certain circumstances, or any other responsible party, responsible for all investigative and remedial costs, even if others also were liable. CERCLA also authorizes EPA to impose a lien in favor of the United States upon all real property subject to, or affected by, a remedial action for all costs for which a party is liable. CERCLA provides a responsible party with the right to bring a contribution action against other responsible parties for their allocable share of investigative and remedial costs. Our ability to get others to reimburse us for their allocable share of such costs would be limited by our ability to identify and locate other responsible parties and prove the extent of their responsibility and by the financial resources of such other parties.

The Clean Air Act of 1970, as amended (Clean Air Act)

The Clean Air Act, generally through state implementation of federal requirements, regulates emissions of air pollutants from certain landfills based upon the date the landfill was constructed and the annual volume of emissions. The EPA has promulgated new source performance standards regulating air emissions of certain regulated pollutants (methane and non-methane organic compounds) from MSW landfills. Landfills located in areas where levels of regulated pollutants exceed certain thresholds may be subject to even more extensive air pollution controls and emission limitations. In addition, the EPA has issued standards regulating the disposal of asbestos-containing materials under the Clean Air Act.

The EPA is focusing on the emissions of greenhouse gases, or GHG, including carbon dioxide and methane. In December, 2009, the EPA issued its endangerment finding that carbon dioxide poses a threat to human health and welfare, providing the basis for the EPA to promulgate GHG air quality standards. In December 2009 the EPA's Mandatory Reporting of Greenhouse Gases rule went into effect, requiring facilities that emit 25,000 metric tons or more per year of GHG emissions to submit annual reports to the EPA.

In June 2010, the EPA issued the so-called GHG Tailoring Rule, which described how certain sources that emit GHG would be subject to heightened Clean Air Act PSD / Title V regulation. In July 2011, however, the EPA promulgated a rule that, broadly, deferred for three years its development of those regulations with regard to sources emitting carbon dioxide from biomass-fired and other biogenic sources. This exemption has been challenged in federal court by a number of environmental groups.

The adoption of other laws and regulations, which may include the imposition of fees or taxes, could adversely affect our collection and disposal operations. Additionally, certain of the states in which we operate are contemplating air pollution control regulations relating to GHG that may be more stringent than regulations the EPA may promulgate. Changing environmental regulations could require us to take any number of actions, including the purchase of emission allowances or installation of additional pollution control technology, and could make some operations less profitable, which could adversely affect our results of operations.

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Congress also is considering various options, including a cap and trade system, which could impose a limit on and establish a pricing mechanism for GHG emissions and emission allowances. There also is increasing pressure for the United States to join international efforts to control GHG emissions.

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

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

The Occupational Safety and Health Act of 1970, as amended (OSHA)

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

The Public Utility Regulatory Policies Act of 1978, As Amended (PURPA)

Our waste-to-energy facility has been certified by the Federal Energy Regulatory Commission as a qualifying small power production facility under the PURPA. The PURPA exempts qualifying facilities from most federal and state laws governing electric utility rates and financial organization, and generally requires electric utilities to purchase electricity generated by qualifying facilities at a price equal to the utility's full avoided cost. Our four landfill gas-to-energy facilities are self-certified as qualifying facilities as well.

State and Local Regulations

Each state