

2001 ANNUAL REPORT

casella
waste systems, inc.



To Our Fellow Shareholders

There's no need to sugarcoat it — fiscal 2001 was a tough, demanding year.

Clearly, it was a year of transition, one in which we dealt with a broad spectrum of issues — from rationalizing assets acquired from KTI to working to become, once again, a simpler, more predictable business.

It has not been an entirely smooth undertaking and, along with the good and the bad, questions about the company, and our future inevitably arise.

As a shareholder, you are more than likely looking for answers — not only about what happened last year but, more importantly, about where we're going.

Along with the key financial data in the accompanying Form 10-K, we've organized this company report around the many insightful and, yes, often difficult questions we expect you might have, and those questions we have indeed heard directly from many of you recently in your phone calls, e-mails and conversations with us.

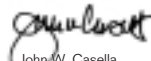
In the pages of this report, we attempt to give you a basic overview as to how we have addressed these issues and questions, and where we're taking the company in the future.

Given the limited space available, we couldn't include every question that could possibly be asked, nor give explicit, detailed answers to every question.

Nonetheless, we did our best to be as comprehensive and representative as possible.

Having addressed these issues, we look forward to performing in 2002 as a focused, traditional solid waste company.

Sincerely,



John W. Casella
Chairman & CEO

john.casella@casella.com

September 10, 2001

What happened?



Why did the company take a detour by acquiring KTI?

We saw a unique opportunity to tap into nearly \$100 million in overlapping business KTI had in our core market, and wanted to not only add to our disposal network in the Northeast, but also expand into contiguous markets such as eastern Massachusetts.

We had a number of expectations about what we could do with KTI's assets, and we were obviously disappointed that we were not able to meet those expectations. Despite this, much of the original impetus for strengthening our operations in the Northeast has held true, and, we believe, will make us a stronger company over the long term.

Would you do it again?

While we certainly wouldn't want to repeat the experience we had with KTI, we will still look for opportunities and take manageable risks within our core market.

A willingness to take risks to grow the company is the path to shareholder value. Doing nothing, or specifically ignoring overlapping assets, is never an option. Part of the risk was trying to anticipate from where the growth would come.

Clearly, for us the question isn't really whether or not we would do it, but how we would do it differently.

OK, looking back, what would you do differently?

Many of the KTI assets needed vast amounts of time, resources and attention. We would have been more aggressive about determining which assets were not going to make the cut, or be a part of our long-term portfolio, and finding buyers for them. Also, we clearly should have strengthened our management resources earlier, given the time and attention we have spent evaluating, fixing, or divesting many of these assets.

Once problems became evident, why didn't you divest the non-core assets sooner?

We decided to spend reasonable time and effort on these businesses to maximize their value before divesting them — and not let them go at "fire sale" prices. Also finding the right buyers — those willing to recognize the potential value in these assets — took longer than we anticipated.

In January 2001, we completed the sale of both Total Waste Management and Manner Resins. In March 2001, we sold our 64 percent interest in the Penobscot Energy Recovery Company waste-to-energy facility, and acquired full ownership of the Maine Energy Recovery Company. By the end of the fourth quarter, our tire processing, commercial recycling, and mulch recycling operations were accounted for as discontinued operations.



We will continue to invest in our companies with the best possible people, skills and equipment — the tools they need to succeed.

What are you doing about it?

How are you going to return to predictable profitability?

Do you have the right management in place?

What are the criteria for those assets you're keeping? Why are they worth keeping?

How have the investment and banking communities reacted to your recent changes?

First, by focusing on our traditional solid waste assets, and on our traditional markets.

We have built an unparalleled infrastructure and a core franchise of solid waste companies, and have established a dominant market position in the Northeast. These are anchored by a network of disposal assets that, in a disposal-poor region, is unmatched in our market area. As you know, all these resources — our roots — have historically given us strong, predictable financial performance.

Second, we are completing the divestiture of non-core assets that do not fit this model. We expect that by the time you read this, this process will be virtually complete.

This management team has a very successful 26-year track record in operating and growing a traditional solid waste services company. We're extremely confident, given our commitment to operating under that model, that this history and our strengths match up to that challenge.

While John Casella and Jim Bohlig will continue to devote full-time attention to the divestiture plan, and to developing new opportunities for strategic growth, we've also brought new talent on board to strengthen our traditional solid waste operations.

Charlie Leonard, for example, joined us in July 2001 as senior vice president of solid waste operations, and will have the day-to-day responsibility of running our core business. Charlie has run considerably larger solid waste organizations in a variety of markets across the United States and New England, and brings significant, strategic operating skills to the company.

Does the business complement and strengthen our core business? Does it demonstrate the potential for growth? Does it help us solidify our leadership position in our market? In short, does it work for us? The answer is yes.

Clearly, investors want to see predictable performance and results, in a business that's visible and understandable. We believe the strategic plan we've put in place meets those criteria.

A series of legal victories has let us move forward with developing critical landfill capacity in Maine and New Hampshire. In October 2000, the decisions of two Maine courts supported our efforts to expand the Hampden landfill, and in New Hampshire, the state Supreme Court in May 2001 upheld a lower court ruling granting us permission to begin third-stage construction of our Bethlehem site.

Charles Leonard joined Casella as senior vice president in charge of solid waste operations, and Richard Norris was promoted to chief financial officer. In August 2000, Michael Brennan was appointed vice president and general counsel.



Recent legal victories have allowed us to expand disposal facilities poised to provide strong performance.

What is the impact on your business?

Having endured these difficulties, what is the company's tolerance for risk?

In the fourth quarter the company announced a dramatic restructuring. What are the implications?

What will it take to reignite investor confidence in Casella stock?

How is the company positioned to weather any potential economic downturn?

Do we have a tolerance for taking risks outside our core competency? No. Are we willing to take manageable risks within our core market to expand? Absolutely. It's the best way we know to unlock shareholder value. But we can minimize those risks by making sure we have the right people, resources, and systems in place.

This restructuring is a key step in allowing us to focus on important parts of our business, and position the company to reignite value, performance, and growth.

We recognize that, given the past year's events, we need to give the investment community greater visibility on our progress, our goals and our performance expectations. The first step in this process was a detailed presentation to stockholders this past summer in New York City.

That said, there's no magic formula. Consistent, reliable, and predictable performance over the long term will be the benchmarks for us and for our shareholders.

As a general rule, the solid waste industry is less vulnerable to the ebbs and flows of the business cycle than most other industries, such as consumer goods or technology. After all, this is a basic, necessary service.

As a result, most economic impact is felt at the margins of our business — such as the collection and disposal of construction and demolition debris. Company-wide, we would say our cash flow is "defensible."

In addition, we serve a region of the country whose economy is generally more "steady state" — without the wild economic swings (up as well as down) characteristic of other regions.

As we explained to investors in June 2001, our early fiscal 2002 data on landfill volumes showed strong performance year over year which, for us, is one of the leading indicators of the region's economic health.

The vast majority of the restructuring charges recorded in fourth quarter of 2001 were non-cash. The major portion was related to the impairment of goodwill from the KTI acquisition. These restructuring charges are a key component of our effort to realign our assets and bring greater focus to our core business.



Our "curb control" collection network has made us a market leader throughout the Northeast.

Where is the company headed?

Are you still a growth company?

What are the growth opportunities in your core markets?

What are you using as a measure of performance?

In light of the company's recent inability to meet its goals, why should we believe you now?

Yes. Our immediate focus over the next few quarters is to stabilize our business. Once we reach that goal, we will return to the growth opportunities in our core markets, and expand them — such as in eastern Massachusetts.

We have spent 26 years building, growing, and operating a solid waste business in the Northeast and will leverage that infrastructure in a number of important ways.

We will continue to look for opportunities to develop disposal assets in a disposal-poor part of the country. We will work with municipalities, either through privatization of facilities, or through partnerships with them to develop disposal capacity in the region. Our strong market position makes us the logical buyer for any of these assets that may come up for sale.

We will consider acquiring divested assets from other large publicly-traded waste management companies in the region — especially those operating within or adjacent to our market.

There are plentiful opportunities to strengthen our core franchise, and to add accretive cash flow by consolidating collection assets, through “tuck-ins” — acquisitions that overlap our existing operations.

The true measure of performance in this industry is free cash flow and EBITDA or earnings before interest, taxes, depreciation, and amortization. We will evaluate ourselves and our managers on their ability to meet these goals.

How we measure ourselves is perhaps your best measure of us — how consistently we hit the goals we've laid out for ourselves and for our investors.

We understand the disparity between our past performance and your expectations. Shareholders, management, and our employees have felt the same disappointment. Our goal is simple — once again deliver consistent, stable, and repeatable performance. We expect this consistency and stability to be the yardstick you use to evaluate us over time.

In the final analysis, however, some things you can't talk about — you simply must do them.

Disposal operations are crucial to our overall strength, accounting for approximately one-third of the company's cash flow. The resolution of legal issues concerning our landfill operations in Maine and New Hampshire — two disposal-poor markets — allows us to extend the lifespan of these facilities significantly, and use them to anchor our stable performance and pursue growth opportunities.

If you have a question that we neither posed nor answered here, in the back of this report we've included a detachable postage-paid card (or visit our website) that you can use to ask your question. We'll get you an answer.



With long-term disposal assets such as the Clinton County Landfill, we have the confidence and resources to plan for our communities' futures.



Shareholder Information

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Annual Meeting of Shareholders
Killington Grand Hotel
Killington, VT
October 11, 2001
11:00 a.m.

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Stock Exchange
Casella Waste Systems, Inc. is traded on the
NASDAQ National Market under the ticker
symbol **CWST**.

www.nasdaq.com

Company Officers

John W. Casella
Chairman & Chief Executive Officer

James W. Bohlrig
President & Chief Operating Officer

Richard A. Norris
Senior Vice President,
Chief Financial Officer & Treasurer

Charles E. Leonard
Senior Vice President,
Solid Waste Operations

Michael J. Brennan
Vice President & General Counsel

Christopher M. DesRoches
Vice President, Sales & Marketing

Sean Duffy
Regional Vice President

Joseph S. Fusco
Vice President, Communications

James M. Hiltner
Regional Vice President

Michael Holmes
Regional Vice President

Larry B. Lackey
Vice President, Permits, Compliance &
Engineering

Alan N. Sabino
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Secretary

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James W. Bohlrig
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John F. Chapple III
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Hon. George J. Mitchell
Special Counsel, Verner Lipfert Bernhard
McPherson & Hand

D. Randolph Peeler
Managing Director, Berkshire Partners, LLC

Gregory B. Peters
Managing Partner,
Lake Champlain Capital Management, LLC

Wilbur L. Ross
Chairman & CEO, W.L. Ross & Co. LLC





To the left:

A side loader works a residential collection route in Burlington, Vermont.

Safe Harbor Statement

Certain matters discussed in this presentation are "forward looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward looking statements can generally be identified as such because the context of the statement will include words such as the company "believes," "anticipates," "expects," or words of similar import. Similarly, statements that describe the company's future plans, objectives, or goals are also forward looking statements. Such forward looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those currently anticipated. A description of such risks and uncertainties can be found in the company's Annual Report or Form 10-K accompanying these materials, under the heading "Certain Factors that May Affect Future Results". Shareholders, potential investors, and other attendees are urged to consider these factors carefully in evaluating the forward looking statements and are cautioned not to place undue reliance on such forward looking statements. The forward looking statements made herein are only made as of the date of this annual report and the company undertakes no obligation to publicly update such forward looking statements to reflect subsequent events or circumstances.

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