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February 22, 2007

Mr. Clayton R. Carlisle
Town Manager
Southbridge Town Hall
41 Elm Street
Southbridge, MA 01550

Re: Extension of Agreement for the Operation of the Barefoot Road Sanitary Landfill,
and Refuse and Recyclables Collection

Dear Mr. Carlisle:

At your request, I am providing you with an overview of the Extension Agreement that we have negotiated with the operator of the Town's Barefoot Road Sanitary Landfill.

In 1996, the Town and Wood Recycling, Inc. ("WRI") entered into a contract for the operation of the Bearfoot Road Sanitary Landfill ("Existing Agreement"). The Existing Agreement was for a term of twenty (20) years with four 5-year renewal options. The Existing Agreement allows WRI to operate a recycling facility and the Town's sanitary landfill. Presently, WRI is limited to disposing of 180,960 tons of recycling residual and municipal solid waste at the landfill each year. The Existing Agreement, as well as the site assignment issued by the Board of Health, however, limits the amount of municipal solid waste that can be disposed of at the landfill to 80 tons per day. The Existing Agreement provides for the payment by WRI of a royalty payment to the Town in the amount of \$1 million per year, which amount escalates by the Consumer Price Index with a cap of 3% each year. Because the regulations of the Massachusetts Department of Environmental Protection ("DEP") requires that the owner and/or operator of a landfill provide a financial assurance mechanism to ensure that sufficient resources are available for the capping and closure of the landfill as well as conducting post closure monitoring activities for a period of 30 years after closure, the Existing Agreement established two funds maintained by the Town which WRI funds in designated amounts each month. The

Mr. Clayton R. Carlisle
Town Manager
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Existing Agreement provides that the funds accumulated in the closure and post closure accounts be made available to WRI as closure and post closure activities occur.

The Town has determined, however, that the amounts deposited in the closure and post closure accounts are inadequate to cover the anticipated costs of closure and post closure activities. Accordingly, the Town determined that renegotiation of the Existing Agreement was necessary in order to provide enhanced protections for the Town. Accordingly, the Town Council authorized the Town Manager and his selected negotiating team to commence negotiations with WRI to extend the Existing Agreement.

Given the nature of the changes that are being proposed to the Existing Agreement, the approval of the Town Council is required pursuant to G.L. c.44, sec. 28C. Long term landfill operating agreements authorized under that statute may be for a total term of 40 years.

Since the Existing Agreement was executed in 1996, a controlling interest in WRI was purchased by Casella Waste Systems, a national solid waste company. The Existing Agreement permits an assignment of the agreement to another party, with the approval of the Town. Accordingly, Casella Waste Systems has created a new company, Southbridge Recycling and Disposal Park, Inc. ("SRD"), to operate the Town's landfill. By executing the Extension Agreement, the Town will consent to the assignment of the Existing Agreement. In order to ensure, however, that there are adequate resources to support the obligations of SRD under the Extension Agreement, Casella Waste Systems has agreed to sign an unconditional guarantee in favor of the Town.

The Extension Agreement provides significant benefits to the Town in addition to the benefits which the Town currently has under the Existing Agreement. First and foremost, SRD has agreed to assume complete responsibility for closure and post closure of the landfill and will provide a substitute financial assurance mechanism to the DEP in order to comply with applicable law. In turn, the Town has agreed to release to SRD the funds that have accumulated in the closure and post closure accounts which will be available to SRD for closure and post closure activities. The royalty payments that have accumulated in the Town's account will be retained by the Town for municipal purposes.

The Town has agreed, in consideration of the assumption by SRD of the closure and post closure obligations, to allow SRD to seek a modification of site assignment in two stages. First, SRD may seek permission from the Board of Health and the DEP to increase the amount of municipal solid waste disposed of at the landfill to a maximum of 180,960 tons per year. This is referred to in the Extension Agreement as the "Initial Capacity". In addition, SRD may seek the necessary permits and approvals to further increase the total municipal solid waste disposal

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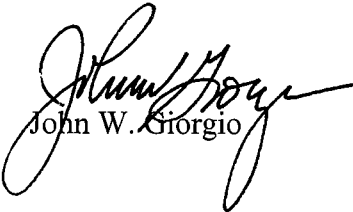
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capacity to 405,600 tons per year. Under the Existing Agreement, a total of 499,200 tons per year may be processed and disposed of by SRD through the recycling facility and the landfill. Accordingly, the increase in tonnage allowed under the Extension Agreement would not increase the overall capacity limits of the existing recycling facility and landfill as currently permitted.

In addition to continuing to pay royalty fees, SRD has agreed to continue to provide at no cost to the Town curbside collection of municipal solid waste and recyclables for residents of the Town. This obligation will continue for the life of the landfill, or twenty years, whichever is longer. SRD has also agreed to make an annual payment to the Town to cover the anticipated cost of financing the construction of the Industrial Park Road for the 20 year life of the bonds to be authorized by the Town Council for the construction. In addition, SRD has agreed to reimburse the Town for its legal costs and engineering consulting fees to negotiate the Extension Agreement. Finally, SRD has agreed to reimburse the Town for the cost of providing a full time landfill monitor during the term of the Agreement.

I am enclosing a copy of the fully negotiated Extension Agreement as well as a more detailed Summary of Key Legal Terms. I am also planning to be in attendance at the Executive Session meeting of the Town Council on February 26, 2007.

Very truly yours,


John W. Giorgio

JWG/bp
Enc.
307470/27807/0001

KEY LEGAL TERMS IN

**EXTENSION OF AGREEMENT FOR THE OPERATION
OF THE BAREFOOT ROAD SANITARY LANDFILL,
AND REFUSE AND RECYCLABLES COLLECTION,
SOUTHBRIDGE, MASSACHUSETTS**

The following is a summary of the key legal terms contained in the draft Extension Agreement (the “Agreement”) negotiated between **Southbridge Recycling and Disposal Park, Inc.** (“SRD”) and the **Town of Southbridge** for the operation of the Barefoot Road Landfill Facility (the “Landfill”). This summary does not address routine legal terms. Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Agreement.

- A. **Effective Date**: the Agreement will take effect once 3 conditions are satisfied (**Section 2.1**):
1. **Approvals**: SRD obtains all approvals to dispose of 180,960 tons of Municipal Solid Waste (“MSW”) at the Landfill, including a site assignment or modification from the Board of Health, and a solid waste management facility permit from DEP (**Section 2.1**);
 2. **FAM**: DEP approves the Financial Assurance Mechanism (“FAM”) to be provided by SRD (**Section 2.1**); and
 3. **Bonds**: SRD provides the Town with two bonds: (i) a bond for \$625,000 to ensure collection and disposal of curbside waste (**Sections 2.1 and 3.4(e)**), and (ii) a bond to ensure payment of liquidated damages in the amount of 6 Million Dollars to the Town if the Agreement is terminated because of SRD’s breach (**Section 25.1(a)**).
- B. **Termination Date**: when the capacity of the Landfill is exhausted, but no later than December 9, 2036 (**28.1**).
- C. **Payments to Town and Other Benefits**:
1. **Royalty Payments**: SRD will make Royalty Payments to the Town. The amount of the Royalty Payment depends on the amount of waste that SRD is permitted to dispose at the Landfill:
 - (a) *At Initial Capacity* (fewer than 405,600 tons of waste per year) (**Section 5.2**)
 - (i) For the first 180,960 tons: the greater of (x) 5.53 per ton or (y) \$83,333.33 per month, not to exceed One Million Dollars a year; and
 - (ii) For the remaining tons: \$5.53 per ton.
 - (b) *At Expanded Capacity* (more than 405,600 tons of waste per year) (**Section 5.3**):
The greater of (x) \$6.00 per ton, or (y) \$83,333.33 per month (no cap).

Note:

- Royalty Payments will increase by the increase in the CPI between the date that Agreement is signed and Effective Date.

- Royalty Payments increase every year thereafter by increases in the CPI, capped at 2.5%.
 - The Town has extensive rights to audit SRD's records to ascertain accuracy of payments **(Section 12)**.
 - Royalty Payments may be reduced if a Change in Law or Force Majeure event materially and adversely affects SRD's ability to fulfill its obligations under the Agreement, provided the Town approves of the reduction **(Section 5.5)** (for a discussion of Change in Law or Force Majeure, see Paragraph L below).
 - Royalty Payments may be suspended if a Change in Law or Force Majeure causes the Landfill to cease operation **(Section 5.6)**.
 - SRD shall maintain the total capacity of waste delivered to the Landfill and the Processing Facility at or below the current total permitted level of 499,200 tons a year **(Section 3.4(k))**.
 - The increased capacity of the Landfill will not increase the truck traffic accessing the Landfill and the Processing Facility as of the date the Agreement is signed by the parties **(Section 4.3)**.
2. Landfill Monitor: SRD will pay the Town no more than \$75,000 for the Landfill Monitor. The salary of the Monitor shall increase at the same rate at which salary of other municipal employees increases (not to exceed 4% a year) **(Section 7.1(a))**.
 3. Consultants: SRD will pay the Town \$10,000.00 a year for third-party consultants, which amount will increase every year based on increases in the CPI (capped at 2.5%) **(Section 7.1(b))**.
 4. Legal Fund Contribution: SRD will contribute to the Town's legal costs (a) \$100,000 on the Effective Date, and (b) an additional \$100,000 when the Landfill may be operated at the Expanded Capacity **(Sections 7.2 and 7.6)**.
 5. LGE Payments: SRD will pay the Town 10% of all gross revenues received by SRD from the sale of electricity to third parties from the landfill gas to energy project (the "LGE Project"). These payments continue if the Agreement is terminated because of a Force Majeure event, as discussed more fully in Paragraph L below. The Town has the right to audit SRD's records to confirm accuracy of payments **(Section 7.4(b))**.
 6. Contribution Payment: once the contract for the construction of Phase 1 of the Industrial Park Road has been awarded, SRD shall pay the Town \$341,000 for 20 years (even if the 20 year period is longer than the Term of the Agreement) **(Section 7.3(d))**. This amount increases to \$471,000 per year if the Landfill can be operated at the Expanded Capacity (but Royalty Payments will reduce as follows: for the first 180,960 tons, SRD will pay \$6.00 per ton, or higher number, based on increases in the CPI, but will reduce the payment to \$5.42 for each ton after that) **(Section 7.7)**.
 7. Curbside Collection Program: SRD will collect and dispose of waste generated by Town residents at no cost to the Town for the Term of the Agreement or 20 years, whichever is longer, for a maximum of 7,000 residences **(Section 3.4(d))**.
 8. Closure and Post-Closure Activities: SRD shall be responsible for undertaking, at its sole cost and expense, all Closure and Post-Closure Activities required by the permits **(Section 3.4(a))**.

9. FAM: SRD will substitute an alternative Financial Assurance Mechanism (“FAM”) to replace the existing FAM that the Town maintains. The Town will take steps to release certain funds currently held by the Town to SRD (**Section 6.2**).
 10. Assumption of Liability: SRD assumes liability for removing and remediating any hazardous waste found in any area where SRD has disposed of any waste (**Section 3.9**).
 11. Recycle Bank: once the Town establishes a single stream recycling requirement for its residents, SRD will provide to the Town a single stream recycling program, at SRD’s expense, and offer residents the opportunity to participate in the program at competitive rates (**Section 7.10**).
 12. ACOP Implementation: SRD shall fulfill its obligations under the ACOP (**Section 3.8**).
 13. Other Benefits: SRD agrees to develop (a) a hydroponics or other project to use the stream and/or waste heat generated by the LGE Project, (b) a gasification project to use waste wood and other similar items recovered from the Processing Facility, and (c) new solid waste conversion technologies, if such development is commercially reasonable (**Sections 8.1, 8.2, and 8.3**).
- D. **Bonds**: SRD shall provide the Town with the following bonds:
1. Curbside Collection Bond: in the amount of \$625,000 to cover the cost of the curbside collection program, which amount will increase every 3 years to take into account the increased cost of providing the service. The Town may use this bond if SRD breaches its obligations to operate the curbside collection program or if the Agreement is terminated because of SRD’s default (**Section 3.4(e)**).
 2. Liquidated Damages Bond: SRD is required to pay the Town liquidated damages in the amount of Six Million Dollars if the Town terminates the Agreement as a result of SRD’s breach. The payment of such damages is secured by a bond. The amount of this bond increases every 3 years based on increases in the CPI, capped at 2.5% (**Section 25.1**).
- E. **Hours of Operation of the Landfill**: 7:00 A.M. to 5:00 P.M. Monday through Saturday, unless otherwise permitted by DEP (**Section 3.5**).
- F. **Indemnification**: SRD and the Town shall indemnify each other for any losses arising as a result of the breach of a material representation or warranty or for any other breach. This obligation survives the termination or expiration of the Agreement (**Section 17**).
- G. **Insurance**: SRD is required to carry general liability insurance, property insurance, and other insurance in amounts set forth in the Agreement. The Town is not required to maintain any insurance (**Section 21**).
- H. **Limitation on Liability**: neither party is responsible for paying the other indirect or consequential damages (**Section 25.2**). However, SRD expressly agrees to restore the Landfill if SRD damages the Landfill in a manner that interferes with the Town’s right to benefit from the remaining life of the Landfill (**Section 17.1**).
- I. **Corporate Guaranty**: Casella will guarantee SRD’s payment and performance obligations. The Guarantor must obtain the Town’s approval before assigning the Guaranty. No such approval is required if the assignee has a net worth of at least Thirty Million Dollars (**Section 24**).
- J. **Benefits to SRD**: the Agreement provides following benefits to SRD:

1. Increase in Amount of Waste: SRD is able to increase the amount of waste that can be disposed of at the Landfill (but cannot exceed the total level of 499,200 tons per year currently permitted at the Landfill and the Processing Facility);
2. LGE Project: has the exclusive right to use any landfill gas generated at the Landfill, and the right to design, permit, develop, own and operate the LGE Project (**Section 7.4**);
3. Sole Provider: SRD has the exclusive right to use and operate the Landfill. Town agrees that it will not make any other Town property available to any private party for the purpose of operating a for-profit transfer station or landfill for the processing or disposal of waste (this does not prevent the Town itself from operating a landfill facility on other Town property or allowing others to operate a landfill facility on other Town property for the exclusive use of Town residents) (**Sections 3.1 and 9.4**);
4. Disposal of Leachate and Access to Town Water: SRD has the right, at its sole cost and expense, to connect the Landfill, the Processing Facility, the LGE Project, the Waste Heat Project, and the Gasification Project with the Town's sewer and waster lines constructed as part of Phase 1 of the construction of the Industrial Park Road. SRD will pay all applicable connection and user fees (**Sections 9.2 and 9.3**).

- K. Change in Law and Force Majeure: the performance of either party is excused if such party is reasonably precluded from performance by the occurrence of a Change in Law or event of Force Majeure. The excuse from performance is only to the minimum extent reasonably forced on the party. The party must use reasonable efforts to overcome the event and must give prompt notice to the other party of a Change in Law or Force Majeure event.

A "Change in Law" is, in essence, a change in local rules, laws and regulations after the date the Agreement is signed that materially and adversely affects a party's ability to fulfill its obligations under the Agreement. Most importantly, a Change in Law does not include: (a) matters related to securing the approvals necessary to operate the Landfill at increased capacity (b) Federal or state laws or regulations of general applicability that affect the management or disposal of solid waste, (c) any event related to taxation of income by any Federal or state authority that affects a general class of taxpayers.

"Force Majeure" means any reasonably unforeseeable act, event or condition affecting the Landfill, the Town or SRD that materially and adversely affects the ability of the Town or SRD to perform or comply with any obligation, duty or agreement required under the Agreement, if such act, event, or condition is beyond the reasonable control of a party or its agents relying thereon. Force Majeure does not include, among other circumstances: (a) any judicial or administrative action requiring SRD to remediate conditions at the Landfill caused by SRD's failure to manage and operate the Landfill in accordance with all applicable laws and regulations; (b) any act, event or circumstance that would not have occurred if the affected Party had complied with its obligations under the Agreement or complied with all applicable laws and regulations; (c) changes in the financial condition of the Town, SRD, the Guarantor, affecting the ability to perform their respective obligations; or (d) the consequences of error, neglect or omissions by SRD, the Guarantor, the Town, any subcontractor, any of their affiliates or any other person in the management and operation of the Landfill.

Note, as discussed in Paragraph C1 above, that SRD has the right to (a) reduce the amount of the Royalty Payment if a Change in Law or Force Majeure event materially and adversely affects SRD's ability to fulfill its obligations under the Agreement, provided the Town approves of the reduction. However, SRD must fulfill its other obligations under the Agreement (**Section 5.5**).

In addition, SRD may suspend the Royalty Payment if a Change in Law of Force Majeure causes the Landfill to cease operation. However, SRD must fulfill its other obligations under the Agreement, including those under Sections 3.4(d) (curbside collection), 3.4(e) (curbside collection bond), 6.2 (FAM), 7.3(d) (contribution payment), 7.4(b) (LGE payments), and 25.1 (liquidated damages) (**Section 5.6**).

L. Default and Termination:

1. Termination by the Town: the Town may terminate the Agreement for the following reasons:

- (a) *Default by SRD:* if SRD fails to fulfill its obligations and does not cure the default within the applicable time period (90 days for non-monetary default and 45 days for monetary defaults). In such a case, (a) the Town may enforce the curbside collection performance bond (\$625,000) and obtain the liquidated damages of Six Million Dollars; (b) if the breach is a result of a failure to make any payment to the Town, SRD will continue paying the Town the Contribution Payment (\$341,000 or \$471,000, depending on whether the Landfill was operating at the Enhanced Capacity); (c) SRD retains its right to connect to Town sewer and water under Sections 9.2 and 9.3; (d) certain other obligations shall continue (for example, SRD shall have the obligation to restore the Property), and (e) SRD's obligation to indemnify the Town shall survive the termination (**Sections 18.1(a) and 18.4**).
- (b) *Change in Law or Force Majeure:* the Town may terminate the Agreement if a Change in Law or Force Majeure event (i) causes the Landfill to cease operation for more than 3 years; or (ii) renders the Town or SRD unable to fulfill their respective obligations under the Agreement for more than 3 years. In such a case, all payments to be made by SRD under the Agreement shall terminate (except for the LGE Payments, if the Agreement is terminated for a Force Majeure event), but SRD will transfer all its interests in the FAM to the Town and continue to indemnify the Town (**Sections 18.1(c) and 18.6**). If SRD has constructed but not used cells at the Landfill, the Town will reimburse SRD for SRD's cost of constructing the unused cells (**Section 18.7(a)**). If, however, the Agreement was terminated for a Change in Law, the Town must pay SRD any net revenues it receives from the use of that unused capacity (**Section 18.7(b)**).

2. Termination by SRD: SRD has the right to terminate the Agreement for the following reasons:

- (a) *Breach by Town:* if the Town fails to fulfill its material obligations under the Agreement, SRD has the right to terminate the Agreement. The Town will not be able to use the curbside collection performance bond or be entitled to liquidated damages. SRD will transfer all its interests in the FAM to the Town (**Sections 18.1(b) and 18.5**). If SRD has constructed but not used additional cells at the Landfill at the time the Agreement is terminated, the Town will pay SRD any net revenues it receives from the use of that unused capacity (**Section 18.7(b)**).
- (b) *Change in Law or Force Majeure:* SRD may terminate the Agreement if a Change in Law or Force Majeure event (i) causes the Landfill to shut down for more than 1 year; or (ii) makes it economically infeasible for SRD to operate the Landfill for more than 1 year; or (iii) causes the Town to fail to fulfill its obligations for more than 1 year. In such a case, all payments to be made by SRD under the Agreement shall terminate (except for the LGE Payments, if the Agreement is terminated for a Force Majeure event), but SRD will transfer all its interests in the FAM to the Town and continue to indemnify the Town (**Sections**

18.1(c) and 18.6). If the cause for termination is a Force Majeure event, the Town will reimburse SRD for the cost of constructing any unused cells, if any (**Section 18.7(a)**). If the Agreement is terminated because of a Change in Law, the Town pay SRD any net revenues it receives from the use of that unused capacity (**Section 18.7(b)**)

M. **Nonbinding Arbitration**: a process for non-binding arbitration is provided for. After arbitration, either party may bring an action to enforce the Agreement in a court having jurisdiction (**Section 27**).

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