COVANTA HOLDING CORP
Form 10-Q
April 19, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 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 1-06732

COVANTA HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-6021257**
(State or Other Jurisdiction of	*(I.R.S. Employer*
Incorporation or Organization)	*Identification Number)*
445 South Street, Morristown, NJ	**07960**
(Address of Principal Executive Office)	*(Zip Code)*

(862) 345-5000

(Registrant s telephone number including area code)

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

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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

Applicable Only to Corporate Issuers:

The number of shares of the registrant s Common Stock outstanding as of the latest practicable date.

Class	Outstanding at April 12, 2012
Common Stock, $0.10 par value	134,696,443 shares

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

For the Quarter Ended March 31, 2012

PART I. FINANCIAL INFORMATION

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Covanta Holding Corporation and its subsidiaries (Covanta) or general industry results or broader economic performance in domestic and international markets in which we operate or compete, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, will, would, could, should, seeks, or words, or the negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws. Covanta cautions investors that any forward-looking statements made by Covanta are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to Covanta include, but are not limited to, the risks and uncertainties affecting its businesses described in Item 1A. Risk Factors of Covanta s Annual Report on Form 10-K for the year ended December 31, 2011 and in other filings by Covanta with the SEC.

Although Covanta believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any of its forward-looking statements. Covanta s future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date hereof and Covanta does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

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PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2012	2011
	(Unaudited) (In millions, except per share amounts)	
OPERATING REVENUES:		
Waste and service revenues	$ 258	$ 251
Electricity and steam sales	91	94
Other operating revenues	43	32
Total operating revenues	392	377
OPERATING EXPENSES:		
Plant operating expenses	267	271
Other operating expenses	39	28
General and administrative expenses	25	25
Depreciation and amortization expense	50	47
Net interest expense on project debt	8	8
Total operating expenses	389	379
Operating income (loss)	3	(2)
Other income (expense):		
Interest expense	(18)	(17)
Non-cash convertible debt related expense	(6)	(5)
Loss on extinguishment of debt	(2)	
Other income, net	3	
Total other expenses	(23)	(22)
Loss from continuing operations before income tax benefit and equity in net income from unconsolidated investments	(20)	(24)
Income tax benefit	8	10
Equity in net income from unconsolidated investments	1	
Loss from continuing operations	(11)	(14)
Income from discontinued operations, net of income tax expense of $0 and $2, respectively		149
NET (LOSS) INCOME	(11)	135
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(1)	

Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries				(2)
Total net income attributable to noncontrolling interests in subsidiaries		(1)		(2)
NET (LOSS) INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$	(12)	$	133
Amounts Attributable to Covanta Holding Corporation stockholders :				
Continuing operations	$	(12)	$	(14)
Discontinued operations				147
Net (Loss) Income Attributable to Covanta Holding Corporation	$	(12)	$	133
(Loss) Earnings Per Share Attributable to Covanta Holding Corporation stockholders :				
Basic				
Continuing operations	$	(0.09)	$	(0.09)
Discontinued operations				1.00
Covanta Holding Corporation	$	(0.09)	$	0.91
Weighted Average Shares		134		147
Diluted				
Continuing operations	$	(0.09)	$	(0.09)
Discontinued operations				1.00
Covanta Holding Corporation	$	(0.09)	$	0.91
Weighted Average Shares		134		147
Cash Dividend Declared Per Share:	$	0.15	$	0.075

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	(Unaudited) (In millions)			
Net (loss) income	$	(11)	$	135
Foreign currency translation		1		8
Net unrealized gain on available for sale securities, net of tax		1		
Other comprehensive income attributable to Covanta Holding Corporation		2		8
Comprehensive (loss) income		(9)		143
Less: Net income attributable to noncontrolling interests in subsidiaries		(1)		(2)
Comprehensive (loss) income attributable to Covanta Holding Corporation	$	(10)	$	141

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2012 (Unaudited)	As of December 31, 2011
	(In millions, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$ 267	$ 232
Restricted funds held in trust	87	101
Receivables (less allowances of $5 and $5, respectively)	226	260
Unbilled service receivables	15	20
Deferred income taxes	40	28
Prepaid expenses and other current assets	112	105
Assets held for sale	18	18
Total Current Assets	765	764
Property, plant and equipment, net	2,411	2,423
Investments in fixed maturities at market (cost: $30 and $31, respectively)	31	31
Restricted funds held in trust	90	90
Unbilled service receivables	23	25
Waste, service and energy contracts, net	425	434
Other intangible assets, net	77	78
Goodwill	232	232
Investments in investees and joint ventures	44	43
Other assets	316	265
Total Assets	$ 4,414	$ 4,385
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$ 3	$ 32
Current portion of project debt	136	147
Accounts payable	39	25
Deferred revenue	74	61
Accrued expenses and other current liabilities	218	211
Liabilities held for sale	3	3
Total Current Liabilities	473	479
Long-term debt	1,570	1,454
Project debt	507	533
Deferred income taxes	638	633
Waste and service contracts	73	76
Other liabilities	123	122
Total Liabilities	3,384	3,297
Commitments and Contingencies (Note 13)		
Equity:		

Covanta Holding Corporation stockholders equity:		
Preferred stock ($0.10 par value; authorized 10 shares; none issued and outstanding)		
Common stock ($0.10 par value; authorized 250 shares; issued 159 and 158 shares; outstanding 135 and 136 shares)	16	16
Additional paid-in capital	815	824
Accumulated other comprehensive income	3	1
Accumulated earnings	192	244
Treasury stock, at par	(2)	(2)
Total Covanta Holding Corporation stockholders equity	1,024	1,083
Noncontrolling interests in subsidiaries	6	5
Total Equity	1,030	1,088
Total Liabilities and Equity	$ 4,414	$ 4,385

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2012	2011
	(Unaudited) (In millions)	
OPERATING ACTIVITIES:		
Net (loss) income	$ (11)	$ 135
Less: Income from discontinued operations, net of tax expense		149
Loss from continuing operations	(11)	(14)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities from continuing operations:		
Depreciation and amortization expense	50	47
Amortization of long-term debt deferred financing costs	1	1
Amortization of debt premium and discount	(1)	(1)
Loss on extinguishment of debt	2	
Non-cash convertible debt related expense	6	5
Stock-based compensation expense	5	5
Equity in net income from unconsolidated investments	(1)	
Dividends from unconsolidated investments		4
Deferred income taxes	(7)	(9)
Other, net	(5)	(1)
Change in restricted funds held in trust	2	(15)
Change in working capital, net of effects of acquisitions	63	71
Total adjustments for continuing operations	115	107
Net cash provided by operating activities from continuing operations	104	93
Net cash used in operating activities from discontinued operations		(10)
Net cash provided by operating activities	104	83
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	1	5
Purchase of investment securities		(4)
Purchase of property, plant and equipment	(32)	(38)
Acquisition of land use rights	(1)	
Other, net		3
Net cash used in investing activities from continuing operations	(32)	(34)
Net cash provided by investing activities from discontinued operations		220
Net cash (used in) provided by investing activities	(32)	186
FINANCING ACTIVITIES:		
Proceeds from borrowings on long-term debt	699	
Payment of deferred financing costs	(23)	
Principal payments on long-term debt	(619)	(2)

Principal payments on project debt		(37)		(74)
Convertible debenture repurchases		(25)		(6)
Proceeds from borrowings on project debt				2
Change in restricted funds held in trust		12		44
Cash dividends paid to stockholders		(10)		
Common stock repurchased		(30)		(54)
Financing of insurance premiums, net		(3)		
Distributions to partners of noncontrolling interests in subsidiaries				(2)
Other, net		(1)		(2)
Net cash used in financing activities from continuing operations		(37)		(94)
Net cash provided by financing activities from discontinued operations				10
Net cash used in financing activities		(37)		(84)
Effect of exchange rate changes on cash and cash equivalents				2
Net increase in cash and cash equivalents		35		187
Cash and cash equivalents at beginning of period		234		141
Cash and cash equivalents at end of period		269		328
Less: Cash and cash equivalents of discontinued operations at end of period		2		1
Cash and cash equivalents of continuing operations at end of period	$	267	$	327

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

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

The terms we, our, ours, us and Company refer to Covanta Holding Corporation and its subsidiaries; the term Covanta Energy refer subsidiary Covanta Energy Corporation and its subsidiaries.

Organization

Covanta is one of the world s largest owners and operators of infrastructure for the conversion of waste to energy (known as energy-from-waste or EfW), as well as other waste disposal and renewable energy production businesses. Energy-from-waste serves two key markets as both a sustainable waste disposal solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 20 million tons of solid waste annually. We operate and/or have ownership positions in 46 energy-from-waste facilities, which are primarily located in North America, and 15 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). In total, these assets produce approximately 10 million megawatt (MW) hours of baseload electricity annually. We also operate a waste management infrastructure that is complementary to our core EfW business.

We own and hold equity interests in energy-from-waste facilities in China and Italy. We are pursuing additional growth opportunities in parts of Europe, primarily in the United Kingdom, where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce greenhouse gas emissions.

We also have investments in subsidiaries engaged in insurance operations in California, primarily in property and casualty insurance; however these collectively account for less than 1% of our consolidated revenue.

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. For additional information, see Note 5. Financial Information by Business Segments.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for fair presentation have been included in our financial statements. All intra-entity accounts and transactions have been eliminated. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ended December 31, 2012. This Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and accompanying Notes in our Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K).

We use the equity method to account for our investments for which we have the ability to exercise significant influence over the operating and financial policies of the investee. Consolidated net income includes our proportionate share of the net income or loss of these companies. Such amounts are classified as equity in net income from unconsolidated investments in our condensed consolidated financial statements. Investments in companies in which we do not have the ability to exercise significant influence are carried at the lower of cost or estimated realizable value. We monitor investments for other-than-temporary declines in value and make reductions when appropriate.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued joint requirements related to balance sheet disclosures related to offsetting assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards (IFRS). Disclosures are required to be retrospective for all comparative periods presented. We are required to adopt this standard for the first quarter of 2013. We do not expect this accounting standard to have an impact on our condensed consolidated financial statements.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 3. BUSINESS DEVELOPMENT, ASSETS HELD FOR SALE AND DISPOSITIONS

Business Development and Organic Growth

Alexandria/Arlington County Energy-from-Waste Facility

We entered into a new tip fee contract with the City of Alexandria and Arlington County to provide for continued waste supply to our Alexandria EfW facility through 2025. Both parties have the option to terminate the agreement in 2019. The agreement also provides the City of Alexandria and Arlington County with the option to extend the agreement to 2038.

Braintree Transfer Station

In March 2012, we began a major renovation project to increase recycling capacity at the Braintree transfer station located near our Southeast Massachusetts EfW facility. The project is expected to cost approximately $7 million and is expected to be completed by the end of 2012. The town of Braintree extended the site lease agreement with the facility to 2030.

Montgomery County Energy-from-Waste Facility

We extended the service agreement for our Montgomery County EfW facility and Derwood transfer station from 2016 to 2021 on substantially the same terms as in the existing agreement.

Niagara Energy-from-Waste Facility

During the first quarter of 2012, we extended a steam sale contract from 2013 to 2021 for our Niagara EfW facility. This contract combined with new and extended contracts entered in 2011 will increase the steam demand from our customer base and will require us to invest a total of approximately $10 million in capital expenditures in 2012 and 2013 to install a new natural gas package boiler and steam line to connect to our new customers.

Organic Growth Investments

During the three months ended March 31, 2012, we invested approximately $4 million in various organic growth initiatives by enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue and expanding our customer base and service offerings.

Assets Held for Sale and Dispositions

In 2010, we adopted a plan to sell our interests in certain fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. During 2011, we sold the majority of those assets and have one remaining asset held for sale for our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. In April 2012, we completed the sale of our interest in the Haripur project. For additional information, see Note 14. Subsequent Events.

The assets and liabilities associated with these businesses are presented in our condensed consolidated balance sheets as Current Assets Held for Sale and Current Liabilities Held for Sale. The results of operations of these businesses are included in the condensed consolidated statements of operations as Income from discontinued operations, net of tax. The cash flows of these businesses are also presented separately in our condensed consolidated statements of cash flows.

The following table summarizes the operating results of the discontinued operations for the periods indicated (in millions):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues	$	$ 46
Operating expenses, including net gain on disposal of assets held for sale in 2011 [(1)]	$ (1)	$ 99
(Loss) income before income tax benefit (expense) and equity in net income from unconsolidated investments	$ (1)	$ 146
Equity in net income from unconsolidated investments	$ 1	$ 6
Income from discontinued operations, net of income tax expense of $0 and $2, respectively	$	$ 149

(1) During the first quarter of 2011, we recorded a net after-tax gain on disposal of assets held for sale of $136 million.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table sets forth the assets and liabilities of the assets held for sale included in the condensed consolidated balance sheets as of the dates indicated (in millions):

	As of March 31, 2012	As of December 31, 2011
Cash and cash equivalents	$ 2	$ 2
Accounts receivable	1	1
Investments in investees and joint ventures	15	15
Assets held for sale	$ 18	$ 18
Accrued expenses and other	$ 3	$ 3
Liabilities held for sale	$ 3	$ 3

NOTE 4. EARNINGS PER SHARE (EPS)

Per share data is based on the weighted average number of outstanding shares of our common stock, par value $0.10 per share, during the relevant period. Basic earnings per share are calculated using only the weighted average number of outstanding shares of common stock. Diluted earnings per share computations, as calculated under the treasury stock method, include the weighted average number of shares of additional outstanding common stock issuable for stock options, restricted stock awards, restricted stock units and warrants whether or not currently exercisable. Diluted earnings per share for all the periods presented does not include securities if their effect was anti-dilutive (in millions, except per share amounts).

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net loss from continuing operations	$ (12)	$ (14)
Net income from discontinued operations		147
Net (loss) income attributable to Covanta Holding Corporation	$ (12)	$ 133
Basic (loss) earnings per share:		
Weighted average basic common shares outstanding	134	147
Continuing operations	$ (0.09)	$ (0.09)
Discontinued operations		1.00
Covanta Holding Corporation	$ (0.09)	$ 0.91
Diluted (loss) earnings per share:		
Weighted average basic common shares outstanding	134	147

Dilutive effect of stock options				
Dilutive effect of restricted stock				
Dilutive effect of warrants				
Weighted average diluted common shares outstanding		134		147
Continuing operations	$	(0.09)	$	(0.09)
Discontinued operations				1.00
Covanta Holding Corporation	$	(0.09)	$	0.91
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been anti-dilutive:				
Stock options				2
Restricted stock		1		1
Restricted stock units				1
Warrants		28		27

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

In 2009, we entered into privately negotiated warrant transactions in connection with the issuance of 3.25% Cash Convertible Senior Notes due 2014 (the 3.25% Notes). These warrants could have a dilutive effect to the extent that the price of our common stock exceeds the applicable strike price of $22.78. As of March 31, 2012, the warrants did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

NOTE 5. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. The results of our reportable segment are as follows (in millions):

	Americas	All Other (1)	Total
Three Months Ended March 31, 2012:			
Operating revenues	$ 381	$ 11	$ 392
Depreciation and amortization expense	49	1	50
Operating income (loss)	9	(6)	3
Three Months Ended March 31, 2011:			
Operating revenues	$ 367	$ 10	$ 377
Depreciation and amortization expense	47		47
Operating income (loss)	7	(9)	(2)

(1) All other is comprised of the financial results of our insurance subsidiaries operations and our remaining international assets that are not classified as assets held for sale. See Note 3. Business Development, Assets Held for Sale and Dispositions.

NOTE 6. CHANGES IN CAPITALIZATION

2012 Debt Refinancing

During the first quarter of 2012, we completed a refinancing of our previously existing senior secured credit facilities issued by our subsidiary, Covanta Energy, which consisted of a $300 million revolving credit facility, a $320 million funded letter of credit facility and a $619 million term loan ($650 million original amount), by entering into $1.2 billion in new senior secured credit facilities (the 2012 Credit Facilities ; see below for details) issued by our subsidiary, Covanta Energy, comprised of a $900 million revolving credit facility that expires in 2017 (the Revolving Credit Facility) and a $300 million term loan due 2019 (the Term Loan), and by issuing $400 million aggregate principal amount of 6.375% senior notes due 2022 (the 6.375% Notes ; see below for details). The proceeds from the Term Loan and a portion of the proceeds from the 6.375% Notes were used to repay the previously existing term loan, as well as to pay transaction expenses, while the Revolving Credit Facility replaced the previously existing $300 million revolving credit facility and $320 million funded letter of credit facility. The Revolving Credit Facility, which was undrawn at March 31, 2012, is available both for the issuance of letters of credit ($275 million outstanding as of March 31, 2012) and for borrowings for general corporate purposes.

As a result of the refinancing, we recognized a loss on extinguishment of debt of approximately $2 million, pre-tax, during the three months ended March 31, 2012, which was comprised of the write-off of deferred financing costs in connection with previously existing financing arrangements.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Long-Term Debt

Long-term debt is as follows (in millions):

	As of	
	March 31, 2012	December 31, 2011
7.25% Senior Notes due 2020	$ 400	$ 400
6.375% Senior Notes due 2022	400	
1.00% Senior Convertible Debentures due 2027 (1)		25
3.25% Cash Convertible Senior Notes due 2014	460	460
Debt discount related to 3.25% Cash Convertible Senior Notes	(61)	(67)
Cash conversion option derivative at fair value	75	49
3.25% Cash Convertible Senior Notes, net	474	442
Term loan	300	619
Debt discount related to Term loan	(1)	
Term loan, net	299	619
Total	1,573	1,486
Less: current portion	(3)	(32)
Total long-term debt	$ 1,570	$ 1,454

(1) The remaining outstanding Debentures were redeemed at par during the first quarter of 2012. See additional information below under *1.00% Senior Convertible Debentures due 2027.*

2012 Credit Facilities

The following is a comparison of our previously existing credit facilities and the 2012 Credit Facilities issued by our subsidiary, Covanta Energy (in millions):

	Credit Facilities As of	
	March 31, 2012	December 31, 2011
Term loan	$ 300	$ 650
Revolving credit facility	$ 900	$ 300
Funded letter of credit facility	N/A	$ 320
Total capacity to issue letters of credit	$ 900	$ 520

The Revolving Credit Facility is available for the issuance of letters of credit up to the full amount of the facility, provides for a $50 million sub-limit for the issuance of swing line loans (a loan that can be requested in US Dollars on a same day basis for a short drawing period); and is available in US Dollars, Euros, Pounds Sterling, Canadian Dollars and certain other currencies to be agreed upon, in each case for either borrowings for the issuance of letters of credit.

We have the option to issue additional term loans and/or increase the size of the Revolving Credit Facility (collectively, the Incremental Facilities), subject to the satisfaction of certain conditions and obtaining sufficient lender commitments, in an amount up to the greater of $500 million and the amount that, after giving effect to the incurrence of such Incremental Facilities, would not result in a leverage ratio, as defined in the credit agreement governing the 2012 Credit Facilities (the Credit Agreement), exceeding 2.75:1.00.

The proceeds of the Term Loan were used, together with a portion of the proceeds of the 6.375% Notes offering (see *6.375% Senior Notes due 2022* below for details), to refinance the previously existing credit facilities and to pay the related fees and expenses. The proceeds under the Revolving Credit Facility are available for working capital and general corporate purposes of Covanta Energy and its subsidiaries.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Availability under Revolving Credit Facility

As of March 31, 2012, we had availability under the Revolving Credit Facility as follows (in millions):

	Total Available Under Credit Facility	Maturing	Outstanding Borrowings as of March 31, 2012	Outstanding Letters of Credit as of March 31, 2012	Available as of March 31, 2012
Revolving Credit Facility	$ 900	2017	$	$ 275	$ 625

Repayment Terms

The Term Loan has mandatory quarterly amortization payments beginning June 30, 2012 through the date of maturity as follows (in millions):

	2012	2013	2014	2015	2016	2017	2018	2019	Total
Annual Remaining Amortization	$ 2	$ 3	$ 3	$ 3	$ 3	$ 3	$ 3	$ 280	$ 300

The 2012 Credit Facilities (both the Term Loan and Revolving Credit Facility) are pre-payable at our option at any time. In the event that all or any portion of the Term Loan is voluntarily prepaid in relation to a repricing or refinancing transaction resulting in lower pricing for us on or prior to March 28, 2013, however, we shall pay a fee to the lenders equal to 1.00% of the amount so prepaid.

Under certain circumstances, the 2012 Credit Facilities obligate us to apply 25% of our excess cash flow (as defined in the Credit Agreement) for each fiscal year commencing in 2013, as well as net cash proceeds from specified other sources, such as asset sales or insurance proceeds, to prepay the Term Loan, provided that this excess cash flow percentage shall be reduced to 0% in the event the leverage ratio is at or below 3.00:1.00.

Interest and Fees

Borrowings under the 2012 Credit Facilities bear interest, at our option, at either a base rate or a Eurodollar rate plus an applicable margin determined by pricing grids, which are based on Covanta Energy s leverage ratio. Base rate is defined as the higher of (i) the Federal Funds Effective Rate plus 0.50%, (ii) the rate the administrative agent announces from time to time as its per annum prime rate or (iii) the one-month LIBOR rate plus 1.00%. Eurodollar rate borrowings bear interest at the British Bankers Association LIBOR Rate, commonly referred to as LIBOR , for the interest period selected by us. Base rate borrowings under the Revolving Credit Facility shall bear interest at the base rate plus an applicable margin ranging from 1.25% to 1.75%. Eurodollar borrowings under the Revolving Credit Facility shall bear interest at LIBOR plus an applicable margin ranging from 2.00% to 2.75%. Fees for issuances of letters of credit include fronting fees equal to 0.125% per annum and a participation fee for the lenders equal to the applicable interest margin for LIBOR rate borrowings. We will incur an unused commitment fee ranging from 0.375% to 0.50% on the unused amount of commitments under the Revolving Credit Facility. The Term Loan bears interest, at our option, at either (i) the base rate plus an applicable margin ranging from 1.75% to 2.00%, or (ii) LIBOR plus an applicable margin ranging from 2.75% to 3.00%, subject to a LIBOR floor of 1.00%.

Guarantees and Securitization

The 2012 Credit Facilities are guaranteed by us and by certain of our subsidiaries. The subsidiaries that are party to the 2012 Credit Facilities agreed to secure all of the obligations under the 2012 Credit Facilities by granting, for the benefit of secured parties, a first priority lien on substantially all of their assets, to the extent permitted by existing contractual obligations; a pledge of substantially all of the capital stock of each of our domestic subsidiaries and 65% of substantially all the capital stock of each of our foreign subsidiaries which are directly owned, in each case to the extent not otherwise pledged.

Credit Agreement Covenants

The loan documentation under the 2012 Credit Facilities contains various affirmative and negative covenants, as well as financial maintenance covenants, that limit our ability to engage in certain types of transactions. We were in compliance with all required covenants as of March 31, 2012.

The negative covenants of the 2012 Credit Facilities limit our and our restricted subsidiaries ability to, among other things:

- incur additional indebtedness (including guarantee obligations);
- create certain liens against or security interests over certain property;
- pay dividends on, redeem, or repurchase our capital stock or make other restricted junior payments;

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

- enter into agreements that restrict the ability of our subsidiaries to make distributions or other payments to us;
- make investments;
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis;
- dispose of certain assets; and
- make certain acquisitions.

The financial maintenance covenants of the 2012 Credit Facilities, which are measured on a trailing four quarter period basis, include the following:

- a maximum Leverage Ratio of 4.00 to 1.00 for the trailing four quarter period, which measures the principal amount of Covanta Energy s consolidated debt less certain restricted funds dedicated to repayment of project debt principal and construction costs (Consolidated Adjusted Debt) to its adjusted earnings before interest, taxes, depreciation and amortization, as calculated in the Credit Agreement (Adjusted EBITDA). The definition of Adjusted EBITDA in the 2012 Credit Facilities excludes certain non-recurring and non-cash charges.

- a minimum Interest Coverage Ratio of 3.00 to 1.00, which measures Covanta Energy s Adjusted EBITDA to its consolidated interest expense plus certain interest expense of ours, to the extent paid by Covanta Energy as calculated in the Credit Agreement.

6.375% Senior Notes due 2022

In March 2012, we sold $400 million aggregate principal amount of 6.375% Senior Notes due 2022. Interest on the 6.375% Notes is payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2012, and the 6.375% Notes will mature on October 1, 2022 unless earlier redeemed or repurchased. Net proceeds from the sale of the 6.375% Notes were $392 million, consisting of gross proceeds of $400 million net of $8 million in offering expenses. We used a portion of the net proceeds of the 6.375% Notes offering to repay a portion of the amounts outstanding under Covanta Energy s previously existing term loan.

The 6.375% Notes are senior unsecured obligations, ranking equally in right of payment with any of the future senior unsecured indebtedness of Covanta Holding Corporation. The 6.375% Notes are effectively junior to our existing and future secured indebtedness, including any guarantee of indebtedness under the credit facilities of our subsidiary, Covanta Energy. The 6.375% Notes are not guaranteed by any of our subsidiaries and are effectively subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

The indenture for the 6.375% Notes may limit our ability and the ability of certain of our subsidiaries to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem their capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments;
- sell restricted assets;
- incur liens;
- enter into transactions with affiliates;
- alter the businesses they conduct;
- enter into agreements restricting our subsidiaries ability to pay dividends; and
- consolidate, merge or sell all or substantially all of their assets.

If and for so long as the 6.375% Notes have an investment grade rating and no default under the indenture has occurred, certain of the covenants will be suspended. At our option, the 6.375% Notes are subject to redemption at any time on or after April 1, 2017, in whole or in part, at the redemption prices set forth in the indenture, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to

April 1, 2015, we may redeem up to 35% of the original principal amount of the 6.375% Notes with the proceeds of certain equity offerings at a redemption price of 106.375% of their principal amount, together with accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to April 1, 2017, we may redeem some or all of the 6.375% Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, plus a make-whole premium .

If we sell certain of our assets or experience specific kinds of changes in control, we must offer to purchase the 6.375% Notes. The occurrence of specific kinds of changes in control will be a triggering event requiring us to offer to purchase from the holders all or a portion of the 6.375% Notes at a price equal to 101% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase. In addition, certain asset dispositions will be triggering events that may require us to use the proceeds from those asset dispositions to make an offer to purchase the 6.375% Notes at 100% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase if such proceeds are not otherwise used within 365 days to repay indebtedness or to invest or commit to invest such proceeds in additional assets related to our business or capital stock of a restricted subsidiary.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7.25% Senior Notes due 2020 (the 7.25% Notes)

For specific criteria related to redemption features of the 7.25% Notes, refer to Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.

3.25% Cash Convertible Senior Notes due 2014 (the 3.25% Notes)

Under limited circumstances, the 3.25% Notes are convertible by the holders thereof into cash only, based on a conversion rate of 60.3521 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.57 per share) subject to certain customary adjustments as provided in the indenture for the 3.25% Notes. We will not deliver common stock (or any other securities) upon conversion under any circumstances.

The debt discount related to the 3.25% Notes is accreted over their term and recognized as non-cash convertible debt related expense. The following table details the amount of the accretion of debt discount as of March 31, 2012 expected to be included in our condensed consolidated financial statements for each of the periods indicated (in millions):

	For the Years Ended		
	Remainder of 2012	2013	2014
3.25% Cash Convertible Senior Notes due 2014	$ 19	$ 29	$ 13

For specific criteria related to contingent interest, conversion or redemption features of the 3.25% Notes and details related to the cash conversion option, cash convertible note hedge and warrants related to the 3.25% Notes, refer to Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.

For details related to the fair value for the contingent interest feature, cash conversion option, and cash convertible note hedge related to the 3.25% Notes, see Note 12. Derivative Instruments.

1.00% Senior Convertible Debentures due 2027 (the Debentures)

As of December 31, 2011, there were $25 million aggregate principal amount of the Debentures outstanding. On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. The Debentures were also subject to redemption at our option at any time on or after February 1, 2012, and we subsequently redeemed the remaining $2 million of outstanding Debentures on March 23, 2012.

Equity

During the three months ended March 31, 2012, we granted 719,566 restricted stock awards and 108,164 restricted stock units. For information related to stock-based award plans, see Note 10. Stock-Based Compensation.

During the three months ended March 31, 2012, we repurchased 280,831 shares of our common stock in connection with tax withholdings for vested stock awards.

Dividends declared to stockholders are as follows (in millions, except per share amounts):

	Three Months Ended March 31,			
	2012		2011	
Regular cash dividend				
Declared	$	21	$	11
Per Share	$	0.15	$	0.075

During the three months ended March 31, 2012, the Board of Directors approved an additional $100 million share repurchase authorization. Under the program, common stock repurchases may be made in the open market, in privately negotiated transactions from time to time, or by other available methods, at management s discretion in accordance with applicable federal securities laws. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of our common stock and overall market conditions. As of March 31, 2012, the amount remaining under our currently authorized share repurchase program was $145 million. Common stock repurchased is as follows (in millions, except per share amounts):

	Amount		Shares Repurchased	Weighted Average Cost per Share	
Three months ended March 31, 2012	$	30	1.8	$	16.45

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Noncontrolling interests in subsidiaries

Noncontrolling interests in subsidiaries is as follows (in millions):

	For the Three Months Ended March 31,	
	2012	2011
Noncontrolling interests in subsidiaries, balance as of beginning of period	$ 5	$ 33
Elimination due to sale of controlling interests in subsidiaries		(18)
Distributions to partners of noncontrolling interests in subsidiaries		(2)
Net income	1	2
Noncontrolling interests in subsidiaries, balance as of end of period	$ 6	$ 15

NOTE 7. INCOME TAXES

We record our interim tax provision based upon our estimated annual effective tax rate and account for the tax effects of discrete events in the period in which they occur. We file a federal consolidated income tax return with our eligible subsidiaries. Our federal consolidated income tax return also includes the taxable results of certain grantor trusts described below.

We currently estimate our annual effective tax rate for the year ending December 31, 2012 to be approximately 40.7%. We review the annual effective tax rate on a quarterly basis as projections are revised and laws are enacted. The effective income tax rate was approximately 38.0 % and 42.2% for the three months ended March 31, 2012 and 2011, respectively. The decrease in the effective tax rate is primarily due to a decrease in the foreign tax rate differential and lower investment income forecasted by the Grantor Trusts. The liability for uncertain tax positions, exclusive of interest and penalties, was $119 million as of both March 31, 2012 and December 31, 2011. Included in the balance of unrecognized tax benefits as of March 31, 2012 are potential benefits of $119 million that, if recognized, would impact the effective tax rate.

For the three months ended March 31, 2012 and 2011, we recognized a net tax expense of less than $1 million and a net tax expense of $1 million, respectively, for interest and penalties on uncertain tax positions. We had accrued interest and penalties associated with liabilities for unrecognized tax positions of $2 million for both March 31, 2012 and December 31, 2011. We continue to reflect interest accrued on uncertain tax positions and penalties as part of the tax provision.

In the ordinary course of our business, the Internal Revenue Service (IRS) and state tax authorities will periodically audit our federal and state tax returns. As issues are examined by the IRS and state auditors, we may decide to adjust the existing liability for uncertain tax positions for issues that were not previously deemed an exposure. Federal income tax returns for Covanta Energy are closed for the years through 2003. However, to the extent net operating loss carryforwards (NOLs) are utilized from earlier years, federal income tax returns for Covanta Holding Corporation, formerly known as Danielson Holding Corporation, are still open. State income tax returns are generally subject to examination for a period of three to five years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

Our NOLs predominantly arose from our predecessor insurance entities, formerly named Mission Insurance Group, Inc., Mission). These Mission insurance entities have been in state insolvency proceedings in California and Missouri since the late 1980 s. The amount of NOLs available to us will be reduced by any taxable income or increased by any taxable losses generated by current members of our consolidated tax group, which include grantor trusts associated with the Mission insurance entities.

While we cannot predict what amounts, if any, may be includable in taxable income as a result of the final administration of these grantor trusts, substantial actions toward such final administration have been taken and we believe that neither arrangements with the California Commissioner of Insurance nor the final administration by the Director of the Division of Insurance for the State of Missouri will result in a material reduction in available NOLs.

We have consolidated federal NOLs estimated to be approximately $427 million for federal income tax purposes as of December 31, 2011, based on the income tax returns filed. The federal NOLs will expire in various amounts from December 31, 2023 through December 31, 2030, if not used. In addition to the consolidated federal NOLs, as of December 31, 2011, we had state NOL carryforwards of approximately $223 million, which expire between 2012 and 2031, capital loss carryforwards of $4 million expiring between 2012 and 2015, net foreign NOL carryforwards of approximately $2 million expiring between 2015 and 2031, and federal tax credit carryforwards, including production tax credits of $44 million expiring between 2014 and 2022, and minimum tax credits of $7 million with no expiration. These deferred tax assets are offset by a valuation allowance of approximately $22 million.

For further information, refer to Note 16. Income Taxes of the Notes to the Consolidated Financial Statements in our Form 10-K.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 8. SUPPLEMENTARY INFORMATION

Operating Costs

Pass through costs

Pass through costs are costs for which we receive a direct contractually committed reimbursement from the municipal client which sponsors an energy-from-waste project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal and certain chemical costs. These costs are recorded net of municipal client reimbursements in our condensed consolidated financial statements. Total pass through costs were $22 million and $23 million for the three months ended March 31, 2012 and 2011, respectively.

Other operating expenses

The components of other operating expenses are as follows (in millions):

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011
Construction costs	$ 38	$ 26
Insurance subsidiary operating expenses [1]	3	4
Other	(2)	(2)
Total other operating expenses	$ 39	$ 28

(1) Insurance subsidiary operating expenses are primarily comprised of incurred but not reported loss reserves, loss adjustment expenses and policy acquisition costs.

Amortization of waste, service and energy contracts

Our waste, service and energy contracts are intangible assets and liabilities relating to long-term operating contracts at acquired facilities and are recorded upon acquisition at their estimated fair market values based upon discounted cash flows. Intangible assets and liabilities are amortized using the straight line method over their remaining useful lives.

The following table details the amount of the actual/estimated amortization expense and contra-expense associated with these intangible assets and liabilities as of March 31, 2012 included or expected to be included in our condensed consolidated statement of operations for each of the years indicated (in millions):

	Waste, Service and Energy Contracts (Amortization Expense)	Waste and Service Contracts (Contra-Expense)
Three Months ended March 31, 2012	$ 9	$ (3)

Remainder of 2012	$	26	$	(9)
2013		32		(12)
2014		29		(13)
2015		26		(8)
2016		23		(8)
Thereafter		289		(23)
Total	$	425	$	(73)

Stanislaus EfW Facility

On January 14, 2012, our Stanislaus, California energy-from-waste facility experienced a turbine generator failure. Damage to the turbine generator was extensive and operations at the facility were suspended promptly to assess the cause and extent of damage. The facility is capable of processing waste without utilizing the turbine generator to generate electricity, and we resumed waste processing operations during the first quarter of 2012. We expect the facility will not be able to generate electricity for a substantial portion of 2012. The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. We believe this event will not have a material adverse impact on our results of operations, financial position or cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Non-Cash Convertible Debt Related Expense

The components of non-cash convertible debt related expense are as follows (in millions):

	Three Months Ended March 31,	
	2012	2011
Debt discount accretion related to the 3.25% Notes	$ 6	$ 6
Debt discount accretion related to the Debentures		1
Fair value changes related to the cash convertible note hedge	(27)	9
Fair value changes related to the cash conversion option derivative	27	(11)
Total non-cash convertible debt related expense	$ 6	$ 5

Other Income, Net

For the three months ended March 31, 2012, other income, net included a $3 million foreign currency gain related to intercompany loans.

NOTE 9. BENEFIT OBLIGATIONS

Pension and Other Benefit Obligations

The components of net periodic benefit costs are as follows (in millions):

	Pension Benefits For the Three Months Ended March 31,	
	2012	2011
Interest cost	$ 1	$ 1
Expected return on plan assets	(1)	(1)
Net periodic benefit cost	$	$

Interest costs and the expected return on plan assets for other post-retirement benefits were not material for the three months ended March 31, 2012 and 2011.

Effective December 31, 2005, we froze service accruals in the defined benefit pension plan for employees in the United States who did not participate in retirement plans offered by collective bargaining units or our insurance subsidiaries. All active employees who were eligible participants in the defined benefit pension plan, as of December 31, 2005, became 100% vested and have a non-forfeitable right to these benefits as of such date. During the second quarter of 2011, we informed employees who were eligible participants in the pension plan of our plan to terminate the pension plan, subject to approval by the IRS, with the intention of fully distributing plan assets as promptly as practicable following such approval. The actual settlement amount will fluctuate based on future market performance, such as the interest rate at the final settlement, actual return on plan assets, and employees disbursement elections. The actual settlement will take place following receipt of IRS approval.

Defined Contribution Plans

Substantially all of our employees in the United States are eligible to participate in defined contribution plans we sponsor. Our costs related to defined contribution plans were $4 million for both the three months ended March 31, 2012 and 2011.

NOTE 10. STOCK-BASED COMPENSATION

During the three months ended March 31, 2012, we awarded certain employees 719,566 restricted stock awards. The restricted stock awards will be expensed over the requisite service period, subject to an assumed 12% average forfeiture rate. The terms of the restricted stock awards include vesting provisions based solely on continued service. If the service criteria are satisfied, the restricted stock awards vest during March of 2013, 2014, and 2015.

During the three months ended March 31, 2012, we awarded certain employees 108,164 shares of restricted stock units (RSUs) under the Growth Equity Plan. The Growth Equity Plan provides for the award of RSUs to certain employees in connection with specified growth-based acquisitions that have been completed or development projects that have commenced. Vesting of RSUs will not

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

occur until at least three years have passed following an acquisition, or upon the later of three years from the grant date or one year following the commencement of commercial operations for development projects. Upon the vesting date, the Compensation Committee will re-calculate the net present values of the cash flows (Bring Down NPV). If the ratio of the Bring Down NPV to the Projected NPV is greater than 95% all of the RSUs related to the particular project will vest. If the ratio is less than 95%, the number of RSUs originally issued will be proportionately reduced.

Compensation expense related to our stock-based awards totaled $5 million for both the three months ended March 31, 2012 and 2011. Unrecognized stock-based compensation expense and weighted-average years to be recognized is as follows (in millions, except for weighted average years):

	As of March 31, 2012	
	Unrecognized stock-based compensation	Weighted-average years to be recognized
Restricted Stock Awards	$ 15	2
Restricted Stock Units	$ 4	2
Stock Options	$	

NOTE 11. FINANCIAL INSTRUMENTS

Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- For cash and cash equivalents, restricted funds, and marketable securities, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of restricted funds held in trust is based on quoted market prices of the investments held by the trustee.
- Fair values for long-term debt and project debt are determined using quoted market prices.
- The fair value of the note hedge and the cash conversion option are determined using an option pricing model based on observable inputs such as implied volatility, risk free interest rate, and other factors. The fair value of the note hedge is adjusted to reflect counterparty risk of non-performance, and is based on the counterparty s credit spread in the credit derivatives market. The contingent interest features related to the Debentures and the 3.25% Notes are valued quarterly using the present value of expected cash flow models incorporating the probabilities of the contingent events occurring.

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of March 31, 2012. Such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2012, and current estimates of fair value may differ significantly from the amounts presented herein.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table presents information about the fair value measurement of our assets and liabilities as of March 31, 2012:

Financial Instruments Recorded at Fair Value on a Recurring Basis:	As of March 31, 2012 Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In millions)		
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 260	$ 260	$ 260	$	$
Money market funds	7	7	7		
Total cash and cash equivalents:	267	267	267		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	2	2	2		
Money market funds	105	105	105		
U.S. Treasury/Agency obligations (1)	16	16	16		
State and municipal obligations	9	9	9		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	45	45	45		
Total restricted funds held in trust:	177	177	177		
Restricted funds other:					
Bank deposits and certificates of deposit (2)(3)	4	4	4		
Money market funds (3)	8	8	8		
Residential mortgage-backed securities (3)	1	1	1		
Total restricted funds other:	13	13	13		
Investments:					
Mutual and bond funds (2)	2	2	2		
Investments available for sale:					
U.S. Treasury/Agency obligations (4)	7	7	7		
Residential mortgage-backed securities (4)	7	7	7		
Other government obligations (4)	3	3	3		
Corporate investments (4)	14	14	14		
Equity securities (3)	1	1	1		
Total investments:	34	34	34		
Derivative Asset Note Hedge	74	74		74	
Derivative Asset Energy Hedges	5	5		5	
Total assets:	$ 570	$ 570	$ 491	$ 79	$

Liabilities:

Derivative Liability Cash Conversion Option	$ 75	$ 75	$	$ 75	$
Derivative Liabilities Contingent interest features of the 3.25% Notes	0	0		0	
Total liabilities:	$ 75	$ 75	$	$ 75	$

	As of March 31, 2012	
Financial Instruments Recorded at Carrying Amount:	**Carrying Amount**	**Estimated Fair Value**
Assets:		
Accounts receivables (5)	$ 243	$ 243
Liabilities:		
Long-term debt (excluding Cash Conversion Option)	$ 1,498	$ 1,585
Project debt	$ 643	$ 656

(1) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.
(2) Included in other noncurrent assets in the condensed consolidated balance sheets.
(3) Included in prepaid expenses and other current assets in the condensed consolidated balance sheets.
(4) Included in investments in fixed maturities at market in the condensed consolidated balance sheets.
(5) Includes $17 million of noncurrent receivables in other noncurrent assets in the condensed consolidated balance sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table presents information about the fair value measurement of our assets and liabilities as of December 31, 2011:

	As of December 31, 2011		Fair Value Measurements at Reporting Date Using		
Financial Instruments Recorded at Fair Value on a Recurring Basis:	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In millions)		
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 225	$ 225	$ 225	$	$
Money market funds	7	7	7		
Total cash and cash equivalents:	232	232	232		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	5	5	5		
Money market funds	119	119	119		
U.S. Treasury/Agency obligations (1)	15	15	15		
State and municipal obligations	7	7	7		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	45	45	45		
Total restricted funds held in trust:	191	191	191		
Restricted funds other:					
Bank deposits and certificates of deposit (2)(3)	5	5	5		
Money market funds (3)	7	7	7		
Residential mortgage-backed securities (3)	1	1	1		
Total restricted funds other:	13	13	13		
Investments:					
Mutual and bond funds (2)	2	2	2		
Investments available for sale:					
U.S. Treasury/Agency obligations (4)	8	8	8		
Residential mortgage-backed securities (4)	7	7	7		
Other government obligations (4)	3	3	3		
Corporate investments (4)	13	13	13		
Equity securities (3)	1	1	1		
Total investments:	34	34	34		
Derivative Asset Note Hedge	47	47		47	
Derivative Asset Energy Hedges	3	3		3	
Total assets:	$ 520	$ 520	$ 470	$ 50	$

Liabilities:

Derivative Liability Cash Conversion Option	$	49	$	49	$	$	49	$
Derivative Liabilities Contingent interest features of the 3.25% Notes and Debentures		0		0			0	
Total liabilities:	$	49	$	49	$	$	49	$

Financial Instruments Recorded at Carrying Amount:	As of December 31, 2011 Carrying Amount	Estimated Fair Value
Assets:		
Accounts receivables [5]	$ 277	$ 277
Liabilities:		
Long-term debt (excluding Cash Conversion Option)	$ 1,437	$ 1,470
Project debt	$ 680	$ 693

(1) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.
(2) Included in other noncurrent assets in the condensed consolidated balance sheets.
(3) Included in prepaid expenses and other current assets in the condensed consolidated balance sheets.
(4) Included in investments in fixed maturities at market in the condensed consolidated balance sheets.
(5) Includes $17 million of noncurrent receivables in other noncurrent assets in the condensed consolidated balance sheets.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Investments

Our insurance subsidiaries fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Equity securities that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation. Debt securities values are determined by pricing based on the last day s trading activity. Changes in fair values are credited or charged directly to Accumulated Other Comprehensive Income (AOCI) in the condensed consolidated statements of comprehensive income as unrealized gains or losses, respectively. Investment gains or losses realized on the sale of securities are determined using the specific identification method. Realized gains and losses are recognized in the condensed consolidated statements of operations based on the amortized cost of fixed maturities and the cost basis for equity securities on the date of trade, subject to any previous adjustments for other-than-temporary declines. Other-than-temporary declines in fair value are recorded as realized losses in the condensed consolidated statements of operations to the extent they relate to credit losses, and to AOCI to the extent they are related to other factors. The cost basis of the security is also reduced. We consider the following factors in determining whether declines in the fair value of securities are other-than-temporary:

- the significance of the decline in fair value compared to the cost basis;
- the time period during which there has been a significant decline in fair value;
- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- a fundamental analysis of the business prospects and financial condition of the issuer; and
- our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments, such as investments in companies in which we do not have the ability to exercise significant influence that do not have readily determinable fair values, are carried at the lower of cost or estimated realizable value.

The cost or amortized cost, unrealized gains, unrealized losses and the fair value of our investments categorized by type of security, were as follows (in millions):

	As of March 31, 2012				As of December 31, 2011			
	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Current investments:								
Fixed maturities	$	$	$	$	$	$	$	$
Equity securities - insurance business	1			1	1			1
Total current investments	$ 1	$	$	$ 1	$ 1	$	$	$ 1
Noncurrent investments:								
Fixed maturities - insurance business:								
U.S. government obligations	$	$	$	$	$	$	$	$
U.S. government agencies	7			7	8			8
Residential mortgage-backed securities	7			7	7			7
Other government obligations	3			3	3			3
Corporate investments	13	1		14	13			13
Total fixed maturities - insurance business	30	1		31	31			31
Mutual and bond funds	2			2	2			2

Total noncurrent investments	$ 32	$ 1	$	$ 33	$ 33	$	$	$ 33

The following table sets forth a summary of temporarily impaired investments held by our insurance subsidiary (in millions):

	As of March 31, 2012		As of December 31, 2011	
Description of Investments	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury and other direct U.S. Government obligations	$ 1	$	$	$
Residential mortgage-backed securities	4		4	
Other government obligations	1		1	
Corporate bonds	2		6	
Total fixed maturities	8		11	
Equity securities				
Total temporarily impaired investments	$ 8	$	$ 11	$

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The number of U.S. Treasury and federal agency obligations, mortgage-backed securities, other government obligations, and corporate bonds temporarily impaired are 1, 4, 2, and 9, respectively. As of March 31, 2012, all of the temporarily impaired fixed maturity investments had maturities greater than 12 months.

Our fixed maturities held by our insurance subsidiary include mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) representing 21%, and 22% of the total fixed maturities as of March 31, 2012 and December 31, 2011, respectively. Our MBS holdings are issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association all of which are rated AAA by Moody s Investors Services. MBS and callable bonds, in contrast to other bonds, are more sensitive to market value declines in a rising interest rate environment than to market value increases in a declining interest rate environment.

The expected maturities of fixed maturity securities, by amortized cost and fair value are shown below (in millions):

	As of March 31, 2012	
	Amortized Cost	Fair Value
Available-for-sale:		
One year or less	$ 3	$ 3
Over one year to five years	20	21
Over five years to ten years	7	7
More than ten years		
Total fixed maturities	$ 30	$ 31

The change in net unrealized gain on securities included as a separate component of AOCI in the condensed consolidated statements of comprehensive income was not material for the three months ended March 31, 2012 and 2011.

NOTE 12. DERIVATIVE INSTRUMENTS

The following disclosures summarize the fair value of derivative instruments not designated as hedging instruments in the condensed consolidated balance sheets and the effect of changes in fair value related to those derivative instruments not designated as hedging instruments on the condensed consolidated statements of operations (in millions).

Derivative Instruments Not Designated As Hedging Instruments	Balance Sheet Location	Fair Value as of March 31, 2012	Fair Value as of December 31, 2011
Asset Derivatives:			
Note Hedge	Other noncurrent assets	$ 74	$ 47
Liability Derivatives:			
Cash Conversion Option	Long-term debt	$ 75	$ 49
Contingent interest features of the Debentures and 3.25% Notes	Other noncurrent liabilities	$ 0	$ 0

Effect on Income of Derivative Instruments Not Designated	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized In Income on Derivative

As Hedging Instruments		For the Three Months Ended March 31,			
		2012		2011	
Note Hedge	Non-cash convertible debt related expense	$	27	$	(9)
Cash Conversion Option	Non-cash convertible debt related expense		(27)		10
Contingent interest features of the 3.25% Notes and Debentures	Non-cash convertible debt related expense				
Effect on income of derivative instruments not designated as hedging instruments		$		$	1

Cash Conversion Option, Note Hedge and Contingent Interest features related to the 3.25% Cash Convertible Senior Notes

The cash conversion option is a derivative instrument which is recorded at fair value quarterly with any change in fair value being recognized in our condensed consolidated statements of operations as non-cash convertible debt related expense. The note hedge is accounted for as a derivative instrument and, as such, is recorded at fair value quarterly with any change in fair value being recognized in our condensed consolidated statements of operations as non-cash convertible debt related expense.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

We expect the gain or loss associated with changes to the valuation of the note hedge to substantially offset the gain or loss associated with changes to the valuation of the cash conversion option. However, they will not be completely offsetting as a result of changes in the credit valuation adjustment related to the note hedge. Our most significant credit exposure arises from the note hedge. The fair value of the note hedge reflects the maximum loss that would be incurred should the option counterparties fail to perform according to the terms of the note hedge agreement. For specific details related to the cash conversion option, note hedge and contingent interest features of the 3.25% Notes, refer to Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.

Energy Price Risk

Following the expiration of certain long-term energy sales contracts, we may have exposure to market risk, and therefore revenue fluctuations, in energy markets. We have entered into contractual arrangements that will mitigate our exposure to this volatility through a variety of hedging techniques, and will continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading. Consequently, we have entered into swap agreements with various financial institutions to hedge our exposure to market risk. As of March 31, 2012, the fair value of the energy derivatives of $5 million, pre-tax, was recorded as a current asset and as a component of AOCI.

NOTE 13. COMMITMENTS AND CONTINGENCIES

We and/or our subsidiaries are party to a number of claims, lawsuits and pending actions, most of which are routine and all of which are incidental to our business. We assess the likelihood of potential losses on an ongoing basis and when losses are considered probable and reasonably estimable, record as a loss an estimate of the outcome. If we can only estimate the range of a possible loss, an amount representing the low end of the range of possible outcomes is recorded. The final consequences of these proceedings are not presently determinable with certainty.

Environmental Matters

Our operations are subject to environmental regulatory laws and environmental remediation laws. Although our operations are occasionally subject to proceedings and orders pertaining to emissions into the environment and other environmental violations, which may result in fines, penalties, damages or other sanctions, we believe that we are in substantial compliance with existing environmental laws and regulations.

We may be identified, along with other entities, as being among parties potentially responsible for contribution to costs associated with the correction and remediation of environmental conditions at disposal sites subject to federal and/or analogous state laws. In certain instances, we may be exposed to joint and several liabilities for remedial action or damages. Our liability in connection with such environmental claims will depend on many factors, including our volumetric share of waste, the total cost of remediation, and the financial viability of other companies that also sent waste to a given site and, in the case of divested operations, its contractual arrangement with the purchaser of such operations.

The potential costs related to the matters described below and the possible impact on future operations are uncertain due in part to the complexity of governmental laws and regulations and their interpretations, the varying costs and effectiveness of cleanup technologies, the uncertain level of insurance or other types of recovery and the questionable level of our responsibility. Although the ultimate outcome and expense of any litigation, including environmental remediation, is uncertain, we believe that the following proceedings will not have a material adverse effect on our condensed consolidated financial position or results of operations.

Lower Passaic River Matter. In August 2004, the United States Environmental Protection Agency (EPA) notified Covanta Essex Company (Essex) that it was a potentially responsible party (PRP) for Superfund response actions in the Lower Passaic River Study Area, referred to as LPRSA, a 17 mile stretch of river in northern New Jersey. Essex is one of 71 PRPs named thus far that have joined the LPRSA PRP group, which is undertaking a Remedial Investigation/Feasibility Study (Study) of the LPRSA under EPA oversight. Essex s share of the Study costs to date are not material to its financial position and results of operations; however, the Study costs are exclusive of any LPRSA remedial costs or natural resource damages that may ultimately be assessed against PRPs. In February 2009, Essex and over 300 other PRPs were named as third-party defendants in a suit brought by the State of New Jersey Department of Environmental Protection (NJDEP) in New Jersey Superior Court of Essex County against Occidental Chemical Corporation and certain related entities (Occidental) with respect to alleged contamination of the LPRSA by Occidental. The Occidental third-party complaint seeks contribution with respect to any award to NJDEP of damages against Occidental in the matter. Considering the history of industrial and other discharges into the LPRSA from other sources, including named PRPs, Essex believes any releases to the LPRSA from its facility to be de minimis; however, it is not possible at this time to predict that outcome or to estimate Essex s liability in the matter, including for LPRSA remedial costs and/or natural resource damages and/or contribution claims made by Occidental and/or other PRPs.

California Matter. On March 5, 2012, we received a letter from the Department of Toxic Substances Control of the State of California (the Department) notifying us that the Department and several District Attorneys offices in the State of California are investigating the operation of our facilities in California. It is our understanding that the investigation will focus on issues relating to (i) the feedstock at

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

our biomass facilities and the impact of that fuel on the quality and character of the ash residue generated at these facilities and (ii) our compliance with California s environmental laws at our biomass facilities. We believe that our biomass operations in California are in compliance with existing environmental laws and regulations in all material respects. We intend to fully cooperate with the Department s and District Attorneys investigation. Although the investigation is in the initial stages and therefore the outcome is uncertain, we do not believe that the investigation or any matters arising there from will have a material adverse effect on our condensed consolidated financial position or results of operations.

Other Matters

Other commitments as of March 31, 2012 were as follows (in millions):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	$ 275	$ 7	$ 268
Surety bonds	342		342
Total other commitments net	$ 617	$ 7	$ 610

The letters of credit were issued under the 2012 Credit Facilities (primarily the Revolving Credit Facility) to secure our performance under various contractual undertakings related to our domestic and international projects or to secure obligations under our insurance program. Each letter of credit relating to a project is required to be maintained in effect for the period specified in related project contracts, and generally may be drawn if it is not renewed prior to expiration of that period.

We believe that we will be able to fully perform under our contracts to which these existing letters of credit relate, and that it is unlikely that letters of credit would be drawn because of a default of our performance obligations. If any of these letters of credit were to be drawn by the beneficiary, the amount drawn would be immediately repayable by us to the issuing bank. If we do not immediately repay such amounts drawn under these letters of credit, unreimbursed amounts would be treated under the 2012 Credit Facilities as additional term loans in the case of letters of credit issued under the Revolving Credit Facility, or as revolving loans in the case of letters of credit issued under the Revolving Credit Facility.

The surety bonds listed on the table above relate primarily to performance obligations ($329 million) and support for closure obligations of various energy projects when such projects cease operating ($13 million). Were these bonds to be drawn upon, we would have a contractual obligation to indemnify the surety company.

We have certain contingent obligations related to the 7.25% Notes, 6.375% Notes and the 3.25% Notes. These arise as follows:

- holders may require us to repurchase their 7.25% Notes, 6.375% Notes and their 3.25% Notes if a fundamental change occurs; and
- holders may exercise their conversion rights upon the occurrence of certain events, which would require us to pay the conversion settlement amount in cash.

For specific criteria related to redemption features of the 6.375% Notes, refer to Note 6. Changes in Capitalization.

For specific criteria related to contingent interest, conversion or redemption features of the 7.25% Notes and the 3.25% Notes, refer to Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.

We have issued or are party to guarantees and related contractual support obligations undertaken pursuant to agreements to construct and operate waste and energy facilities. For some projects, such performance guarantees include obligations to repay certain financial obligations if the project revenues are insufficient to do so, to repurchase interests of project investors under limited circumstances, or to obtain or guarantee financing for a project. With respect to our businesses, we have issued guarantees to municipal clients and other parties that our subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. Additionally, damages payable under such guarantees for our energy-from-waste facilities could expose us to recourse liability on project debt. If we must perform under one or more of such guarantees, our liability for damages upon contract termination would be reduced by funds held in trust and proceeds from sales of the facilities securing the project debt and is presently not estimable. Depending upon the circumstances giving rise to such damages, the contractual terms of the applicable contracts, and the contract counterparty s choice of remedy at the time a claim against a guarantee is made, the amounts owed pursuant to one or more of such guarantees could be greater than our then-available sources of funds. To date, we have not incurred material liabilities under such guarantees.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 14. SUBSEQUENT EVENTS

Springfield Energy-from-Waste Facility

On April 2, 2012, we extended the tip fee agreement for our Springfield, Massachusetts energy-from-waste facility from 2014 to 2024. This contract represents about one-third of the capacity at our Springfield EfW facility. The agreement also includes an amendment to our contract relating to the ash landfill that is directly adjacent to the facility which will support our plan to build and operate a new metal recovery and recycling facility at the ash landfill.

Haripur

On April 16, 2012, we completed the sale of our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh, the last of the four Asia fossil fuel independent power production (IPP) assets designated as assets held for sale. With this sale, we have realized total net proceeds of approximately $268 million, net of transaction costs, for these four IPP asset sales.

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Item 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

The terms we, our, ours, us, Covanta and Company refer to Covanta Holding Corporation and its subsidiaries; the term Covanta Energy our subsidiary Covanta Energy Corporation and its subsidiaries. The following discussion addresses our financial condition as of March 31, 2012 and our results of operations for the three months ended March 31, 2012, compared with the same periods last year. It should be read in conjunction with our Audited Consolidated Financial Statements and Notes thereto for the year ended December 31, 2011 and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the year ended December 31, 2011 (Form 10-K), to which the reader is directed for additional information.

The preparation of interim financial statements necessarily relies heavily on estimates. Due to the use of estimates and certain other factors, such as the seasonal nature of our waste and energy services business, as well as competitive and other market conditions, we do not believe that interim results of operations are indicative of full year results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and classification of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

OVERVIEW

Covanta is one of the world s largest owners and operators of infrastructure for the conversion of waste to energy (known as energy-from-waste or EfW), as well as other waste disposal and renewable energy production businesses. Energy-from-waste serves two key markets as both a sustainable waste disposal solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 20 million tons of solid waste annually, representing approximately 5% of the solid waste generation in the United States. We operate and/or have ownership positions in 46 energy-from-waste facilities, which are primarily located in North America, and 15 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). In total, these assets produce approximately 10 million megawatt (MW) hours of baseload electricity annually, representing approximately 7% of the nation s non-hydroelectric renewable power. We also operate a waste management infrastructure that is complementary to our core EfW business.

We hold equity interests in energy-from-waste facilities in China and Italy. We are pursuing additional growth opportunities in parts of Europe, primarily in the United Kingdom, where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce greenhouse gas emissions.

We also have investments in subsidiaries engaged in insurance operations in California, primarily in property and casualty insurance; however these collectively account for less than 1% of our consolidated revenue.

We plan to allocate capital to maximize stockholder value by investing in: our existing businesses to maintain and enhance assets, high value core business development projects and strategic acquisitions when available, and by returning surplus capital to our stockholders. During the three months ended March 31, 2012, we declared a quarterly cash dividend of $0.15 per share and we repurchased 1.8 million shares of our common stock at a weighted average cost of $16.45 per share for an aggregate amount of approximately $30 million. For additional information, see *Liquidity and Capital Resources* below.

Strategy

Our mission is to be the leading energy-from-waste company in the world, which we intend to pursue through the following key strategies:

Grow the value of our existing portfolio. We intend to maximize the long-term value of our existing portfolio by continuously improving safety, health and environmental performance, working in partnership with our client communities, continuing to operate at our historic production levels, maintaining our facilities in optimal condition, and managing our expenses. We also intend to effect organic growth through adding or extending waste and service contracts, seeking incremental revenue opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs and expanding our customer base and service offerings.

Expand through development and/or acquisitions in selected attractive markets. We seek to grow our portfolio primarily through the development of new facilities and acquisitions where we believe that market and regulatory conditions will enable us to invest our capital at attractive risk-adjusted rates of return. We are currently focusing on development opportunities in the United States

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and Canada, which we consider to be our core markets. In addition, we believe that there are numerous attractive opportunities in the United Kingdom, where national policies, such as a substantial tax on landfill use, are intended to achieve compliance with the European Union (EU) Landfill Directive.

We believe that our approach to development opportunities is highly-disciplined, both with regard to our required rates of return and the manner in which potential new projects will be structured and financed. In general, prior to the commencement of construction of a new facility, we intend to enter into long-term contracts with municipal and/or commercial customers for a substantial portion of the disposal capacity and obtain non-recourse project financing for a substantial portion of the capital investment. We intend to finance new projects in a prudent manner, minimizing the impact on our balance sheet and credit profile at the parent company level where possible.

Develop and commercialize new technology. We believe that our efforts to protect and expand our business will be enhanced by the development of additional technologies in such fields as emission controls, residue disposal, alternative waste treatment processes, gasification, and combustion controls. We have advanced our research and development efforts in these areas, and have developed and have patents pending for major advances in controlling nitrogen oxide (NO_x) emissions and have a patent for a proprietary process to improve the handling of the residue from our energy-from-waste facilities. We have also entered into various agreements with multiple partners to invest in the development, testing or licensing of new technologies related to the transformation of waste materials into renewable fuels or the generation of energy, as well as improved environmental performance.

Advocate for public policy favorable to energy-from-waste. We seek to educate policymakers and regulators about the environmental and economic benefits of energy-from-waste and advocate for policies and regulations that appropriately reflect these benefits. Energy-from-waste is a highly regulated business, and as such we believe that it is critically important for us, as an industry leader, to play an active role in the debates surrounding potential policy developments that could impact our business.

Allocate capital efficiently. We plan to allocate capital to maximize stockholder value by: investing in our existing businesses to maintain and enhance assets; effecting organic growth; investing in high value core business development projects and strategic acquisitions when available; and by returning surplus capital to our stockholders.

Factors Affecting Business Conditions and Financial Results

Economic - The economic slowdown reduced demand for goods and services generally, which reduced overall volumes of waste requiring disposal and the pricing at which we can attract waste to fill available capacity. We receive the majority of our revenue under short- and long-term contracts, with little or no exposure to price volatility, but with adjustments intended to reflect changes in our costs. Where our revenue is received under other arrangements and depending upon the revenue source, we have varying amounts of exposure to price volatility.

The largest component of our revenue is waste revenue, which has generally been subject to less price volatility than our revenue derived from the sale of energy and metals. Waste markets tend to be affected by local and regional economic activity. The downturn in economic activity has reduced waste generation rates in the northeast United States which subsequently caused market waste disposal prices to decline modestly.

Furthermore, global demand and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities have also been materially affected by economic activity in recent years. Metal markets tend to be affected by national and global economic activity. Pricing for recycled metals reached historically high levels in 2008, and declined significantly in 2009 due to the downturn in economic activity. Since 2010, pricing for recycled metals has recovered from the economically deflated rates in 2009.

At the same time, the declines in United States natural gas prices have pushed electricity and steam pricing generally lower, which causes lower revenue for the portion of the energy we sell which is not under fixed-price contracts. Energy markets tend to be affected by regional and national economic activity and regulations. The decline in gas prices in 2011 and the first quarter of 2012 was attributed to several factors such as increased gas supply from shale formations, generally mild weather conditions, and the continued sluggish economy and associated economic uncertainty.

At our biomass facilities, lower energy prices combined with higher fuel prices have caused us to economically dispatch operations where continued operations are not currently profitable. We will continue to consider this practice until we experience increased energy revenue, or decreased fuel costs or both.

The downturn in economic activity has also affected many municipalities and public authorities, some of which are our customers. Many local and central governments are seeking to reduce expenses in order to address declining tax revenues. We work closely with these municipal customers, with many of whom we have shared a long-term relationship, to effectively counter some of these economic challenges.

Market Pricing for Waste, Energy and Metal - Global and regional economy activity, as well as technological advances, regulations and a variety of other factors, will affect market supply and demand and therefore prices for waste disposal services, energy (including electricity and steam) and other commodities such as ferrous and non-ferrous metals. As market prices for waste disposal, electricity, steam and recycled metal rise it benefits our existing business as well as our prospects for growth through expansions or new development. Conversely, market price declines for these services and commodities will adversely affect both our existing business and growth prospects.

Seasonal - Our quarterly operating income within the same fiscal year typically differs substantially due to seasonal factors, primarily as a result of the timing of scheduled plant maintenance. We typically conduct scheduled maintenance periodically each year, which requires that individual boiler and/or turbine units temporarily cease operations. During these scheduled maintenance periods, we incur material repair and maintenance expenses and receive less revenue until the boiler and/or turbine units resume operations. This scheduled maintenance typically occurs during periods of off-peak electric demand and/or lower waste volumes, which are our first, second and fourth fiscal quarters. The first half of the year scheduled maintenance period is typically the most extensive. The third quarter scheduled maintenance period is typically the least extensive. Given these factors, we typically experience our lowest operating income from our projects during our first half of each year.

In addition, at certain of our project subsidiaries, distributions of excess earnings (above and beyond monthly operation and maintenance service payments) are subject to periodic tests of project debt service coverage or requirements to maintain minimum working capital balances. While these distributions occur throughout the year based upon the specific terms of the relevant project debt arrangements, they are typically highest in the fourth quarter. Our net cash provided by operating activities exhibits seasonal fluctuations as a result of the timing of these distributions, including a benefit in the fourth quarter compared to the first nine months of the year.

Performance - We have historically performed our operating obligations without experiencing material unexpected service interruptions or incurring material increases in costs. In addition, with respect to many of our contracts, we generally have limited our exposure for risks not within our control. For additional information about such risks and damages that we may owe for unexcused operating performance failures, see *Item 1A. Risk Factors included in our Form 10-K.* In monitoring and assessing the ongoing operating and financial performance of our businesses, we focus on certain key factors: tons of waste processed, electricity and steam sold, and boiler availability.

Our ability to meet or exceed historical levels of performance at projects, and our general financial performance, is affected by the following:

- Seasonal or long-term changes in market prices for waste, energy, or ferrous and non-ferrous metals for projects where we sell into those markets;
- Seasonal or geographic changes in the price and availability of wood waste as fuel for our biomass facilities;
- Seasonal, geographic and other variations in the heat content of waste processed, and thereby the amount of waste that can be processed by an energy-from-waste facility;
- Our ability to avoid unexpected increases in operating and maintenance costs while ensuring that adequate facility maintenance is conducted so that historic levels of operating performance can be sustained;
- Contract counterparties ability to fulfill their obligations, including the ability of our various municipal customers to supply waste in contractually committed amounts, and the availability of alternate or additional sources of waste if excess processing capacity exists at our facilities; and
- The availability and adequacy of insurance to cover losses from business interruption in the event of casualty or other insured events.

General financial performance at our international projects is also affected by the financial condition and creditworthiness of our international customers and partners, fluctuations in the value of the domestic currency against the value of the U.S. dollar, and political risks inherent to the international business.

Business Segment

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada.

The Americas segment is comprised primarily of energy-from-waste projects. Our energy-from-waste projects generate revenue from three main sources: (1) fees charged for operating projects or processing waste received, (2) the sale of electricity and/or steam, and (3) the sale of ferrous and non-ferrous metals that are recycled as part of the energy-from-waste process. We may also generate additional revenue from the construction or expansion of a facility when a municipal client owns the facility. Our customers for waste disposal or facility operations are principally municipal entities, though we also market disposal capacity at certain facilities to commercial and special waste customers. Our facilities sell energy primarily to utilities at contracted rates or, in situations where a contract is not in place, at prevailing market rates in regional markets (primarily PJM, NEPOOL and NYISO in the Northeastern United States).

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We also operate, and in some cases have ownership interests in, transfer stations and landfills which generate revenue from ash disposal fees or operating fees. In addition, we own, and in some cases operate, other renewable energy projects in the Americas segment which generate electricity from wood waste (biomass) and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities under contracts or into the regional power pool at short-term rates. For these projects, we receive revenue from sales of energy, capacity and/or cash from equity distributions and additional value from the sale of renewable energy credits.

Contract Structures

We currently operate energy-from-waste projects in 16 states and one Canadian province, and are constructing an energy-from-waste project in a second Canadian province. Most of our energy-from-waste projects were developed and structured contractually as part of competitive procurement processes conducted by municipal entities. As a result, many of these projects have common features. However, each service agreement is different reflecting the specific needs and concerns of a client community, applicable regulatory requirements and other factors. The following describes features generally common to these agreements, as well as important distinctions among them:

We design the facility, help to arrange for financing and then we either construct and equip the facility on a fixed price and schedule basis, or we undertake an alternative role, such as construction management, if our municipal client so desires.

Our projects were generally financed at construction with project debt in the form of tax-exempt municipal bonds issued by a sponsoring municipality, which generally mature at the same time the initial term of our service contract expires and are repaid over time based on set amortization schedules. At Tip Fee facilities, our project subsidiary is responsible for meeting any debt service or lease payment obligations out of the revenue generated by the facility. At Service Fee projects that we own and where project debt is in place, a portion of our monthly fee from the municipal client is dedicated, dollar-for-dollar, to project debt service. For these facilities, the bond proceeds are loaned to us to pay for facility construction and to fund a debt service reserve for the project, which is generally sufficient to pay principal and interest for one year. Project-related debt is included as project debt and the debt service reserves are included as restricted funds held in trust in our condensed consolidated financial statements. Generally, project debt is secured by the project s revenue, contracts and other assets of our project subsidiary. When the service contract expires and the debt is paid off, the project owner (either Covanta or the municipal entity) will determine the form of any new contractual arrangements. We are not responsible for debt service for projects that we neither own nor lease.

Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating and maintaining projects or for processing waste received, and payments we receive for electricity and/or steam we sell.

We agree to operate the facility and meet minimum waste processing capacity and efficiency standards, energy production levels and environmental standards. Failure to meet these requirements or satisfy the other material terms of our agreement (unless the failure is caused by our client community or by events beyond our control), may result in damages charged to us or, if the breach is substantial, continuing and unremedied, termination of the applicable agreement. These damages could include amounts sufficient to repay project debt (as reduced by amounts held in trust and/or proceeds from sales of facilities securing project debt) and as such, these contingent obligations cannot readily be quantified. We have issued performance guarantees to our client communities and, in some cases other parties, which guarantee that our project subsidiaries will perform in accordance with contractual terms including, where required, the payment of such damages. If one or more contracts were terminated for our default, these contractual damages may be material to our cash flow and financial condition. To date, we have not incurred material liabilities under such performance guarantees.

The client community generally must deliver minimum quantities of municipal solid waste to the facility on a put-or-pay basis and is obligated to pay a fee for its disposal. A put-or-pay commitment means that the client community promises to deliver a stated quantity of waste and pay an agreed amount for its disposal, regardless of whether the full amount of waste is actually delivered. Client communities have consistently met their commitment to deliver the stated quantity of waste. Where a Service Fee structure exists, portions of the service fee escalate to reflect indices for inflation, and in many cases, the client community must also pay for other costs, such as insurance, taxes, and transportation and disposal of the ash residue to the disposal site. Generally, expenses resulting from the delivery of unacceptable and hazardous waste on the site are also borne by the client community. In addition, the contracts generally require the client community to pay increased expenses and capital costs resulting from unforeseen circumstances, subject to specified limits. At three publicly-owned facilities we operate, our client community may terminate the operating contract under limited circumstances without cause.

Our financial returns are expected to be stable if we do not incur material unexpected operation and maintenance costs or other expenses. In addition, most of our energy-from-waste project contracts are structured so that contract counterparties generally bear, or share in, the costs associated with events or circumstances not within our control, such as uninsured force majeure events and changes in legal requirements. The stability of our revenues and returns could be affected by our ability to continue to enforce these obligations. Also, at some of our energy-from-waste facilities, commodity price risk is mitigated by passing through commodity costs to contract counterparties. With respect to our other renewable energy projects, such structural features generally do not exist because either we operate and maintain such facilities for our own account or we do so on a cost-plus basis rather than a fixed-fee basis.

We receive the majority of our revenue under short- and long-term contracts, with little or no exposure to price volatility, but with adjustments intended to reflect changes in our costs. Where our revenue is received under other arrangements and depending upon the revenue source, we have varying amounts of exposure to price volatility. The largest component of our revenue is waste revenue, which has generally been subject to less price volatility than our revenue derived from the sale of energy and metals. At some of our renewable energy projects, our operating subsidiaries purchase fuel in the open markets which exposes us to fuel price risk.

We generally sell the energy output from our projects to local utilities pursuant to long-term contracts. At several of our energy-from-waste projects, we sell energy output under short-term contracts or on a spot-basis to our customers.

Contracted and Merchant Capacity

Our service and waste disposal agreements, as well as our energy contracts, expire at various times. The extent to which any such expiration will affect us will depend upon a variety of factors, including whether we own the project, market conditions then prevailing, and whether the municipal client exercises options it may have to extend the contract term. As our contracts expire, we will become subject to greater market risk in maintaining and enhancing our revenues. As service agreements at municipally-owned facilities expire, we intend to seek to enter into renewal or replacement contracts to operate such facilities. We will also seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. As our service and waste disposal agreements at facilities we own or lease expire, we intend to seek replacement or additional contracts, and because project debt on these facilities will be paid off at such time, we expect to be able to offer rates that will attract sufficient quantities of waste while providing acceptable revenues to us. At facilities we own, the expiration of existing energy contracts will require us to sell our output either into the local electricity grid at prevailing rates or pursuant to new contracts.

To date, we have been successful in extending a majority of our existing contracts to operate energy-from-waste facilities owned by municipal clients where market conditions and other factors make it attractive for both us and our municipal clients to do so. See *Growth and Development* discussion below for additional information. The extent to which additional extensions will be attractive to us and to our municipal clients who own their projects will depend upon the market and other factors noted above. However, we do not believe that either our success or lack of success in entering into additional negotiated extensions to operate such facilities will have a material impact on our overall cash flow and profitability for the next several years.

As we seek to enter into extended or new contracts, we expect that medium- and long-term contracts for waste supply, at least for a substantial portion of facility capacity, will be available on acceptable terms in the marketplace. We also expect that medium- and long-term contracts for sales of electricity will be less available than in the past, while medium- and long-term contracts for sales of other energy products may be more attainable. As a result, following the expiration of these long-term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets. We have entered into contractual arrangements in order to mitigate our exposure to revenue fluctuations in energy markets through a variety of hedging techniques, and we expect to continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading.

In conjunction with our energy-from-waste business, we also own and/or operate 13 transfer stations and four ash landfills in the northeast United States, which we utilize to supplement and manage more efficiently the fuel and ash disposal requirements at our energy-from-waste operations. We provide waste procurement services to our waste disposal and transfer facilities which have available capacity to receive waste. With these services, we seek to maximize our revenue and ensure that our energy-from-waste facilities are being utilized most efficiently, taking into account maintenance schedules and operating restrictions that may exist from time to time at each facility. We also provide management and marketing of ferrous and non-ferrous metals recovered from energy-from-waste operations, as well as services related to non-hazardous special waste destruction and ash residue management for our energy-from-waste projects.

Growth and Development

We intend to grow our business through expanding the capabilities of our existing business, and adding new projects through development and/or acquisition, all with the goal of maximizing long-term stockholder return. Our growth opportunities include: organic growth, new energy-from-waste and other renewable energy projects, existing project expansions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing and disposal businesses. We also intend to maintain a focus on research and development of technologies that we believe will enhance our competitive position, and offer new technical solutions to waste and energy problems that augment and complement our business.

We will effect organic growth through adding or extending waste and service contracts, seeking incremental revenue opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs in areas such as metals recovery, and expanding our customer base and service offerings.

We also have extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We intend to continue our efforts on pursuing acquisition-based growth in the United States, Canada, and the United Kingdom. We will also continue to pursue growth through development opportunities in the same markets, where the demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production.

We have a project development pipeline and continue to pursue several billion dollars worth of energy-from-waste opportunities. However, there is substantial time and uncertainty involved in the bidding and permitting process for each project opportunity. If, and when, these development efforts are successful, we plan to invest in these projects to achieve an attractive return on capital particularly when leveraged with project debt which we intend to utilize for all of our development projects.

BUSINESS DEVELOPMENT AND ORGANIC GROWTH

Alexandria/Arlington County Energy-from-Waste Facility

We entered into a new tip fee contract with the City of Alexandria and Arlington County to provide for continued waste supply to our Alexandria energy-from-waste facility through 2025. Both parties have the option to terminate the agreement in 2019. The agreement also provides the City of Alexandria and Arlington County with the option to extend the agreement to 2038.

Braintree Transfer Station

In March 2012, we began a major renovation project to increase recycling capacity at the Braintree transfer station located near our Southeast Massachusetts energy-from-waste facility. The project is expected to cost approximately $7 million and is expected to be completed by the end of 2012. The town of Braintree extended the site lease agreement with the facility to 2030.

Montgomery County Energy-from-Waste Facility

We extended the service agreement for our Montgomery County energy-from-waste facility and Derwood transfer station from 2016 to 2021 on substantially the same terms as in the existing agreement.

Niagara Energy-from-Waste Facility

During the first quarter of 2012, we extended a steam sale contract from 2013 to 2021 for our Niagara EfW facility. This contract combined with new and extended contracts entered in 2011 will increase the steam demand from our customer base and will require us to invest a total of approximately $10 million in capital expenditures in 2012 and 2013 to install a new natural gas package boiler and steam line to connect to our new customers.

Springfield Energy-from-Waste Facility

On April 2, 2012, we extended the tip fee agreement for our Springfield, Massachusetts energy-from-waste facility from 2014 to 2024. This contract represents about one-third of the capacity at our Springfield EfW facility. The agreement also includes an amendment to our contract relating to the ash landfill that is directly adjacent to the facility which will support our plan to build and operate a new metal recovery and recycling facility at the ash landfill.

Organic Growth Investments

During the three months March 31, 2012, we invested approximately $4 million in various organic growth initiatives by enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue and expanding our customer base and service offerings.

ASSETS HELD FOR SALE AND DISPOSITIONS

In 2010, we adopted a plan to sell our interests in certain fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. During 2011, we sold the majority of those assets and have one remaining asset held for sale for our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. On April 16, 2012, we completed the sale of our interest in the Haripur project. With this sale, we have realized total net proceeds of approximately $268 million, net of transaction costs, for these four IPP asset sales.

The assets and liabilities associated with these businesses are presented in our condensed consolidated balance sheets as Current Assets Held for Sale and Current Liabilities Held for Sale. The results of operations of these businesses are included in the condensed consolidated statements of operations as Income from discontinued operations, net of tax. The cash flows of these businesses are also presented separately in our condensed consolidated statements of cash flows.

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RESULTS OF OPERATIONS

The comparability of the information provided below with respect to our revenues, expenses and certain other items for the periods presented was affected by several factors. As outlined above under *Overview Growth and Development,* our business development initiatives resulted in various additional projects which increased comparative revenues and expenses. These factors must be taken into account in developing meaningful comparisons between the periods compared below.

RESULTS OF OPERATIONS Three Months Ended March 31, 2012 vs. Three Months Ended March 31, 2011

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	Increase (Decrease) 2012 vs 2011
	(Unaudited, in millions)		
CONSOLIDATED RESULTS OF OPERATIONS:			
Total operating revenues	$ 392	$ 377	$ 15
Total operating expenses	389	379	10
Operating income (loss)	3	(2)	5
Other income (expense):			
Interest expense	(18)	(17)	1
Non-cash convertible debt related expense	(6)	(5)	1
Loss on extinguishment of debt	(2)		2
Other income, net	3		3
Total other expenses	(23)	(22)	1
Loss from continuing operations before income tax benefit and equity in net income from unconsolidated investments	(20)	(24)	(4)
Income tax benefit	8	10	(2)
Equity in net income from unconsolidated investments	1		1
Loss from continuing operations	(11)	(14)	(3)
Income from discontinued operations, net of taxes of $0 and $2, respectively		149	(149)
NET (LOSS) INCOME	(11)	135	(146)
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(1)		(1)
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries		(2)	2
Total net income attributable to noncontrolling interests in subsidiaries	(1)	(2)	1
NET (LOSS) INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$ (12)	$ 133	(145)
Amounts Attributable to Covanta Holding Corporation stockholders:			
Continuing operations	$ (12)	$ (14)	2
Discontinued operations, net of tax expense		147	(147)
Covanta Holding Corporation	$ (12)	$ 133	(145)

(Loss) Earnings Per Share Attributable to Covanta Holding Corporation stockholders:			
Basic:			
Continuing operations	$ (0.09)	$ (0.09)	
Discontinued operations		1.00	(1.00)
Covanta Holding Corporation	$ (0.09)	$ 0.91	(1.00)
Weighted Average Shares	134	147	(13)
Diluted:			
Continuing operations	$ (0.09)	$ (0.09)	
Discontinued operations		1.00	(1.00)
Covanta Holding Corporation	$ (0.09)	$ 0.91	(1.00)
Weighted Average Shares	134	147	(13)
Cash Dividend Declared Per Share	$ 0.15	$ 0.075	0.075
Adjusted Earnings Per Share Non-GAAP: (A)	$ (0.09)	$ (0.10)	0.01

(A) See *Supplementary Financial Information Adjusted Earnings Per Share (Non-GAAP Discussion)*

The following general discussions should be read in conjunction with the above table, the condensed consolidated financial statements, the notes to the condensed consolidated financial statements and other financial information appearing and referred to elsewhere in this report. Additional detail relating to changes in operating revenues and operating expenses, and the quantification of specific factors affecting or causing such changes, is provided in the segment discussion below.

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Consolidated Results of Operations Comparison of Results for the Three Months Ended March 31, 2012 vs. Results for the Three Months Ended March 31, 2011

Operating revenues increased by $15 million for the three month comparative period primarily due to higher construction revenues, increased revenue from service fee contract escalations, higher production at our EfW facilities and improved recycled metal revenues due to organic growth initiatives. These increases were partially offset by the impact of lower electricity and steam sales due to lower price and lower production at our biomass facilities.

Operating expenses increased by $10 million for the three month comparative period primarily due to higher construction expenses, normal cost escalations; and lower alternative fuel tax credits. These increases were partially offset by decreased costs related to timing of scheduled plant maintenance activities and various operational improvements.

Operating income increased by $5 million for the three month comparative period primarily due to our organic growth initiatives for recycled metals and various operational improvements, partially offset by lower energy pricing, including the impact of the biomass plants, reduction in alternative fuel tax credits, lower debt service pass through revenue.

We recognized a loss on extinguishment of debt of approximately $2 million, pre-tax, as a result of the refinancing, which was comprised of the write-off of deferred financing costs in connection with previously existing financing arrangements. For additional information, see *Liquidity and Capital Resources* below.

Other income increased by $3 million for the three month comparative period primarily due to a foreign currency gain related to intercompany loans.

The income tax benefit decreased for the comparative period, which was reflective of the decrease in the overall effective tax rate from continuing operations. We currently estimate our annual effective tax rate for the year ending December 31, 2012 to be approximately 40.7%. We review the annual effective tax rate on a quarterly basis as projections are revised and laws are enacted. The effective income tax rate was 38.0% and 42.2% for the three months ended March 31, 2012 and 2011, respectively. The decrease in the effective tax rate was primarily due to a decrease in the foreign tax rate differential and lower investment income forecasted by the Grantor Trusts. For additional information, see *Item 1. Financial Statements Note 7. Income Taxes*.

For information on dividends declared to stockholders and share repurchases, see *Liquidity and Capital Resources* below.

Americas Segment Results of Operations Comparison of Results for the Three Months Ended March 31, 2012 vs. Results for the Three Months Ended March 31, 2011

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	Increase (Decrease) 2012 vs 2011
	(Unaudited, in millions)		
Waste and service revenues (excluding recycled metals revenues)	$ 237	$ 234	$ 3
Recycled metals revenues	20	17	3
Electricity and steam sales	84	89	(5)
Other operating revenues	40	27	13
Total operating revenues	381	367	14
Plant operating expenses	260	264	(4)
Other operating expenses	37	23	14
General and administrative expenses	19	18	1
Depreciation and amortization expense	49	47	2
Net interest expense on project debt	7	8	