COVANTA HOLDING CORP
Form 10-Q
October 24, 2011
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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 September 30, 2011

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 last practicable date.

Class	**Outstanding at October 13, 2011**
Common Stock, $0.10 par value	137,683,203 shares

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

For the Quarter Ended September 30, 2011

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 industry results, 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 their businesses described in Item 1A. Risk Factors of Covanta s Annual Report on Form 10-K for the year ended December 31, 2010 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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Unaudited) (In millions, except per share amounts)			
OPERATING REVENUES:				
Waste and service revenues	$ 273	$ 257	$ 800	$ 766
Electricity and steam sales	109	115	301	316
Other operating revenues	50	31	119	82
Total operating revenues	432	403	1,220	1,164
OPERATING EXPENSES:				
Plant operating expenses	221	218	740	715
Other operating expenses	44	28	102	77
General and administrative expenses	24	22	74	76
Depreciation and amortization expense	48	47	142	142
Net interest expense on project debt	8	10	24	30
Write-down of assets		32		32
Total operating expenses	345	357	1,082	1,072
Operating income	87	46	138	92
Other income (expense):				
Investment income	1	1	1	1
Interest expense	(16)	(11)	(50)	(32)
Non-cash convertible debt related expense	(9)	(10)	(20)	(30)
Other expenses, net	(11)		(14)	
Total other expenses	(35)	(20)	(83)	(61)
Income from continuing operations before income tax expense and equity in net income from unconsolidated investments	52	26	55	31
Income tax expense	(2)	(15)	(3)	(18)
Equity in net income from unconsolidated investments	1	1	3	1
Income from continuing operations	51	12	55	14
(Loss) income from discontinued operations, net of income tax expense of $0, $1, $3 and $5, respectively	(7)	11	144	32
NET INCOME	44	23	199	46
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(2)	(2)	(3)	(4)
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries		(1)	(3)	(3)
Net income attributable to noncontrolling interests in subsidiaries	(2)	(3)	(6)	(7)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$ 42	$ 20	$ 193	$ 39

Amounts Attributable to Covanta Holding Corporation stockholders :								
Continuing operations	$	49	$	10	$	52	$	10
Discontinued operations		(7)		10		141		29
Net Income Attributable to Covanta Holding Corporation	$	42	$	20	$	193	$	39
Earnings (Loss) Per Share Attributable to Covanta Holding Corporation stockholders :								
Basic								
Continuing operations	$	0.35	$	0.07	$	0.37	$	0.07
Discontinued operations		(0.05)		0.06		0.98		0.18
Covanta Holding Corporation	$	0.30	$	0.13	$	1.35	$	0.25
Weighted Average Shares		139		153		143		154
Diluted								
Continuing operations	$	0.35	$	0.07	$	0.36	$	0.07
Discontinued operations		(0.05)		0.06		0.98		0.18
Covanta Holding Corporation	$	0.30	$	0.13	$	1.34	$	0.25
Weighted Average Shares		140		154		144		155
Cash Dividend Declared Per Share:	$	0.075	$		$	0.225	$	1.50

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	
	September 30, 2011 (Unaudited)	December 31, 2010
	(In millions, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$ 195	$ 126
Restricted funds held in trust	154	126
Receivables (less allowances of $4 and $3, respectively)	240	272
Unbilled service receivables	20	23
Deferred income taxes	36	27
Prepaid expenses and other current assets	123	110
Assets held for sale	60	191
Total Current Assets	828	875
Property, plant and equipment, net	2,444	2,478
Investments in fixed maturities at market (cost: $27 and $29, respectively)	28	29
Restricted funds held in trust	107	107
Unbilled service receivables	26	32
Waste, service and energy contracts, net	442	472
Other intangible assets, net	80	79
Goodwill	232	230
Investments in investees and joint ventures	45	46
Other assets	292	328
Total Assets	$ 4,524	$ 4,676
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$ 31	$ 7
Current portion of project debt	99	141
Accounts payable	25	23
Deferred revenue	82	72
Accrued expenses and other current liabilities	233	186
Liabilities held for sale	19	34
Total Current Liabilities	489	463
Long-term debt	1,474	1,558
Project debt	635	662
Deferred income taxes	637	605
Waste and service contracts	79	89
Other liabilities	113	140
Total Liabilities	3,427	3,517

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 158 and 157 shares; outstanding 138 and 150 shares)		16		16
Additional paid-in capital		830		893
Accumulated other comprehensive (loss) income		(5)		5
Accumulated earnings		243		213
Treasury stock, at par		(2)		(1)
Total Covanta Holding Corporation stockholders equity		1,082		1,126
Noncontrolling interests in subsidiaries		15		33
Total Equity		1,097		1,159
Total Liabilities and Equity	$	4,524	$	4,676

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 Nine Months Ended September 30, 2011	2010
	(Unaudited) (In millions)	
OPERATING ACTIVITIES:		
Net income	$ 199	$ 46
Less: Income from discontinued operations, net of tax expense	144	32
Income from continuing operations	55	14
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities from continuing operations:		
Depreciation and amortization expense	142	142
Amortization of long-term debt deferred financing costs	4	5
Amortization of debt premium and discount	(4)	(6)
Write-down of assets		32
Loss on extinguishment of debt	1	
Non-cash convertible debt related expense	20	30
Stock-based compensation expense	13	13
Equity in net income from unconsolidated investments	(3)	(1)
Dividends from unconsolidated investments	5	4
Deferred income taxes	23	21
Other, net	(3)	7
Change in restricted funds held in trust	(35)	(21)
Reversal of uncertain tax positions related to pre-emergence tax matters	(24)	
Change in restricted funds-other related to contractual liability to pre-petition creditors	5	
Change in working capital, net of effects of acquisitions	77	53
Total adjustments for continuing operations	221	279
Net cash provided by operating activities from continuing operations	276	293
Net cash provided by operating activities from discontinued operations	1	35
Net cash provided by operating activities	277	328
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	10	10
Purchase of investment securities	(9)	(10)
Purchase of property, plant and equipment	(91)	(83)
Acquisition of noncontrolling interests in subsidiaries		(2)
Acquisition of businesses, net of cash acquired	(10)	(128)
Acquisition of land use rights	(8)	(19)
Other, net	(7)	(16)
Net cash used in investing activities from continuing operations	(115)	(248)
Net cash provided by investing activities from discontinued operations	227	
Net cash provided by (used in) investing activities	112	(248)

FINANCING ACTIVITIES:				
Principal payments on long-term debt		(37)		(5)
Principal payments on project debt		(83)		(102)
Payments of borrowings on revolving credit facility				(56)
Proceeds from borrowings on project debt		15		5
Proceeds from borrowings on revolving credit facility				56
Change in restricted funds held in trust		7		(41)
Proceeds from the exercise of options for common stock, net				1
Cash dividends paid to stockholders		(22)		(233)
Common stock repurchased		(203)		(37)
Distributions to partners of noncontrolling interests in subsidiaries		(5)		(4)
Other, net		(3)		6
Net cash used in financing activities from continuing operations		(331)		(410)
Net cash provided by (used in) financing activities from discontinued operations		8		(28)
Net cash used in financing activities		(323)		(438)
Effect of exchange rate changes on cash and cash equivalents		(4)		
Net increase (decrease) in cash and cash equivalents		62		(358)
Cash and cash equivalents at beginning of period		141		434
Cash and cash equivalents at end of period		203		76
Less: Cash and cash equivalents of discontinued operations at end of period		8		22
Cash and cash equivalents of continuing operations at end of period	$	195	$	54

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 EQUITY

	Covanta Holding Corporation Stockholders Equity								
	Common Stock		Additional	Accumulated Other		Treasury Stock		Noncontrolling Interests	
	Shares	Amount	Paid-In Capital	Comprehensive Income (Loss)	Accumulated Earnings	Shares	Amount	in Subsidiaries	Total
	(Unaudited, in millions)								
Balance as of December 31, 2010	157	$ 16	$ 893	$ 5	$ 213	7	$ (1)	$ 33	$ 1,159
Stock-based compensation expense			13						13
Deferred tax adjustment on stock-based compensation			(1)						(1)
Dividends declared					(32)				(32)
Common stock repurchased			(75)		(129)	13	(1)		(205)
Shares issued in non-vested stock award	1								
Dividends for vested stock awards			1		(1)				
Shares repurchased for tax withholdings for vested stock awards			(1)		(1)				(2)
Elimination due to sale of controlling interests in subsidiaries								(18)	(18)
Distributions to partners of noncontrolling interests in subsidiaries								(5)	(5)
Comprehensive income, net of income taxes:									
Net income					193			6	199
Foreign currency translation				(10)				(1)	(11)
Total comprehensive (loss) income				(10)	193			5	188
Balance as of September 30, 2011	158	$ 16	$ 830	$ (5)	$ 243	20	$ (2)	$ 15	$ 1,097

	Covanta Holding Corporation Stockholders Equity								
	Common Stock		Additional	Accumulated Other		Treasury Stock		Noncontrolling Interests	
	Shares	Amount	Paid-In Capital	Comprehensive Income	Accumulated Earnings	Shares	Amount	in Subsidiaries	Total
	(Unaudited, in millions)								
Balance as of December 31, 2009	156	$ 16	$ 917	$ 7	$ 444	1	$ (1)	$ 34	$ 1,417
Stock-based compensation expense			13						13
Cash dividend declared					(233)				(233)
Common stock repurchased			(15)		(22)	3			(37)
Exercise of options to purchase common stock			1						1
Shares issued in non-vested stock award	1								
Acquisition of noncontrolling interests in subsidiaries			(1)					(1)	(2)
Distributions to partners of noncontrolling interests in subsidiaries								(7)	(7)
Comprehensive income, net of income taxes:									
Net income					39			7	46
Foreign currency translation				1				1	2
Pension and other postretirement plan unrecognized net loss				(1)					(1)

Net unrealized loss on derivatives				1					1
Net unrealized gain on securities				1					1
Total comprehensive income				2	39			8	49
Balance as of September 30, 2010	157	$ 16	$ 915	$ 9	$ 228	4	$ (1)	$ 34	$ 1,201

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

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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

We are 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.

We operate and/or have ownership positions in 44 energy-from-waste facilities, which are primarily located in North America, and 17 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass, landfill gas and hydroelectric) and an independent power production (IPP) facility in Asia. We hold equity interests in energy-from-waste facilities in China and Italy. We also operate waste management infrastructure that is complementary to our core EfW business.

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.

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. During the first quarter of 2011, we completed the sale of our interests in a 510 megawatt (MW) (gross) coal-fired electric power generation facility in the Philippines (Quezon) and we completed the sale of our majority equity interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Samalpatti). In October 2011, we completed the sale of our majority equity interests in our 106 MW (gross) heavy fuel-oil fired electric power generation facility, also in Tamil Nadu, India (Madurai). The remaining asset held for sale is our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. See Note 3. Assets Held for Sale and Dispositions and Note 14. Subsequent Events for additional information.

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, 2011. 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, 2010 (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.

Reclassifications

As more fully described in Note 3. Business Development, Assets Held for Sale and Dispositions, during the fourth quarter of 2010, the operations of our fossil fuel independent power production facilities held for sale met the criteria to be classified as discontinued operations. 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. All corresponding prior year periods presented in our condensed consolidated financial statements and accompanying notes have been reclassified to reflect the discontinued operations presentation.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

During the first quarter of 2011, we corrected our presentation of the condensed consolidated balance sheet at December 31, 2010 to adjust a portion of the excess of purchase price over par value for treasury stock transactions from additional paid-in capital to retained earnings. We have adjusted approximately $22 million and $66 million to retained earnings from additional paid-in capital as of September 30, 2010 and December 31, 2010, respectively. This change had no impact on total equity.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued guidance related to amendments to disclosures about fair value measurements. The amendments in this update improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. We are required to adopt this standard for the first quarter of 2012. Early adoption is not permitted. We do not expect this accounting standard to have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB issued guidance related to the presentation of comprehensive income. This guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments require that all other comprehensive income changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments do not affect how earnings per share is calculated or presented. We are required to adopt this standard for the first quarter of 2012, however early adoption is permitted. The amendments should be applied retrospectively. We are currently evaluating the presentational changes to our condensed consolidated financial statements required by this guidance.

In September 2011, the FASB issued guidance related to testing goodwill for impairment. The amendments provide an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity no longer would be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We are required to adopt this standard for the first quarter of 2012. Early adoption is permitted and we expect to adopt this guidance during the fourth quarter of 2011. We do not expect this accounting standard to have an impact on our condensed consolidated financial statements.

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

Business Development

Durham-York Energy-from-Waste Facility

During the third quarter of 2011, we received the notice to proceed with design, construction and operation of a municipally-owned 140,000 tonne-per-year greenfield energy-from-waste facility to be built in Clarington, Ontario, located in Durham Region, Canada. The facility will process waste from the Regions of Durham and York. The fixed-price construction contract for the project is for approximately C$250 million. The project will be funded and owned by the Durham and York Regions. During the third quarter of 2011, we acquired a $267 million performance surety bond for this project which will expire in June 2014. After construction, we will operate the facility under a 20 year contract.

Assets Held for Sale and Dispositions

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh.

During the first quarter of 2011, we completed the sale of our majority equity interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Samalpatti) and we completed the sale of our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon). The Quezon assets sold consisted of our entire interest in Covanta Philippines Operating, Inc., which provided operation and maintenance services to the facility, as well as our 26% ownership interest in the project company, Quezon Power, Inc.

In October 2011, we completed the sale of our interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Madurai). The Madurai assets sold included our entire interest in Covanta Madurai Operating Private Limited, which provided operation and maintenance services to the facility, as well as our approximately 77% ownership interest in the project company, Madurai Power Corporation Private Ltd. See Note 14. Subsequent Events.

The remaining asset held for sale is our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

During 2011, we have received a combined total of cash proceeds of $256 million, net of transaction costs, for our interests in the three fossil fuel independent power production facilities that we have sold.

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. All corresponding prior year periods presented in our condensed consolidated financial statements and accompanying notes have been reclassified to reflect the discontinued operations presentation.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$ 15	$ 33	$ 84	$ 124
Operating expenses, including net gain on disposal of assets held for sale and loss on assets held for sale [(a)]	$ (23)	$ (28)	$ 55	$ (106)
Income before income tax expense and equity in net income from unconsolidated investments	$ (8)	$ 7	$ 140	$ 20
Equity in net income from unconsolidated investments	$ 1	$ 6	$ 7	$ 17
Income from discontinued operations, net of income tax expense of $0, $1, $3 and $5, respectively	$ (7)	$ 11	$ 144	$ 32

(a) During the three and nine months ended September 30, 2011, we recorded a net after-tax (loss) gain on assets held for sale of $(11) million and $121 million, respectively. We recorded a loss on assets held for sale of $8 million in 2010.

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	
	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 8	$ 14
Restricted funds held in trust		19
Accounts receivable	27	20
Prepaid expenses and other assets	10	26
Property, plant and equipment, net		30
Investments in investees and joint ventures	15	81
Other long-term assets		1
Assets held for sale	$ 60	$ 191
Accounts payable	$ 2	$ 3
Accrued expenses and other	3	12
Project debt	11	15

Other noncurrent liabilities		3		4
Liabilities held for sale	$	19	$	34

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income from continuing operations	$ 49	$ 10	$ 52	$ 10
Net (loss) income from discontinued operations	(7)	10	141	29
Net income attributable to Covanta Holding Corporation	$ 42	$ 20	$ 193	$ 39
Basic earnings per share:				
Weighted average basic common shares outstanding	139	153	143	154
Continuing operations	$ 0.35	$ 0.07	$ 0.37	$ 0.07
Discontinued operations	(0.05)	0.06	0.98	0.18
Covanta Holding Corporation	$ 0.30	$ 0.13	$ 1.35	$ 0.25
Diluted earnings per share:				
Weighted average basic common shares outstanding	139	153	143	154
Dilutive effect of stock options				
Dilutive effect of restricted stock	1	1	1	1
Dilutive effect of convertible debentures				
Dilutive effect of warrants				
Weighted average diluted common shares outstanding	140	154	144	155
Continuing operations	$ 0.35	$ 0.07	$ 0.36	$ 0.07
Discontinued operations	(0.05)	0.06	0.98	0.18
Covanta Holding Corporation	$ 0.30	$ 0.13	$ 1.34	$ 0.25
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive:				
Stock options	2	2	2	2
Restricted stock				

Restricted stock units				
Warrants	27	27	27	27

In 2007, we issued 1.00% Senior Convertible Debentures due 2027 (the Debentures). The Debentures are convertible under certain circumstances if the closing sale price of our common stock exceeds a specified conversion price before February 1, 2025. As of September 30, 2011, the conversion rate for the Debentures was 38.9883 shares of our common stock per $1,000 principal amount of Debentures, which is equivalent to a conversion price of $25.65 per share. In connection with the quarterly cash dividend payable on October 14, 2011, the conversion rate for the Debentures was adjusted to 39.5441 shares of our common stock per $1,000 principal amount of the Debentures. The adjusted conversion rate is equivalent to an adjusted conversion price of $25.29 per share and became effective on October 4, 2011. As of September 30, 2011, the Debentures did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

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 $23.12. As of September 30, 2011, 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.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

NOTE 5. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

We have one reportable segment, Americas, which 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[(a)]	Total
Three Months Ended September 30, 2011:			
Operating revenues	$ 421	$ 11	$ 432
Depreciation and amortization expense	48		48
Operating income (loss)	93	(6)	87
Three Months Ended September 30, 2010:			
Operating revenues	$ 394	$ 9	$ 403
Depreciation and amortization expense	47		47
Operating income (loss)	80	(34)	46
Nine Months Ended September 30, 2011:			
Operating revenues	$ 1,188	$ 32	$ 1,220
Depreciation and amortization expense	141	1	142
Operating income (loss)	157	(19)	138
Nine Months Ended September 30, 2010:			
Operating revenues	$ 1,134	$ 30	$ 1,164
Depreciation and amortization expense	141	1	142
Operating income (loss)	141	(49)	92

(a) 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

Long-Term Debt

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

	As of September 30, 2011	As of December 31, 2010
7.25% Senior Notes due 2020	$ 400	$ 400
3.25% Cash Convertible Senior Notes due 2014	460	460
Debt discount related to Cash Convertible Senior Notes	(74)	(91)
Cash conversion option derivative at fair value	73	116
3.25% Cash Convertible Senior Notes, net	459	485
1.00% Senior Convertible Debentures due 2027	25	57
Debt discount related to Convertible Debentures		(3)

1.00% Senior Convertible Debentures, net	25	54
Term Loan Facility due 2014	621	626
Total	1,505	1,565
Less: current portion	(31)	(7)
Total long-term debt	$ 1,474	$ 1,558

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

Credit Facilities

We have credit facilities which are comprised of a $300 million revolving credit facility (the Revolving Credit Facility), a $320 million funded letter of credit facility (the Funded L/C Facility), and a $650 million term loan (the Term Loan Facility) (collectively referred to as the Credit Facilities). As of September 30, 2011, we had available credit for liquidity as follows (in millions):

	Total Available Under Facility	Maturing	Outstanding Letters of Credit as of September 30, 2011	Available as of September 30, 2011
Revolving Credit Facility[(a)]	$ 300	2013	$	$ 300
Funded L/C Facility	$ 320	2014	$ 279	$ 41

(a) Up to $200 million of which may be utilized for letters of credit.

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 12 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 59.4517 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.82 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.

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 12 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)

In November 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027. We offered to purchase the Debentures at a purchase price of $990 for each $1,000 principal amount of Debentures. During the nine months ended September 30, 2011, an additional $32 million of the Debentures were purchased. As of September 30, 2011, there was $25 million aggregate principal amount of the Debentures outstanding. We may purchase Debentures that remained outstanding following expiration of the tender offer in the open market, in privately negotiated transactions, through tender offers, exchange offers, by redemption or otherwise.

As of September 30, 2011, under limited circumstances, prior to February 1, 2025, the Debentures are convertible by the holders into cash and shares of our common stock, if any, based on a conversion rate of 38.9883 shares of our common stock per $1,000 principal amount of Debentures, (which represents a conversion price of approximately $25.65 per share) or approximately 1 million issuable shares. In connection with the quarterly cash dividend payable on October 14, 2011, the conversion rate for the Debentures was adjusted to 39.5441 shares of our common stock per $1,000 principal amount of the Debentures. The adjusted conversion rate is equivalent to an adjusted conversion price of $25.29 per share and became effective on October 4, 2011. As of September 30, 2011, if the Debentures were converted, no shares would have been issued since the trading price of our common stock was below the conversion price of the Debentures.

For specific criteria related to contingent interest, conversion or redemption features of the Debentures, refer to Note 12 of the Notes to Consolidated Financial Statements in our Form 10-K.

For details related to the fair value for the contingent interest feature related to the Debentures, see Note 12. Derivative Instruments.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

Debt Discount for the 3.25% Notes

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 September 30, 2011 expected to be included in our condensed consolidated financial statements for each of the periods indicated (in millions):

	For the Years Ended			
	Remainder of 2011	2012	2013	2014
3.25% Cash Convertible Senior Notes due 2014	$ 6	$ 26	$ 29	$ 13

Loss on Extinguishment of Debt

During the nine months ended September 30, 2011, we recorded a loss on extinguishment of debt of $1 million related to the additional $32 million of the outstanding Debentures purchased under the tender offer. The loss on extinguishment of debt was comprised of the difference between the fair value and carrying value of the liability component of the Debentures tendered.

Equity

During the nine months ended September 30, 2011, we granted 755,962 restricted stock awards and 36,210 restricted stock units. For information related to stock-based award plans, see Note 10. Stock-Based Compensation.

During the nine months ended September 30, 2011, we repurchased 216,605 shares of our common stock in connection with tax withholdings for vested stock awards.

During each quarter of 2011, the Board of Directors approved a regular quarterly cash dividend of $0.075 per share which was paid on April 12, 2011, July 6, 2011, and October 14, 2011, respectively. During the second quarter of 2010, the Board of Directors declared a special cash dividend of $1.50 per share which was paid on July 20, 2010.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Regular cash dividend				
Declared	$ 10	$	$ 32	$
Per Share	$ 0.075	$	$ 0.225	$
Special cash dividend				
Declared	$	$	$	$ 233
Per Share	$	$	$	$ 1.50

During the nine months ended September 30, 2011, the Board of Directors approved an additional $250 million share repurchase authorization, bringing the total authorized amount to $400 million. 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 September 30, 2011, the amount remaining under our currently authorized share repurchase program was $100 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, 2011	$ 54	3.2	$ 16.84
Three months ended June 30, 2011	$ 70	4.2	$ 16.58
Three months ended September 30, 2011 [(a)]	$ 81	5.2	$ 15.58
Nine months ended September 30, 2011	$ 205	12.6	$ 16.24

(a) Approximately $2 million of common stock repurchased during the three months ended September 30, 2011 was paid in October 2011.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

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, 2011 to be approximately 27.4%. 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 6.0 % and 58.3% for the nine months ended September 30, 2011 and 2010, respectively. The decrease in the effective tax rate is primarily due to the impact of the reversal of uncertain tax positions discussed below and the impact of state tax law changes enacted in the current year on deferred state income taxes. The liability for uncertain tax positions, exclusive of interest and penalties, was $114 million as of September 30, 2011 and $130 million as of December 31, 2010. Included in the balance of unrecognized tax benefits as of September 30, 2011 are potential benefits of $114 million that, if recognized, would impact the effective tax rate.

For the three months ended September 30, 2011, the income tax provision includes a $24 million benefit due to the reversal of uncertain tax positions, following the expiration of applicable statutes of limitations related to pre-emergence tax matters in the Covanta Energy bankruptcy. We had held since March 2004 $20 million in restricted funds intended to cover those uncertain tax positions. The restricted funds were included in other assets on our condensed consolidated balance sheet. The expiration of the statutes of limitations triggered a liability to pre-petition claimants of approximately 73% of the restricted fund balance. Therefore, we recorded approximately $15 million as other expense during the three months ended September 30, 2011. As of September 30, 2011, $15 million of the non-current restricted funds was reclassified to other current assets on our condensed consolidated balance sheet and is expected to be paid to third party claimants in the fourth quarter of 2011. The remaining $5 million was reclassified to cash and cash equivalents on our condensed consolidated balance sheet as of September 30, 2011.

For the three months ended September 30, 2011 and 2010, we recognized a net tax benefit of $7 million and a net tax expense of $0, respectively, and for the nine months ended September 30, 2011 and 2010, we recognized net tax benefits of $6 million and $1 million, respectively, for interest and penalties on uncertain tax positions. As of September 30, 2011 and December 31, 2010, we had accrued interest and penalties associated with liabilities for unrecognized tax positions of $2 million and $7 million, respectively. 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 (which were subsidiaries of our predecessor, 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 nor the final administration by the Missouri Director will result in a material reduction in available NOLs.

We have consolidated federal NOLs estimated to be approximately $525 million for federal income tax purposes as of December 31, 2010, based on the income tax returns filed. An election was made to defer certain income resulting in an increase in the amount previously reported. 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, 2010, we had state NOL carryforwards of approximately $189 million, which expire between 2011 and 2027, capital loss carryforwards of $0.2 million expiring in 2013, and additional federal credit carryforwards, including production tax credits and minimum tax credits, of $46 million. These deferred tax assets are offset by a valuation allowance of approximately $20 million.

For further information, refer to Note 17. 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 $19 million and $21 million for the three months ended September 30, 2011 and 2010, respectively and $62 million and $65 million for the nine months ended September 30, 2011 and 2010, respectively.

Other operating expenses

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

	Other Operating Expenses			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Construction expense	$ 44	$ 22	$ 100	$ 63
Insurance subsidiary operating expenses [(a)]	4	6	12	15
Foreign exchange gain	(1)		(3)	(1)
Other	(3)		(7)	
Total other operating expenses	$ 44	$ 28	$ 102	$ 77

(a) 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 September 30, 2011 included or expected to be included in our condensed consolidated statement of income for each of the years indicated (in millions):

	Waste, Service and Energy Contracts (Amortization Expense)	Waste and Service Contracts (Contra-Expense)

Nine Months ended September 30, 2011	$	28	$	(9)
Remainder of 2011	$	9	$	(3)
2012		36		(12)
2013		32		(12)
2014		29		(13)
2015		26		(8)
2016		22		(8)
Thereafter		288		(23)
Total	$	442	$	(79)

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

Write-down of Assets

During the three months ended September 30, 2010, we recorded the following non-cash impairment charges:

- $7 million, pre-tax, to write-down the receivable from The Harrisburg Authority to $13 million, which was calculated based on a range of potential outcomes utilizing various estimated cash flows for the receivable (see Note 14. Subsequent Events for additional information);
- $3 million, pre-tax, to write-down of real estate for our corporate office to estimated fair value; and
- $23 million, pre-tax, comprised of the entire capitalized pre-construction and construction costs for the Dublin Joint Venture project, net of approximately $8 million in recoverable assets net of liabilities, of which approximately $5 million remain on the condensed consolidated balance sheet as of September 30, 2011 and primarily related to recoverable premiums under project insurance.

For additional information, see Note 16 of the Notes to Consolidated Financial Statements in our Form 10-K.

Non-Cash Convertible Debt Related Expense

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

	Non-Cash Convertible Debt Related Expense			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Debt discount accretion related to the 3.25% Notes	$ 6	$ 5	$ 17	$ 16
Debt discount accretion related to the Debentures	1	5	3	15
Fair value changes related to the cash convertible note hedge	19	(10)	43	34
Fair value changes related to the cash conversion option derivative	(17)	10	(43)	(35)
Total non-cash convertible debt related expense	$ 9	$ 10	$ 20	$ 30

Comprehensive Income

The components of comprehensive income are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Comprehensive income, net of income taxes:				
Net income attributable to Covanta Holding Corporation	$ 42	$ 20	$ 193	$ 39
Foreign currency translation	(19)	10	(10)	1
Pension and other postretirement plan unrecognized net loss				(1)
Net unrealized gain on derivatives	1	1		1
Net unrealized gain (loss) on available-for-sale securities	(1)	1		1

Other comprehensive (loss) income attributable to Covanta Holding Corporation	(19)	12	(10)	2
Comprehensive income attributable to Covanta Holding Corporation	$ 23	$ 32	$ 183	$ 41
Net income attributable to noncontrolling interests in subsidiaries	$ 2	$ 3	$ 6	$ 7
Other comprehensive (loss) income Foreign currency translation	(1)	1	(1)	1
Comprehensive income attributable to noncontrolling interests in subsidiaries	$ 1	$ 4	$ 5	$ 8

The components of net unrealized foreign currency translation consist of the following (in millions, net of tax):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net unrealized foreign currency translation adjustments arising during the period	$ (19)	$ 10	$ (10)	$ 1
Reclassification adjustment for foreign currency translation included in net income			(1)	
Net unrealized foreign currency translation adjustment	$ (19)	$ 10	$ (11)	$ 1

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

NOTE 9. BENEFIT OBLIGATIONS

Pension and Other Benefit Obligations

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

	Pension Benefits			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest cost	$ 1	$ 1	$ 3	$ 3
Expected return on plan assets	(1)	(1)	(4)	(4)
Net periodic benefit cost	$	$	$ (1)	$ (1)

Interest costs and the expected return on plan assets for other post-retirement benefits were not material for the three and nine months ended September 30, 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. As of December 2010, the fair value of plan assets exceeded accumulated benefit obligations for the pension plan. 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. We anticipate the actual settlement will take place in the second half of 2012.

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 September 30, 2011 and 2010, respectively and $11 million and $12 million for the nine months ended September 30, 2011 and 2010, respectively.

NOTE 10. STOCK-BASED COMPENSATION

During the nine months ended September 30, 2011, we awarded certain employees 719,962 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 majority of the restricted stock awards vest during March of 2012, 2013, and 2014.

On May 5, 2011, in accordance with our existing program for annual director compensation, we awarded 36,000 shares of restricted stock under the Directors Plan. We determined that the service vesting condition of these restricted stock awards to be non-substantive and, in accordance with accounting principles for stock compensation, recorded the entire fair value of the award as compensation expense on the grant date.

During the nine months ended September 30, 2011, we awarded certain employees 36,210 restricted stock units in connection with specified projects. Vesting for these restricted stock units will occur at the earlier of three years or upon satisfactory completion of such projects.

Compensation expense related to our stock-based awards totaled $4 million for both the three months ended September 30, 2011 and 2010 and $13 million for both the nine months ended September 30, 2011 and 2010. Compensation expense for the nine months ended September 30, 2010 includes additional expense of $1 million resulting from the reduction of the exercise price of outstanding options resulting from the special cash dividend which was paid on July 20, 2010.

As of September 30, 2011, we had approximately $12 million, $4 million and $1 million of unrecognized compensation expense related to our unvested restricted stock, unvested restricted stock units, and unvested stock options, respectively. We expect this compensation expense to be recognized over a weighted average period of approximately 2 years for both our unvested restricted stock awards and our unvested restricted stock units and approximately 1 year for our unvested stock options.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

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 September 30, 2011. However, such amounts have not been comprehensively revalued for purposes of these financial statements since September 30, 2011, and current estimates of fair value may differ significantly from the amounts presented herein.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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 September 30, 2011:

	0,000	0,000	0,000	0,000	0,000
			Fair Value Measurements at Reporting Date Using		
	As of September 30, 2011		**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
Financial Instruments Recorded at Fair Value on a Recurring Basis:	**Carrying Amount**	**Estimated Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
			(In millions)		
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 166	$ 166	$ 166	$	$
Money market funds	29	29	29		
Total cash and cash equivalents:	195	195	195		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	2	2	2		
Money market funds	171	171	171		
U.S. Treasury/Agency obligations (a)	16	16	16		
State and municipal obligations	12	12	12		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	60	60	60		
Total restricted funds held in trust:	261	261	261		
Restricted funds other:					
Bank deposits and certificates of deposit (b)	16	16	16		
Money market funds (c)	13	13	13		
Total restricted funds other:	29	29	29		
Investments:					
Mutual and bond funds (b)	2	1	1		
Investments available for sale:					
U.S. Treasury/Agency obligations (d)	5	5	5		
Residential mortgage-backed securities (d)	5	5	5		
Other government obligations (d)	4	4	4		
Corporate investments (d)	14	14	14		
Equity securities (c)	1	1	1		
Total investments:	31	30	30		
Derivative Asset Note Hedge	69	69		69	
Total assets:	$ 585	$ 584	$ 515	$ 69	$
Liabilities:					
Derivative Liability Cash Conversion Option	$ 73	$ 73	$	$ 73	$
Derivative Liabilities Contingent interest features of the Notes and Debentures	0	0		0	
Total liabilities:	$ 73	$ 73	$	$ 73	$

Financial Instruments Recorded at Carrying Amount:				
Assets:				
Accounts receivables (e)	$	262	$	262
Liabilities:				
Long-term debt (excluding Cash Conversion Option)	$	1,432	$	1,459
Project debt	$	734	$	747

(a) 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.

(b) Included in other noncurrent assets in the condensed consolidated balance sheets.

(c) Included in prepaid expenses and other current assets in the condensed consolidated balance sheets.

(d) Included in investments in fixed maturities at market in the condensed consolidated balance sheets.

(e) Includes $24 million of noncurrent receivables in other noncurrent assets in the condensed consolidated balance sheets.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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, 2010:

	0,0000	0,0000	0,0000	0,0000	0,0000
			Fair Value Measurements at Reporting Date Using		
	As of December 31, 2010		Quoted Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable
Financial Instruments Recorded at Fair Value on a Recurring Basis:	**Carrying Amount**	**Estimated Fair Value**	**Assets (Level 1)**	**Inputs (Level 2)**	**Inputs (Level 3)**
			(In millions)		
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 48	$ 48	$ 48	$	$
Money market funds	78	78	78		
Total cash and cash equivalents:	126	126	126		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	4	4	4		
Money market funds	117	117	117		
U.S. Treasury/Agency obligations (a)	56	56	56		
State and municipal obligations	7	7	7		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	49	49	49		
Total restricted funds held in trust:	233	233	233		
Restricted funds other:					
Bank deposits and certificates of deposit (b)	22	22	22		
Money market funds (c)	11	11	11		
Residential mortgage-backed securities (c)	1	1	1		
Other government obligations (c)	1	1	1		
Corporate investments (c)	1	1	1		
Total restricted funds other:	36	36	36		
Investments:					
Mutual and bond funds (b)	3	3	3		
Investments available for sale:					
U.S. Treasury/Agency obligations (d)	6	6	6		
Residential mortgage-backed securities (d)	5	5	5		
Other government obligations (d)	2	2	2		
Corporate investments (d)	16	16	16		
Equity securities (c)	1	1	1		
Total investments:	33	33	33		
Derivative Asset Note Hedge	113	113		113	
Total assets:	$ 541	$ 541	$ 428	$ 113	$
Liabilities:					
Derivative Liability Energy Hedges	$ 1	$ 1	$	$ 1	$
Derivative Liability Cash Conversion Option	116	116		116	
Derivative Liabilities Contingent interest features of the 3.25% Notes and Debentures	0	0		0	

Total liabilities:	$	117	$	117	$		$	117	$	
Financial Instruments Recorded at Carrying Amount:										
Assets:										
Accounts receivables (e)	$	293	$	293						
Liabilities:										
Long-term debt (excluding Cash Conversion Option)	$	1,448	$	1,497						
Project debt	$	803	$	823						

(a) 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.
(b) Included in other noncurrent assets in the condensed consolidated balance sheets.
(c) Included in prepaid expenses and other current assets in the condensed consolidated balance sheets.
(d) Included in investments in fixed maturities at market in the condensed consolidated balance sheets.
(e) Includes $25 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 third party matrix pricing based on the last days trading activity. Changes in fair values are credited or charged directly to Accumulated Other Comprehensive Income (AOCI) in the condensed consolidated statements of equity 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 income 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 income 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, 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 September 30, 2011				As of December 31, 2010			
	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 agencies/ obligations	$ 5	$	$	$ 5	$ 6	$	$	$ 6
Residential mortgage-backed securities	5			5	5			5
Other government obligations	3	1		4	2			2
Corporate investments	14			14	16			16
Total fixed maturities insurance business	27	1		28	29			29
Mutual and bond funds	2		1	1	3			3

Total noncurrent investments	$ 29	$ 1	$ 1	$ 29	$ 32	$	$	$ 32

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

	As of September 30, 2011		As of December 31, 2010	
Description of Investments	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury and other direct U.S. Government obligations	$	$	$ 1	$
Federal agency mortgage-backed securities	1		2	
Other government obligations			1	
Corporate bonds	8		3	
Total fixed maturities	9		7	
Equity securities				
Total temporarily impaired investments	$ 9	$	$ 7	$

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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, 1, 0, and 22, respectively. As of September 30, 2011, 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 17.6%, and 15.4% of the total fixed maturities as of September 30, 2011 and December 31, 2010, 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 September 30, 2011	
	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	4	4
More than ten years		
Total fixed maturities	$ 27	$ 28

The change in net unrealized gain on securities included as a separate component of AOCI in the condensed consolidated statements of equity was not material for the three and nine months ended September 30, 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 income.

Derivative Instruments Not Designated As Hedging Instruments	**Balance Sheet Location**	**Fair Value as of September 30, 2011**	**Fair Value as of December 31, 2010**
		(In millions)	
Asset Derivatives:			
Note Hedge	Other noncurrent assets	$ 69	$ 113
Liability Derivatives:			
Cash Conversion Option	Long-term debt	$ 73	$ 116
Contingent interest features of the Debentures and 3.25% Notes	Other noncurrent liabilities	$ 0	$ 0

Amount of Gain or (Loss) Recognized in Income on Derivative

Effect on Income of Derivative Instruments Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
		(In millions)			
Note Hedge	Non-cash convertible debt related expense	$ (19)	$ 10	$ (43)	$ (34)
Cash Conversion Option	Non-cash convertible debt related expense	17	(9)	43	35
Contingent interest features of the Debentures and Notes	Non-cash convertible debt related expense				
Effect on income of derivative instruments not designated as hedging instruments		$ (2)	$ 1	$	$ 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 income 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 income as non-cash convertible debt related expense.

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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 12 of the Notes to Consolidated Financial Statements in our Form 10-K.

Contingent Interest feature of the 1.00% Senior Convertible Debentures

The contingent interest feature in the Debentures is an embedded derivative instrument. The first contingent cash interest payment period would not commence until February 1, 2012, and the fair value for the embedded derivative was zero as of September 30, 2011. For specific criteria related to the contingent interest features of the Debentures, refer to Note 12 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 may enter into contractual arrangements that will mitigate our exposure to this volatility through a variety of hedging techniques. 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. The fair value of the energy derivatives was not material as of September 30, 2011.

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.

Wallingford Matter. In 2010, compliance stack testing indicated that one of the three combustion units at the Wallingford energy-from-waste facility had exceeded the permit limit for dioxin/furan emissions. We promptly shut down the affected combustion unit and self-reported the test results to the Connecticut Department of Energy and Environmental Protection (CTDEEP). On August 18, 2010, the Connecticut Office of the Attorney General (AG), on behalf of the CTDEEP, commenced an enforcement action in Connecticut Superior Court (Hartford) with respect to the results of the compliance stack testing. We, the CTDEEP and AG reached agreement on a restart and test program to demonstrate that the affected combustion unit has been returned to compliance and to settle all claims relating to this matter. That agreement became final as of July 20, 2011, and we have since restarted the affected unit, consistent with the approved agreement.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

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 ultimate 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.

Other Matters

Other commitments as of September 30, 2011 were as follows (in millions):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	$ 279	$ 3	$ 276
Surety bonds	354		354
Total other commitments net	$ 633	$ 3	$ 630

The letters of credit were issued under various credit facilities (primarily the Funded L/C 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 Credit Facilities as additional term loans in the case of letters of credit issued under the Funded L/C 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 ($341 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 and the 3.25% Notes. These arise as follows:

holders may require us to repurchase their 7.25% 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.

We have certain contingent obligations related to the Debentures. These arise as follows:

holders may require us to repurchase their Debentures on February 1, 2012, February 1, 2017 and February 1, 2022;

holders may require us to repurchase their Debentures 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 and/or our common stock.

For specific criteria related to contingent interest, conversion or redemption features of the Debentures, the 7.25% Notes and the 3.25% Notes, refer to Note 12 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, or to obtain or guarantee financing for a

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

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.

NOTE 14. SUBSEQUENT EVENTS

In October 2011, we completed the sale of our interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Madurai) for $31 million in cash proceeds, net of transaction costs. The Madurai assets sold included our entire interest in Covanta Madurai Operating Private Limited, which provided operation and maintenance services to the facility, as well as our approximately 77% ownership interest in the project company, Madurai Power Corporation Private Ltd. See Note 3. Business Development, Assets Held for Sale and Dispositions for additional information.

In connection with the quarterly cash dividend payable on October 14, 2011, the conversion rate for the Debentures was adjusted to 39.5441 shares of our common stock per $1,000 principal amount of the Debentures. The adjusted conversion rate is equivalent to an adjusted conversion price of $25.29 per share and became effective on October 4, 2011.

In 2008, we entered into a ten year agreement with The Harrisburg Authority to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania. We also agreed to provide construction management services and to advance up to $26 million in funding to The Harrisburg Authority for certain facility improvements required to enhance facility performance, which improvements were substantially completed during 2010. The repayment of this funding is guaranteed by the City of Harrisburg, but is otherwise unsecured, and is junior to project bondholders rights. We had advanced $22 million, of which $20 million was outstanding as of December 31, 2010 under this funding arrangement. On October 5, 2010, we filed suit against the City of Harrisburg in the Dauphin County Court of Common Pleas seeking to enforce our rights under the City s guaranty. On December 15, 2010, the City of Harrisburg was formally admitted to the State oversight program for distressed municipalities known as Act 47. During the year ended December 31, 2010, we recorded a non-cash impairment charge of $7 million, pre-tax, to write-down the receivable to $13 million, which was calculated based on a range of potential outcomes utilizing various estimated cash flows for the receivable. On October 13, 2011, the City of Harrisburg filed for protection under the bankruptcy laws. We do not believe that the bankruptcy filing will impact our expected recovery. We intend to continue to pursue our lawsuit in parallel with efforts to work with the City of Harrisburg and other stakeholders to protect the full recovery of our advance and to maintain our position in the project.

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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 September 30, 2011 and our results of operations for the three and nine months ended September 30, 2011, 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, 2010 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, 2010 (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

We are 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.

We operate and/or have ownership positions in 44 energy-from-waste facilities, which are primarily located in North America, and 17 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass, landfill gas and hydroelectric) and an independent power production (IPP) facility in Asia. We also operate waste management infrastructure that is complementary to our core EfW business. We have one reportable segment which is Americas and we are organized as a holding company and conduct all of our operations through subsidiaries which are engaged predominantly in the businesses of waste and energy services.

We also hold equity interests in energy-from-waste facilities in China and Italy. We are pursuing additional growth opportunities in parts of Europe, 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 are focusing primarily on the United Kingdom where we continue to pursue several billion dollars worth of energy-from-waste development opportunities.

During the third quarter of 2011, we received notice to proceed with design, construction and operation of a municipally-owned 140,000 tonne-per-year greenfield energy-from-waste facility to be built in Clarington, Ontario, located in Durham Region, Canada. After construction, we will operate the facility under a 20 year contract. For additional information, see *Projects Under Advanced Development or Construction* below.

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. During the first quarter of 2011, we completed the sale of our interests in a 510 megawatt (MW) (gross) coal-fired electric power generation facility in the Philippines (Quezon) and we completed the sale of our majority equity interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Samalpatti). In October 2011, we completed the sale of our majority equity interests in our 106 MW (gross) heavy fuel-oil fired electric power generation facility also in Tamil Nadu, India (Madurai). The remaining asset held for sale is our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. For additional information, see *Assets Held for Sale and Dispositions* below.

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 each quarter of 2011, the Board of Directors approved a regular quarterly cash dividend of $0.075 per share which was paid on April 12, 2011, July 6, 2011, and October 14, 2011, respectively. During the nine months ended September 30, 2011, the Board of Directors approved an additional $250 million share repurchase authorization, bringing the total authorized amount to $400 million. During the nine months ended September 30, 2011, we repurchased 13 million shares of our common stock at a weighted average cost of $16.24 per share for an aggregate amount of approximately $205 million. For additional information, see *Liquidity and Capital Resources* below.

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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:

Maximize and 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 facility capacities where appropriate.

Grow 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 U.S., Canada and Europe, which we consider to be our core markets. We believe that there are numerous attractive opportunities in the United Kingdom in particular, where national policies, such as a substantial tax on landfill use, are intended to achieve compliance with the 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 majority 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, 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 about the environmental and economic benefits of energy-from-waste and advocate for policies 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.

We are actively engaged in the current discussion among policy makers in the United States regarding the benefits of energy-from-waste and the reduction of our dependence on landfilling for waste disposal and fossil fuels for energy.

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 general 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. However, the downturn in economic activity has reduced waste generation rates in the northeast U.S. 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 has been materially affected by economic activity. Pricing for recycled metals reached historically high levels during 2008, declined materially during 2009 and has rebounded substantially during 2010 and 2011.

At the same time, the declines in U.S. 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. During 2008, pricing for energy reached historically high levels and has subsequently declined materially during both 2009 and 2010. During 2011, pricing for energy has increased modestly. 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 as we study forward energy curves, fuel price forecasts, and the profitability of these facilities.

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.

Other Factors Affecting Performance We historically have 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* 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.

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. For all of these projects, we earn revenue from two primary sources: fees charged for operating projects or processing waste received and payments for electricity and steam sales. We also operate, and in some cases have ownership interests in, transfer stations and landfills which generate revenue from waste and ash disposal fees or operating fees. In addition, we own, and in some cases operate, other renewable energy projects primarily in the United States which generate electricity from wood waste (biomass), landfill gas and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities. We may receive additional revenue from construction activity during periods when we are constructing new facilities or expanding existing facilities.

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Contract Structures

We currently operate energy-from-waste projects in 16 states and Canada. 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 that better meets the goals of our municipal client.

For the energy-from-waste projects we own, financing is generally accomplished through tax-exempt and taxable revenue bonds issued by or on behalf of the client community. 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.

Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating 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 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. During 2008, pricing for energy reached historically high levels and has subsequently declined materially during both 2009 and 2010. During 2011, pricing for energy has increased modestly. Similarly, pricing for recycled metals reached historically high levels during 2008, declined materially during 2009 and has rebounded substantially during 2010 and 2011. 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.

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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. We may enter into contractual arrangements that will mitigate our exposure to revenue fluctuations in energy markets through a variety of hedging techniques.

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.

In conjunction with our U.S. energy-from-waste business, we also own and/or operate 13 transfer stations, two ashfills and two 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 station 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 are focusing our efforts on operating and enhancing our existing business and pursuing strategic growth opportunities through development and acquisitions with the goal of maximizing long-term stockholder return. We anticipate that a part of our future growth will come from investing in or acquiring additional energy-from-waste, waste disposal and renewable energy production businesses. We are pursuing additional growth opportunities particularly in locations 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 are focusing on the United Kingdom, Ireland, Canada and the United States. Our growth opportunities include: new energy-from-waste and other renewable energy projects, existing project expansions, contract extensions, 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 also intend to invest in and enhance the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs.

We have a growth pipeline and continue to pursue several billion dollars worth of energy-from-waste development opportunities. However, much remains to be done and there is substantial uncertainty relating to 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 our development projects.

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CONTRACT EXTENSIONS

Fairfax County Energy-from-Waste Facility

In August 2010, the service fee contract with Fairfax County was extended from 2011 to 2016 pursuant to a unilateral option held by the County. The terms of the contract remain unchanged under the extension; however, the project debt on the facility was repaid in February 2011, and since Fairfax County had previously paid debt service as a component of the service fee during the term of the original contract, the County will effectively retain the benefit of the debt repayment during the five year extension period.

ACQUISITION

Covanta Dade Metals Recycling Facility

In May 2011, we acquired a metals processing facility located on our Dade Florida energy-from-waste facility site. This facility shreds and processes recovered ferrous scrap metal to enhance marketability and price.

PROJECTS UNDER ADVANCED DEVELOPMENT OR CONSTRUCTION

Americas

Durham-York Energy-from-Waste Facility

During the third quarter of 2011, we received the notice to proceed with design, construction and operation of a municipally-owned 140,000 tonne-per-year greenfield energy-from-waste facility to be built in Clarington, Ontario, located in Durham Region, Canada. The facility will process waste from the Regions of Durham and York. The fixed-price construction contract for the project is for approximately C$250 million. The project will be funded and owned by the Durham and York Regions. During the third quarter of 2011, we acquired a $267 million performance surety bond for this project. After construction, we will operate the facility under a 20 year contract.

Honolulu Energy-from-Waste Facility

We operate and maintain the energy-from-waste facility located in and owned by the City and County of Honolulu, Hawaii. In December 2009, we entered into agreements with the City and County of Honolulu to expand the facility s waste processing capacity from 2,160 tons per day (tpd) to 3,060 tpd and to increase gross electricity capacity from 57 MW to 90 MW. The agreements also extend the contract term by 20 years. The $302 million expansion project is a fixed-price construction contract which is funded and owned by the City and County of Honolulu. Construction commenced at the end of 2009.

Other

China Joint Ventures and Energy-from-Waste Facilities

We currently own 85% of the Taixing Covanta Yanjiang Cogeneration Co., Ltd. which, in 2009, entered into a 25 year concession agreement and waste supply agreements to build, own and operate a 350 metric tpd energy-from-waste facility for Taixing Municipality, in Jiangsu Province, People s Republic of China. The project, which will be built on the site of our existing coal-fired facility in Taixing, will supply steam to an adjacent industrial park under short-term arrangements. We will continue to operate our existing coal-fired facility. The project company has obtained Rmb 165 million in project financing which, together with available cash from existing operations, will fund construction costs. Construction commenced in late 2009 and the facility began processing waste during the second quarter of 2011.

In 2008, we and Chongqing Iron & Steel Company (Group) Ltd. entered into an agreement to build, own, and operate an 1,800 metric tpd energy-from-waste facility for Chengdu Municipality in Sichuan Province, People s Republic of China. We also executed a 25 year waste concession agreement for this project. In connection with this project, we acquired a 49% equity interest in the project company. Construction commenced in 2009 and the facility began processing waste during the third quarter of 2011. The project company has obtained Rmb 480 million in project financing, of which 49% is guaranteed by us and 51% is guaranteed by Chongqing Iron & Steel Company (Group) Ltd. until the project has been constructed and for one year after operations fully commence.

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ASSETS HELD FOR SALE AND DISPOSITIONS

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh.

During the first quarter of 2011, we completed the sale of our majority equity interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Samalpatti) and we completed the sale of our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon). The Quezon assets sold consisted of our entire interest in Covanta Philippines Operating, Inc., which provided operation and maintenance services to the facility, as well as our 26% ownership interest in the project company, Quezon Power, Inc.

In October 2011, we completed the sale of our interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Madurai). The Madurai assets sold included our entire interest in Covanta Madurai Operating Private Limited, which provided operation and maintenance services to the facility, as well as our approximately 77% ownership interest in the project company, Madurai Power Corporation Private Ltd.

The remaining asset held for sale is our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh.

During 2011, we have received a combined total of cash proceeds of $256 million, net of transaction costs, for our interests in the three fossil fuel independent power production facilities that we have sold.

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 (loss) earnings from discontinued operations, net of tax. The cash flows of these businesses are also presented separately in our condensed consolidated statements of cash flows. All corresponding prior year periods presented in our condensed consolidated financial statements and accompanying notes have been reclassified to reflect the discontinued operations presentation. See *Item 8. Financial Statements And Supplementary Data Note 3. Business Development, Assets Held for Sale and Dispositions* for additional information.

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 acquisition and 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.

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RESULTS OF OPERATIONS Three and Nine Months Ended September 30, 2011 vs. Three and Nine Months Ended September 30, 2010

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010	Variance Increase/(Decrease) Three Month	Variance Increase/(Decrease) Nine Month
	(Unaudited, in millions)					
CONSOLIDATED RESULTS OF OPERATIONS:						
Total operating revenues	$ 432	$ 403	$ 1,220	$ 1,164	$ 29	$ 56
Total operating expenses	345	357	1,082	1,072	(12)	10
Operating income	87	46	138	92	41	46
Other income (expense):						
Investment income	1	1	1	1		
Interest expense	(16)	(11)	(50)	(32)	5	18
Non-cash convertible debt related expense	(9)	(10)	(20)	(30)	(1)	(10)
Other expenses, net	(11)		(14)		11	14
Total other expenses	(35)	(20)	(83)	(61)	15	22
Income from continuing operations before income tax expense and equity in net income from unconsolidated investments	52	26	55	31	26	24
Income tax expense	(2)	(15)	(3)	(18)	(13)	(15)
Equity in net income from unconsolidated investments	1	1	3	1		2
Income from continuing operations	51	12	55	14	39	41
(Loss) income from discontinued operations, net of income tax expense of $0, $1, $3 and $5, respectively	(7)	11	144	32	(18)	112
NET INCOME	44	23	199	46	21	153
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(2)	(2)	(3)	(4)		(1)
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries		(1)	(3)	(3)	(1)	
Total Net income attributable to noncontrolling interests in subsidiaries	(2)	(3)	(6)	(7)	(1)	(1)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$ 42	$ 20	$ 193	$ 39	22	154
Amounts Attributable to Covanta Holding Corporation stockholders:						
Continuing operations	$ 49	$ 10	$ 52	$ 10	39	42
Discontinued operations, net of tax expense	(7)	10	141	29	(17)	112
Covanta Holding Corporation	$ 42	$ 20	$ 193	$ 39	22	154
Earnings Per Share Attributable to Covanta Holding Corporation stockholders:						
Basic:						
Continuing operations	$ 0.35	$ 0.07	$ 0.37	$ 0.07	0.28	0.30
Discontinued operations, net of tax expense	(0.05)	0.06	0.98	0.18	(0.11)	0.80
Covanta Holding Corporation	$ 0.30	$ 0.13	$ 1.35	$ 0.25	0.17	1.10

Weighted Average Shares	139	153	143	154	(14)	(11)
Diluted:						
Continuing operations	$ 0.35	$ 0.07	$ 0.36	$ 0.07	0.28	0.29
Discontinued operations, net of tax expense	(0.05)	0.06	0.98	0.18	(0.11)	0.80
Covanta Holding Corporation	$ 0.30	$ 0.13	$ 1.34	$ 0.25	0.17	1.09
Weighted Average Shares	140	154	144	155	(14)	(11)
Cash Dividend Declared Per Share:	$ 0.075	$	$ 0.225	$ 1.50	0.075	(1.275)
Adjusted Earnings Per Share Non-GAAP:[A]	$ 0.24	$ 0.24	$ 0.26	$ 0.24		0.02

(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 and Nine Months Ended September 30, 2011 vs. Results for the Three and Nine Months Ended September 30, 2010

Operating revenues increased by $29 million and $56 million for the three and nine month comparative periods, respectively, primarily due to improved recycled metal revenues due to higher market prices; increased revenues from service fee contract escalations; increases in tip fee pricing and volume; and increased construction revenue due to the Honolulu expansion project. Operating revenues for the nine month comparative period also increased due to a full nine months of operating the Dade facility. These increases were offset by the impact of lower electricity and steam sales due to lower production at certain biomass facilities that were economically dispatched off-line, and lower energy pricing.

Excluding the non-cash write-down of assets of $32 million discussed below, operating expenses increased by $20 million and $42 million for the three and nine month comparative periods, respectively, primarily due to normal cost escalations; higher fuel related costs and increased construction expense related to the Honolulu expansion project. Operating expenses for the nine month comparative period also increased due to a full nine months of operating the Dade facility and the timing and increased scope of scheduled maintenance activities. These increases were partially offset by lower costs at certain biomass facilities that were economically dispatched off-line, and by higher alternative fuel tax credits.

During the three months ended September 30, 2010, we recorded the non-cash write-down of assets of $32 million related to a notes receivable from our Harrisburg EfW facility, the write-down of assets related to the Dublin project and write-down to fair value for corporate real estate and other assets. See *Note 8. Supplementary Information* of the Notes for additional information.

Excluding the write-down of assets noted above, operating income increased by $9 million and $14 million for the three and nine month comparative periods, respectively, primarily due to higher recycled metal revenues and various operational improvements, partially offset by lower debt service pass through revenue related to contract transitions and lower contribution from our biomass facilities. Operating income for the nine month comparative period was also partially offset by the timing of scheduled maintenance activities.

Interest expense increased by $5 million and $18 million for the three and nine month comparative periods, respectively, primarily due to the issuance of the 7.25% Senior Notes which were issued in December 2010, offset by lower interest expense for the Debentures, the majority of which were tendered during the fourth quarter of 2010. Non-cash convertible debt related expense decreased by $1 million and $10 million for the three and nine month comparative periods, respectively, primarily due to lower amortization of the debt discount for the Debentures and the net changes to the valuation of the derivatives associated with the 3.25% Cash Convertible Senior Notes.

Other expense increased by $11 million and $14 million for the three and nine month comparative periods, respectively, primarily due to a $15 million recorded contractual liability to pay pre-petition claimants from restricted funds. This contractual obligation was triggered by the release of uncertain tax positions resulting from the expiration of related statutes of limitations and was reflected as tax benefit of $24 million as discussed below. For additional information, see *Note 7. Income Taxes* of the Notes.

The income tax expense decreased for the comparative period, which is 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, 2011 to be approximately 27.4%. 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 6% and 58% for the nine months ended September 30, 2011 and 2010, respectively. The decrease in the effective tax rate is primarily due to the impact of the reversal of uncertain tax positions related to pre-emergence tax matters resulting from the expiration of related statutes of limitations as discussed above and the impact of state tax law changes enacted in the current year on deferred state income taxes. In addition, the decrease was due to the impact of state tax law changes enacted in the current year on deferred state taxes and to the impact of certain foreign activities in the comparative prior year quarter. For additional information, see *Note 7. Income Taxes* of the Notes.

During each quarter of 2011, the Board of Directors approved a regular quarterly cash dividend of $0.075 per share, which was paid on April 12, 2011, July 6, 2011, and October 14, 2011, respectively. During the second quarter of 2010, the Board of Directors declared a special cash dividend of $1.50 per share which was paid on July 20, 2010.

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Regular cash dividend				
Declared	$ 10	$	$ 32	$
Per Share	$ 0.075	$	$ 0.225	$
Special cash dividend				
Declared	$	$	$	$ 233
Per Share	$	$	$	$ 1.50

During the nine months ended September 30, 2011, the Board of Directors approved an additional $250 million share repurchase authorization, bringing the total authorized amount to $400 million. 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 September 30, 2011, the amount remaining under our currently authorized share repurchase program was $100 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, 2011	$ 54	3.2	$ 16.84
Three months ended June 30, 2011	$ 70	4.2	$ 16.58
Three months ended September 30, 2011 [(a)]	$ 81	5.2	$ 15.58
Nine months ended September 30, 2011	$ 205	12.6	$ 16.24

(a) Approximately $2 million of common stock repurchased during the three months ended September 30, 2011 was paid in October 2011

Americas Segment Results of Operations Comparison of Results for the Three and Nine Months Ended September 30, 2011 vs. Results for the Three and Nine Months Ended September 30, 2010

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010	Variance Increase/(Decrease) Three Month	Variance Increase/(Decrease) Nine Month
	(Unaudited, in millions)					
Waste and service revenues	$ 272	$ 257	$ 799	$ 766	$ 15	$ 33
Electricity and steam sales	103	111	283	300	(8)	(17)
Other operating revenues	46	26	106	68	20	38
Total operating revenues	421	394	1,188	1,134	27	54

Plant operating expenses	214	212	719	696	2	23
Other operating expense	41	21	93	63	20	30
General and administrative expenses	17	15	54	55	2	(1)
Depreciation and amortization expense	48	47	141	141	1	
Net interest expense on project debt	8	10	24	29	(2)	(5)
Write-down of assets		9		9	(9)	(9)
Total operating expenses	328	314	1,031	993	14	38
Operating income	$ 93	$ 80	$ 157	$ 141	13	16

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Operating Revenues

Operating revenues for the Americas segment increased by $27 million and $54 million for the three and nine month comparative periods, respectively.

Waste and service revenues, excluding recycled metals revenues, increased by $8 million for the three month comparative period primarily due to increases in service fee contract escalations, higher tip fee pricing and volume, and higher special waste revenue, offset by lower revenues earned explicitly to service project debt. Waste and service revenues, excluding recycled metals revenues, increased by $18 million for the nine month comparative period primarily due to increases in service fee contract escalations, a full first quarter of operating the Dade facility, increases in tip fee pricing and volume, and higher special waste revenue, offset by lower revenues earned explicitly to service project debt.

Recycled metal revenues increased by $7 million and $15 million for the three and nine month comparative periods, respectively, primarily due to higher pricing. Historically, we have experienced volatile prices for recycled metal which has affected our recycled metal revenue as reflected in the table below (in millions):

	For the Quarters Ended		
Total Recycled Metal Revenues	**2011**	**2010**	**2009**
March 31,	$ 17	$ 13	$ 5
June 30,	18	15	6
September 30,	20	13	9
December 31,		14	9
Total for the Year Ended December 31,	$ N/A	$ 55	$ 29

Electricity and steam sales decreased by $8 million for the three month comparative period due to lower price and lower energy revenue related to our biomass facilities. In addition, electricity and steam production decreased during the three months ended September 30, 2011 due to lower production caused by wet waste at energy-from-waste facilities resulting from storms in the northeast, which was offset by higher production at other facilities throughout the quarter. Electricity and steam sales decreased by $17 million for the nine month comparative period due to lower pricing, lower energy revenue related to our biomass facilities, and lower production.

Other operating revenues increased primarily due to increased construction revenue related to the Honolulu expansion.

Operating Expenses

Plant operating expenses increased by $2 million for the three month comparative period primarily due to normal cost escalations and higher fuel related costs, partially offset by lower costs at certain biomass facilities that were economically dispatched off-line, and by higher alternative fuel tax credits. Plant operating expenses increased by $23 million for nine month comparative period primarily due to timing and increased scope of scheduled maintenance activities, normal cost escalations, a full first quarter of operating the Dade facility, higher fuel related costs, and lower Renewable Energy Credits, partially offset by lower costs at certain biomass facilities that were economically dispatched off-line, and by higher alternative fuel tax credits.

Other operating expenses increased primarily due to increased construction expense related to the Honolulu expansion project.

Net interest expense on project debt decreased due to lower project debt balances.

During the three months ended September 30, 2010, we recorded a non-cash impairment of $7 million related to funds advanced for certain facility improvements required to enhance facility performance at the Harrisburg EfW facility and a non-cash impairment of $2 million related to the write-down to fair value for corporate real estate and other assets. See *Note 8. Supplementary Information* of the Notes for additional information.

Operating Income

Excluding the non-cash write-down of assets discussed above, operating income increased by $4 million for the three month comparative period primarily due to higher recycled metal revenues, service fee contract escalation and higher tip fee pricing and volume offset by lower contribution from our biomass facilities and lower debt service pass through revenue. Excluding the non-cash write-down of assets discussed above, operating income increased by $7 million for the nine month comparative period primarily due to higher recycled metal revenues, service fee contract escalation, higher tip fee pricing and volume, and various operational improvements offset by timing of scheduled maintenance activities, lower debt service pass through revenue, and lower energy pricing at our biomass facilities.

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Supplementary Financial Information Adjusted Earnings Per Share (Adjusted EPS) (Non-GAAP Discussion)

We use a number of different financial measures, both United States generally accepted accounting principles (GAAP) and non-GAAP, in assessing the overall performance of our business. To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EPS, which is a non-GAAP measure as defined by the Securities and Exchange Commission (SEC). The non-GAAP financial measure of Adjusted EPS is not intended as a substitute or as an alternative to diluted earnings (loss) per share as an indicator of our performance or any other measure of performance derived in accordance with GAAP. In addition, our non-GAAP financial measures may be different from non-GAAP measures used by other companies, limiting their usefulness for comparison purposes.

Adjusted EPS excludes certain income and expense items that are not representative of our ongoing business and operations, which are included in the calculation of diluted earnings (loss) per share in accordance with GAAP. The following items are not all-inclusive, but are examples of reconciling items in prior comparative and future periods. They would include write-down of assets, the effect of derivative instruments not designated as hedging instruments, significant gains or losses from the disposition of businesses, gains and losses on assets held for sale, transaction-related costs, income and loss on the extinguishment of debt and other significant items that would not be representative of our ongoing business.

We use the non-GAAP measure of Adjusted EPS to enhance the usefulness of our financial information by providing a measure which management internally uses to assess and evaluate the overall performance and highlight trends in the ongoing business.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Adjusted EPS for the three and nine months ended September 30, 2011 and 2010, reconciled for each such period to diluted earnings (loss) per share from continuing operations, which is believed to be the most directly comparable measure under GAAP (in millions, except per share amounts and percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Diluted Earnings Per Share from Continuing Operations	$ 0.35	$ 0.07	$ 0.36	$ 0.07
Reconciling Items [(a)]	(0.11)	0.17	(0.10)	0.17
Adjusted EPS	$ 0.24	$ 0.24	$ 0.26	$ 0.24

(a) Additional information is provided in the Reconciling Items table below.

Reconciling Items	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Loss on extinguishment of debt	$ 1	$	$ 1	$
Effect on income of derivative instruments not designated as hedging instruments	1			(1)
Effect of foreign exchange loss on indebtedness	(5)		(2)	
Non-cash write-down of loan issued for the Harrisburg EfW facility to fund certain facility improvements [(a)]		7		7
Non-cash write-down of capitalized costs related to the Dublin development project [(a)]		23		23
Non-cash write-down of corporate real estate [(a)]		2		2
Contractual liability to pre-petition creditors [(b)]	15		15	
Other	(1)		(1)	
Total reconciling items, pre-tax	11	32	13	31
Proforma income tax impact [(c)]	(3)	(7)	(4)	(7)
Grantor trust activity	1	1	1	2
Reversal of uncertain tax positions related to pre-emergence matters [(b)]	(24)		(24)	

Total reconciling items, net of tax	$ (15)	$ 26	$ (14)	$ 26
Diluted Earnings Per Share Impact	$ (0.11)	$ 0.17	$ (0.10)	$ 0.17
Weighted Average Diluted Shares Outstanding	140	154	144	155

(a) See discussion in *Management Discussion and Analysis Results of Operations* above.

(b) For the three months ended September 30, 2011, the income tax provision includes a $24 million benefit due to the reversal of uncertain tax positions, following the expiration of applicable statutes of limitations related to pre-emergence tax matters in the Covanta Energy bankruptcy. We had held since March 2004 $20 million in restricted funds intended to cover those uncertain tax positions. The restricted funds were included in other assets on our condensed consolidated balance sheet. The expiration of the statutes of limitations triggered a liability to pre-petition claimants of approximately 73% of the restricted fund balance. Therefore, we recorded approximately $15 million as other expense during the three months ended September 30, 2011. As of September 30, 2011, $15 million of the non-current restricted funds was reclassified to other current assets on our condensed consolidated balance sheet and is expected to be paid to third party claimants in the fourth quarter of 2011. The remaining $5 million was reclassified to cash and cash equivalents on our condensed consolidated balance sheet as of September 30, 2011. For additional information, see *Note 7. Income Taxes* of the Notes.

(c) There is no tax benefit from the contractual liability to pre-petition creditors and minimal tax benefit from the non-cash write-down related to the Dublin assets. As a result, these items had an impact on the effective tax rate in the third quarter of 2011 and 2010, respectively. Accordingly, we are presenting this proforma calculation of the income tax effect on all reconciling items for each period to illustrate the proforma impact on income tax expense and net income. The proforma income tax impact represents the tax provision amount related to the overall tax provision calculated without the reconciling items when compared to the tax provision reported under GAAP in the condensed consolidated statement of income.

Effective Tax Rate	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Unaudited)			
Effective Tax Rate [(a)]	5.0%	51.0%	6.0%	46.3%

(a) Our full year estimated effective tax rate (ETR) decreased during the third quarter of 2011 compared to our prior estimate as a result of the reversal of uncertain tax positions related to pre-emergence tax matters resulting from the expiration of the related statute of limitations. This reversal triggered a contractual liability to pay pre-petition claimants from Covanta Energy s bankruptcy. This pre-tax expense is not deductible for income tax purposes and so this expense increases the ETR. GAAP requires the tax benefit from the reversal of the tax reserve to be recognized in full during the quarter while the ETR including the related non-deductible pre-tax expense is calculated on a full year basis. The result is a decrease of the ETR in the third quarter of 2011 followed by a large increase to the ETR for the fourth quarter of 2011. The ETR for the third quarter of 2011 was 5% and we expect the ETR for the fourth quarter of 2011 to be approximately 48%, absent discrete items.

Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion)

To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EBITDA, which is a non-GAAP measure as defined by the SEC. This non-GAAP financial measure is described below, and is not intended as a substitute and should not be considered in isolation from measures of financial performance prepared in accordance with GAAP. In addition, our use of non-GAAP financial measures may be different from non-GAAP measures used by other companies, limiting their usefulness for comparison purposes. The presentation of Adjusted EBITDA is intended to enhance the usefulness of our financial information by providing a measure which management internally uses to assess and evaluate the overall performance of its business and those of possible acquisition candidates, and highlight trends in the overall business.

We use Adjusted EBITDA to provide further information that is useful to an understanding of the financial covenants contained in the credit facilities of our most significant subsidiary, Covanta Energy, through which we conduct our core waste and energy services business, and as additional ways of viewing aspects of its operations that, when viewed with the GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of our core business. The calculation of Adjusted EBITDA is based on the definition in Covanta Energy s credit facilities as described below under *Liquidity and Capital Resources*, which we have guaranteed. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, as adjusted for additional items subtracted from or added to net income. Because our business is substantially comprised of that of Covanta Energy, our financial performance is substantially similar to that of Covanta Energy. For this reason, and in order to avoid use of multiple financial measures which are not all from the same entity, the calculation of Adjusted EBITDA and other financial measures presented herein are measured on a consolidated basis for continuing operations. Under these credit facilities, Covanta Energy is required to satisfy certain financial covenants, including certain ratios of which Adjusted EBITDA is an important component. Compliance with such financial covenants is expected to be the principal limiting factor which will affect our ability to engage in a broad range of activities in furtherance of our business, including making certain investments, acquiring businesses and incurring additional debt. Covanta Energy was in compliance with these covenants as of September 30, 2011. Failure to comply with such financial covenants could result in a default under these credit facilities, which default would have a material adverse affect on our financial condition and liquidity.

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Adjusted EBITDA should not be considered as an alternative to net income or cash flow provided by operating activities as indicators of our performance or liquidity or any other measures of performance or liquidity derived in accordance with GAAP.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Adjusted EBITDA for the three and nine months ended September 30, 2011 and 2010, reconciled for each such period to net loss from continuing operations and cash flow provided by operating activities from continuing operations, which are believed to be the most directly comparable measures under GAAP.

The following is a reconciliation of net income to Continuing Operations Adjusted EBITDA (in millions):

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Net Income Attributable to Covanta Holding Corporation Continuing Operations	$ 49	$ 10	$ 52	$ 10
Depreciation and amortization expense	48	47	142	142
Debt service:				
Net interest expense on project debt	8	10	24	30
Interest expense	16	11	50	32
Non-cash convertible debt related expense	9	10	20	30
Investment income	(1)	(1)	(1)	(1)
Subtotal debt service	32	30	93	91
Income tax expense (adjusted for reversal of uncertain tax positions related to pre-emergence tax matters) [(a)]	26	15	27	18
Reversal of uncertain tax positions related to pre-emergence tax matters [(a)]	(24)		(24)	
Contractual liability to pre-pretition creditors [(a)]	15		15	
Write-down of assets [(b)]		32		32
Loss on extinguishment of debt	1		1	
Net income attributable to noncontrolling interests in subsidiaries	2	2	3	4
Other adjustments:				
Debt service billing in excess of revenue recognized [(c)]	3	8	21	24
Non-cash compensation expense	4	3	13	13
Other non-cash items [(d)]	(4)	3	3	7
Subtotal other adjustments	3	14	37	44
Total adjustments	103	140	294	331
Adjusted EBITDA Continuing Operations	$ 152	$ 150	$ 346	$ 341

(a) See *Adjusted EPS* above.

(b) See discussion in *Management Discussion and Analysis Results of Operations* above.

(c) Formally labeled Decrease in Unbilled Service Receivables. This amount represents a true-up between (a) revenue recognized in the period for client payments of project debt principal under service fee contract structures, which is accounted for on a straight-line basis over the term of the project debt, and (b) actual billings to clients for debt principal payments in the period. As result of this adjustment, Adjusted EBITDA reflects the actual amounts billed to clients for debt service principal, not the straight-lined revenue as recognized.

(d) Includes certain non-cash items that are added back under the definition of Adjusted EBITDA in Covanta Energy s credit agreement.

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The following is a reconciliation of cash flow provided by operating activities from continuing operations to Adjusted EBITDA (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Cash flow provided by operating activities from continuing operations	$ 120	$ 103	$ 276	$ 293
Debt service	32	30	93	91
Change in working capital	(35)	1	(77)	(53)
Change in restricted funds held in trust	26	20	35	21
Non-cash convertible debt related expense	(9)	(10)	(20)	(30)
Equity in net income from unconsolidated investments	1	1	3	1
Dividends from unconsolidated investments	(1)	(2)	(5)	(4)
Current tax provision	(23)	(1)	(20)	(3)
Reversal of uncertain tax positions related to pre-emergence tax matters [a]	24		24	
Change in restricted funds-other related to contractual liability to pre-petition creditors [a]	(5)		(5)	
Other	22	8	42	25
Sub-total:		17	(23)	(43)
Continuing Operations - Adjusted EBITDA	$ 152	$ 150	$ 346	$ 341

(a) See *Adjusted EPS* above.

For additional discussion related to management s use of non-GAAP measures, see *Liquidity and Capital Resources   Supplementary Financial Information   Free Cash Flow (Non-GAAP Discussion)* below.

LIQUIDITY AND CAPITAL RESOURCES

We generate substantial cash flow from our ongoing business, which we believe will allow us to meet our liquidity needs. As of September 30, 2011, in addition to our ongoing cash flow, we had access to several sources of liquidity, as discussed in *Available Sources of Liquidity* below, including our existing cash on hand of $195 million and undrawn and available capacity of $300 million under our Revolving Credit Facility. In addition, we had restricted cash of $261 million, of which $145 million was designated for future payment of project debt principal.

We derive our cash flows principally from our operations, which allow us to satisfy project debt covenants and payments and distribute cash. We typically receive cash distributions from our Americas segment projects on either a monthly or quarterly basis, with additional distributions at certain projects made on a semi-annual or annual basis, most significantly in the fourth quarter. The frequency and predictability of our receipt of cash from projects differs, depending upon various factors, including whether restrictions on distributions exist in applicable project debt arrangements, whether a project is domestic or international, and whether a project has been able to operate at historical levels of production.

Our primary future cash requirements will be to fund capital expenditures to maintain and grow our existing businesses, make debt service payments, grow our business through acquisitions and business development, and return surplus capital to our stockholders. We will also seek to enhance our cash flow from renewals or replacement of existing contracts, from new contracts to expand existing facilities or operate additional facilities and by investing in new projects or ventures. Our business is capital intensive because it is based upon building and operating municipal solid waste processing and energy generating projects. In order to provide meaningful growth through development, we must be able to invest our funds, obtain equity and/or debt financing, and provide support to our operating subsidiaries. The timing and scale of our investment activity in growth opportunities is often unpredictable and uneven. 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. See *Overview   Growth and Development* above.

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During each quarter of 2011, the Board of Directors approved a regular quarterly cash dividend of $0.075 per share which was paid on April 12, 2011, July 6, 2011, and October 14, 2011, respectively. During the second quarter of 2010, the Board of Directors declared a special cash dividend of $1.50 per share which was paid on July 20, 2010.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Regular cash dividend				
Declared	$ 10	$	$ 32	$
Per Share	$ 0.075	$	$ 0.225	$
Special cash dividend				
Declared	$	$	$	$ 233
Per Share	$	$	$	$ 1.50

During the nine months ended September 30, 2011, the Board of Directors approved an additional $250 million share repurchase authorization, bringing the total authorized amount to $400 million. 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 September 30, 2011, the amount remaining under our currently authorized share repurchase program was $100 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, 2011	$ 54	3.2	$ 16.84
Three months ended June 30, 2011	$ 70	4.2	$ 16.58
Three months ended September 30, 2011 [(a)]	$ 81	5.2	$ 15.58
Nine months ended September 30, 2011	$ 205	12.6	$ 16.24

(a) Approximately $2 million of common stock repurchased during the three months ended September 30, 2011 was paid in October 2011.

Sources and Uses of Cash Flow from Continuing Operations for the Nine Months Ended September 30, 2011 and 2010:

	Nine Months Ended September 30,		Increase (Decrease)
	2011	2010	2011 vs 2010
	(Unaudited, in millions)		
Net cash provided by operating activities	$ 276	$ 293	$ (17)
Net cash used in investing activities	(115)	(248)	(133)
Net cash used in financing activities	(331)	(410)	(79)
Effect of exchange rate changes on cash and cash equivalents	(2)		(2)

Net decrease in cash and cash equivalents	$	(172)	$	(365)	(193)

Net cash provided by operating activities from continuing operations for the nine months ended September 30, 2011 was $276 million, a decrease of $17 million from the prior year period. The decrease was primarily due to the semi-annual interest payment for the 7.25% Senior Notes.

Net cash used in investing activities from continuing operations for the nine months ended September 30, 2011 was $115 million, a decrease of $133 million from the prior year period. The decrease was primarily comprised of lower cash outflows of $128 million related to the acquisition of the Dade energy-from-waste facility in the first quarter of 2010.

Net cash used in financing activities from continuing operations for the nine months ended September 30, 2011 was $331 million, a net change of $79 million from the prior period. The net change was primarily driven by lower cash dividends of $211 million and the decrease in the use of restricted funds held in trust of $48 million. These decreases in cash used in financing activities were offset by the increased use of cash paid for common stock repurchases of $166 million and $32 million to purchase outstanding Debentures in connection with the tender offer.

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Supplementary Financial Information Free Cash Flow (Non-GAAP Discussion)

To supplement our results prepared in accordance with GAAP, we use the measure of Free Cash Flow, which is a non-GAAP measure as defined by the SEC. This non-GAAP financial measure is not intended as a substitute and should not be considered in isolation from measures of liquidity prepared in accordance with GAAP. In addition, our use of Free Cash Flow may be different from similarly identified non-GAAP measures used by other companies, limiting their usefulness for comparison purposes. The presentation of Free Cash Flow is intended to enhance the usefulness of our financial information by providing measures which management internally uses to assess and evaluate the overall performance of its business and those of possible acquisition candidates, and highlight trends in the overall business.

We use the non-GAAP measure of Free Cash Flow as a criterion of liquidity and performance-based components of employee compensation. Free Cash Flow is defined as cash flow provided by operating activities from continuing operations less maintenance capital expenditures, which are capital expenditures primarily to maintain our existing facilities. We use the non-GAAP measure of Free Cash Flow as a criterion of liquidity and performance-based components of employee compensation. We use Free Cash Flow as a measure of liquidity to determine amounts we can reinvest in our businesses, such as amounts available to make acquisitions, invest in construction of new projects or make principal payments on debt. For additional discussion related to management s use of non-GAAP measures, see *Results of Operations Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion)* above.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Free Cash Flow for the three and nine months ended September 30, 2011 and 2010, reconciled for each such period to cash flow provided by operating activities from continuing operations, which we believe to be the most directly comparable measure under GAAP. The following is a summary of Free Cash Flow and its primary uses (in millions):

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Cash flow provided by operating activities of continuing operations	$ 120	$ 103	$ 276	$ 293
Less: Maintenance capital expenditures (a)	(14)	(8)	(61)	(57)
Continuing Operations Free Cash Flow	$ 106	$ 95	$ 215	$ 236
Weighted Average Diluted Shares Outstanding	*140*	*154*	*144*	*155*
Uses of Continuing Operations Free Cash Flow				
Investments:				
Acquisition of businesses, net of cash acquired	$	$	$ (10)	$ (128)
Non-maintenance capital expenditures	(9)	(10)	(30)	(26)
Acquisition of land use rights		(4)	(8)	(19)
Acquisition of noncontrolling interests in subsidiary				(2)
Other investment activities, net (b)	(3)		(6)	(16)
Total investments	$ (12)	$ (14)	$ (54)	$ (191)
Return of capital to stockholders:				
Cash dividends paid to stockholders	$ (11)	$ (233)	$ (22)	$ (233)
Common stock repurchased	(80)	(37)	(203)	(37)
Total return of capital to stockholders	$ (91)	$ (270)	$ (225)	$ (270)
Capital raising activities:				
Net proceeds from issuance of project debt	$ 7	$ 2	$ 15	$ 5
Other financing activities, net	(1)	4	(3)	17

Net proceeds from capital raising activities	$	6	$	6	$	12	$	22

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Debt repayments:				
Net cash used for scheduled principal payments of project debt (c)	$ (23)	$ (32)	$ (76)	$ (143)
Net cash used for scheduled principal payments of long-term debt	(2)	(2)	(5)	(5)
Optional repayment of corporate debt	(26)		(32)	
Total debt repayments	$ (51)	$ (34)	$ (113)	$ (148)
Short-term borrowing activities Financing of insurance premiums, net	$	$ (3)	$	$ (10)
Distributions to partners of noncontrolling interests in subsidiaries	$ (2)	$ (1)	$ (5)	$ (4)
Effect of exchange rate changes on cash and cash equivalents	$ (3)	$ 3	$ (2)	$
Net change in cash and cash equivalents from continuing operations	$ (47)	$ (218)	$ (172)	$ (365)

(a) Purchases of property, plant and equipment is also referred to as capital expenditures. Capital expenditures that primarily maintain existing facilities are classified as maintenance capital expenditures. The following table provides the components of total purchases of property, plant and equipment (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Maintenance capital expenditures	$ (15)	$ (8)	$ (61)	$ (57)
Capital expenditures associated with project construction/development	(7)	(4)	(18)	(14)
Capital expenditures associated with new technology	(1)	(1)	(3)	(4)
Capital expenditures other		(5)	(9)	(8)
Total purchases of property, plant and equipment	$ (23)	$ (18)	$ (91)	$ (83)

(b) For the three and nine months ended September 30, 2011 and 2010, other investing activities was primarily comprised of net payments from the purchase/sale of investment securities and business development expenses.

(c) Calculated as follows (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Total principal payments on project debt	$ (6)	$ (7)	$ (83)	$ (102)

(Increase) decrease in related restricted funds held in trust	(17)	(25)	7	(41)
Net cash used for principal payments on project debt	$ (23)	$ (32)	$ (76)	$ (143)

<u>Available Sources of Liquidity</u>

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments having maturities of three months or less from the date of purchase. These short-term investments are stated at cost, which approximates market value. As of September 30, 2011, we had unrestricted cash and cash equivalents of $195 million (of which approximately $132 million and $7 million was held by our international and insurance subsidiaries, respectively). Through September 30, 2011, we have repatriated over $135 million of the proceeds from the sales of our fossil fuel independent power facilities in Asia that we have closed to date, which represents the vast majority of funds that we will be able to repatriate in a tax-efficient manner. We intend to utilize the remaining funds held off-shore to invest in our international development projects.

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Short-Term Liquidity

We have credit facilities which are comprised of a $300 million revolving credit facility (the Revolving Credit Facility), a $320 million funded letter of credit facility (the Funded L/C Facility), and a $650 million term loan (the Term Loan Facility) (collectively referred to as the Credit Facilities). As of September 30, 2011, we had available credit for liquidity as follows (in millions):

	Total Available Under Facility		Maturing	Outstanding Letters of Credit as of September 30, 2011		Available as of September 30, 2011	
Revolving Credit Facility (a)	$	300	2013	$		$	300
Funded L/C Facility	$	320	2014	$	279	$	41

(a) Up to $200 million of which may be utilized for letters of credit.

Credit Agreement Financial Covenants

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants as discussed in Note 12. Long-Term Debt of the Notes to the Consolidated Financial Statements included in our Form 10-K. As of September 30, 2011, we were in compliance with the covenants under the Credit Facilities. The maximum Covanta Energy capital expenditures that can be incurred in 2011 to maintain existing operating businesses is approximately $230 million as of September 30, 2011.

Long-Term Debt

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

	As of			
	September 30, 2011		December 31, 2010	
7.25% Senior Notes due 2020	$	400	$	400
3.25% Cash Convertible Senior Notes due 2014		460		460
Debt discount related to Cash Convertible Senior Notes		(74)		(91)
Cash conversion option derivative at fair value		73		116
3.25% Cash Convertible Senior Notes, net		459		485
1.00% Senior Convertible Debentures due 2027		25		57
Debt discount related to Convertible Debentures				(3)
1.00% Senior Convertible Debentures, net		25		54
Term Loan Facility due 2014		621		626
Total		1,505		1,565
Less: current portion		(31)		(7)
Total long-term debt	$	1,474	$	1,558

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 12 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 59.4517 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.82 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.

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 12 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.

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1.00% Senior Convertible Debentures due 2027 (the Debentures)

In November 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027. We offered to purchase the Debentures at a purchase price of $990 for each $1,000 principal amount of Debentures. During the nine months ended September 30, 2011, an additional $32 million of the Debentures were purchased for which we recorded a loss on extinguishment of debt of $1 million, pre-tax. The loss on extinguishment of debt was comprised of the difference between the fair value and carrying value of the liability component of the Debentures tendered. As of September 30, 2011, there was $25 million aggregate principal amount of the Debentures outstanding. We may purchase Debentures that remained outstanding following expiration of the tender offer in the open market, in privately negotiated transactions, through tender offers, exchange offers, by redemption or otherwise.

As of September 30, 2011, under limited circumstances, prior to February 1, 2025, the Debentures are convertible by the holders into cash and shares of our common stock, if any, based on a conversion rate of 38.9883 shares of our common stock per $1,000 principal amount of Debentures, (which represents a conversion price of approximately $25.65 per share) or approximately 1 million issuable shares. As of September 30, 2011, if the Debentures were converted, no shares would have been issued since the trading price of our common stock was below the conversion price of the Debentures. In connection with the quarterly cash dividend payable on October 14, 2011, the conversion rate for the Debentures was adjusted to 39.5441 shares of our common stock per $1,000 principal amount of the Debentures. The adjusted conversion rate is equivalent to an adjusted conversion price of $25.29 per share and became effective on October 4, 2011.

For specific criteria related to contingent interest, conversion or redemption features of the Debentures, refer to Note 12 of the Notes to Consolidated Financial Statements in our Form 10-K.

For details related to the fair value for the contingent interest feature related to the Debentures, see *Item 1. Financial Statements Note 12. Derivative Instruments*.

Project Debt

Americas Project Debt

Financing for our energy-from-waste projects was generally accomplished through tax-exempt and taxable municipal revenue bonds issued by or on behalf of the municipal client. For such facilities that are owned by a subsidiary of ours, the municipal issuers of the bond loans the bond proceeds to our subsidiary to pay for facility construction. For such facilities, project-related debt is included as Project debt (short- and long-term) in our condensed consolidated financial statements. Generally, such project debt is secured by the revenues generated by the project and other project assets including the related facility. The only potential recourse to us with respect to project debt arises under the operating performance guarantees described below under *Other Commitments.* Certain subsidiaries had recourse liability for project debt which is recourse to our subsidiary Covanta ARC LLC, but is non-recourse to us, which as of September 30, 2011 aggregated to $209 million.

Project Debt Other

Financing for projects in which we have an ownership or operating interest is generally accomplished through commercial loans from local lenders or financing arranged through international banks, bonds issued to institutional investors and from multilateral lending institutions based in the United States. Such debt is generally secured by the revenues generated by the project and other project assets and is without recourse to us. In most projects, the instruments defining the rights of debt holders generally provide that the project subsidiary may not make distributions to its parent until periodic debt service obligations are satisfied and other financial covenants are complied with.

Restricted Funds Held in Trust

Restricted funds held in trust are primarily amounts received by third-party trustees relating to certain projects we own which may be used only for specified purposes. We generally do not control these accounts. They primarily include debt service reserves for payment of principal and interest on project debt, and deposits of revenues received with respect to projects prior to their disbursement, as provided in the relevant indenture or other agreements. Such funds are invested principally in money market funds, bank deposits and certificates of deposit, United States treasury bills and notes, and United States government agency securities. Restricted fund balances are as follows (in millions):

	As of

	September 30, 2011		December 31, 2010	
	Current	Noncurrent	Current	Noncurrent
Debt service funds - principal	$ 72	$ 73	$ 84	$ 72
Debt service funds - interest	8		6	
Total debt service funds	80	73	90	72
Revenue funds	47		18	
Other funds	27	34	18	35
Total	$ 154	$ 107	$ 126	$ 107

Of the $261 million in total restricted funds as of September 30, 2011, approximately $145 million was designated for future payment of project debt principal.

Capital Requirements

Our projected contractual obligations are consistent with amounts disclosed in our Form 10-K for the year ended December 31, 2010. We believe that when combined with our other sources of liquidity, including our existing cash on hand and the Revolving Credit Facility, we will generate sufficient cash over at least the next twelve months to meet operational needs, make capital expenditures, invest in the business and service debt due.

Other Commitments

Other commitments as of September 30, 2011 were as follows (in millions):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	$ 279	$ 3	$ 276
Surety bonds	354		354
Total other commitments net	$ 633	$ 3	$ 630

The letters of credit were issued under various credit facilities (primarily the Funded L/C Facility) to secure our performance under various contractual undertakings related to our 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 Credit Facilities as additional term loans in the case of letters of credit issued under the Funded L/C 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 ($341 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 and the 3.25% Notes. These arise as follows:

- holders may require us to repurchase their 7.25% 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.

We have certain contingent obligations related to the Debentures. These arise as follows:

- holders may require us to repurchase their Debentures on February 1, 2012, February 1, 2017 and February 1, 2022;
- holders may require us to repurchase their Debentures 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 and/or our common stock.

For specific criteria related to contingent interest, conversion or redemption features of the Debentures, refer to Note 12 of the Notes to Consolidated Financial Statements in our Form 10-K for the year ended December 31, 2010.

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, 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.

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. As of December 2010, the fair value of plan assets exceeded accumulated benefit obligations for the pension plan. The actual settlement amount will fluctuate based on future market performance, such as interest costs and actual return on plan assets, and employees disbursement elections. We anticipate the actual settlement will take place in the second half of 2012.

In 2008, we entered into a ten year agreement with The Harrisburg Authority to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania. We also agreed to provide construction management services and to advance up to $26 million in funding to The Harrisburg Authority for certain facility improvements required to enhance facility performance, which improvements were substantially completed during 2010. The repayment of this funding is guaranteed by the City of Harrisburg, but is otherwise unsecured, and is junior to project bondholders rights. We had advanced $22 million, of which $20 million was outstanding as of December 31, 2010 under this funding arrangement. On October 5, 2010, we filed suit against the City of Harrisburg in the Dauphin County Court of Common Pleas seeking to enforce our rights under the City s guaranty. On December 15, 2010, the City of Harrisburg was formally admitted to the State oversight program for distressed municipalities known as Act 47. During the year ended December 31, 2010, we recorded a non-cash impairment charge of $7 million, pre-tax, to write-down the receivable to $13 million, which was calculated based on a range of potential outcomes utilizing various estimated cash flows for the receivable. On October 13, 2011, the City of Harrisburg filed for protection under the bankruptcy laws. We do not believe that the bankruptcy filing will impact our expected recovery. We intend to continue to pursue our lawsuit in parallel with efforts to work with the City of Harrisburg and other stakeholders to protect the full recovery of our advance and to maintain our position in the project.

Recent Accounting Pronouncements

See Note 2. Recent Accounting Pronouncements of the Notes to the Condensed Consolidated Financial Statements for information related to new accounting pronouncements.

Discussion of Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements in accordance with United States generally accepted accounting principles, we are required to use judgment in making estimates and assumptions that affect the amounts reported in our financial statements and related Notes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Many of our critical accounting policies are subject to significant judgments and uncertainties which could potentially result in materially different results under different conditions and assumptions. Future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Management believes there have been no material changes during the nine months ended September 30, 2011 to the items discussed in Discussion of Critical Accounting Policies in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 3. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

In the normal course of business, our subsidiaries are party to financial instruments that are subject to market risks arising from changes in commodity prices, interest rates, foreign currency exchange rates, and derivative instruments. Our use of derivative instruments is very limited and we do not enter into derivative instruments for trading purposes.

There have been no material changes during the nine months ended September 30, 2011 to the items discussed in Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2010. For details related to fair value estimates for the Cash Conversion Option, Note Hedge and contingent interest as of September 30, 2011, refer to *Item 1. Financial Statements Note 11. Financial Instruments* and *Note 12. Derivative Instruments*.

Item 4. ***CONTROLS AND PROCEDURES***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Covanta s disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the Exchange Act) as of September 30, 2011. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Our Chief Executive Officer and Chief Financial Officer have concluded that, based on their reviews, our disclosure controls and procedures are effective to provide such reasonable assurance.

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

Changes in Internal Control over Financial Reporting

There has not been any change in our system of internal control over financial reporting during the fiscal quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. ***LEGAL PROCEEDINGS***

See Note 13. Commitments and Contingencies of the Notes to the Condensed Consolidated Financial Statements.

Item 1A. ***RISK FACTORS***

There have been no material changes during the nine months ended September 30, 2011 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

During the nine months ended September 30, 2011, the Board of Directors approved an additional $250 million share repurchase authorization, bringing the total authorized amount to $400 million. 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.

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The following table provides information as of September 30, 2011 with respect to shares of common stock we repurchased during the third quarter of fiscal 2011:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share [(a)]	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
	(in millions, except per share amounts)			
July 1 -July 31	0.5	$ 17.01	0.5	$ 72
August 1 - August 31	3.7	$ 15.42	3.7	$ 15
September 1 - September 30	1.0	$ 15.39	1.0	$ 100
Total:	5.2	$ 15.58	5.2	

(a) This amount represents the weighted average price paid per common share. This price includes a per share commission paid for all repurchases.

During the nine months ended September 30, 2011, we repurchased 216,605 shares of our common stock in connection with tax withholdings for vested stock awards.

Item 3. ***DEFAULTS UPON SENIOR SECURITIES***

None.

Item 4. ***REMOVED AND RESERVED***

None

Item 5. ***OTHER INFORMATION***

(a) None.

(b) Not applicable.

Item 6. ***EXHIBITS***

Exhibit Number	Description
31.1	Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.
31.2	Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.
32	Certification of periodic financial report pursuant to Section 906 of Sarbanes-Oxley Act of 2002 by the Chief Executive Officer and Chief Financial Officer.
Exhibit 101.INS:	XBRL Instance Document*
Exhibit 101.SCH:	XBRL Taxonomy Extension Schema*

Exhibit 101.CAL:	XBRL Taxonomy Extension Calculation Linkbase*
Exhibit 101.DEF:	XBRL Taxonomy Extension Definition Document*
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase*
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase*

* XBRL information is furnished, not filed.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COVANTA HOLDING CORPORATION
(Registrant)

By: /s/ SANJIV KHATTRI
Sanjiv Khattri
Executive Vice President and Chief Financial Officer

By: /s/ THOMAS E. BUCKS
Thomas E. Bucks
Vice President and Chief Accounting Officer

Date: October 24, 2011