

COVANTA HOLDING CORP  
Form 10-Q  
April 17, 2013  
Table of Contents

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

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

For the quarterly period ended March 31, 2013

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

95-6021257  
(I.R.S. Employer  
Identification Number)

445 South Street, Morristown, NJ  
(Address of Principal Executive Office)  
(862) 345-5000

07960  
(Zip Code)

(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  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  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  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Applicable Only to Corporate Issuers:

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

Class  
Common Stock, \$0.10 par value

Outstanding at April 11, 2013  
130,813,828 shares



Table of Contents

COVANTA HOLDING CORPORATION AND SUBSIDIARIES  
FORM 10-Q QUARTERLY REPORT  
For the Quarter Ended March 31, 2013

## PART I. FINANCIAL INFORMATION

	Page
<u>Cautionary Note Regarding Forward-Looking Statements</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2013 and 2012 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2013 and 2012 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2013 (Unaudited) and December 31, 2012</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012 (Unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Note 1. Organization and Basis of Presentation</u>	<u>8</u>
<u>Note 2. Recent Accounting Pronouncements</u>	<u>8</u>
<u>Note 3. Business Development and Organic Growth</u>	<u>9</u>
<u>Note 4. Equity and Earnings Per Share (“EPS”)</u>	<u>9</u>
<u>Note 5. Financial Information by Business Segments</u>	<u>10</u>
<u>Note 6. Consolidated Debt</u>	<u>11</u>
<u>Note 7. Income Taxes</u>	<u>13</u>
<u>Note 8. Supplementary Information</u>	<u>14</u>
<u>Note 9. Benefit Obligations</u>	<u>17</u>
<u>Note 10. Stock-Based Compensation</u>	<u>17</u>
<u>Note 11. Financial Instruments</u>	<u>18</u>
<u>Note 12. Derivative Instruments</u>	<u>21</u>
<u>Note 13. Commitments and Contingencies</u>	<u>21</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Overview</u>	<u>24</u>
<u>Results of Operations</u>	<u>30</u>
<u>Liquidity and Capital Resources</u>	<u>37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>46</u>
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1A. Risk Factors</u>	<u>46</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>47</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>47</u>
<u>Item 5. Other Information</u>	<u>47</u>
<u>Item 6. Exhibits</u>	<u>47</u>
OTHER	
<u>Signatures</u>	<u>48</u>



Table of Contents

**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 “scheme,” similar 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 us are not guarantees or indicative of future performance. Important factors, risks and uncertainties that could cause actual results to differ materially from those forward-looking statements include, but are not limited to:

- fluctuations in the prices of energy, waste disposal, scrap metal and commodities;
- adoption of new laws and regulations in the United States and abroad, including energy laws, environmental laws, labor laws and healthcare laws;
- the fee structures of our contracts;
- our ability to avoid adverse publicity relating to our business expansion efforts;
- advances in technology;
- difficulties in the operation of our facilities, including fuel supply and energy delivery interruptions, failure to obtain regulatory approvals, equipment failures, labor disputes and work stoppages, and weather interference and catastrophic events;
- failure to maintain historical performance levels at our facilities and our ability to retain the rights to operate facilities we do not own;
- difficulties in the financing, development and construction of new projects and expansions, including increased construction costs and delays;
- our ability to realize the benefits of long-term business development and bear the costs of business development over time;
- the scalability of our business;
- limits of insurance coverage;
- our ability to avoid defaults under our long-term contracts;
- performance of third parties under our contractual arrangements and such third parties' observance of laws and regulations;
- concentration of suppliers and customers;
- geographic concentration of facilities;
- increased competitiveness in the energy and waste industries;
- changes in foreign currency exchange rates;
- limitations imposed by our existing indebtedness and our ability to perform our financial obligations and guarantees and to refinance our existing indebtedness;
- exposure to counterparty credit risk and instability of financial institutions in connection with financing transactions;
- our ability to utilize net operating loss carryforwards;
- restrictions in our certificate of incorporation and debt documents regarding strategic alternatives;
- failures of disclosure controls and procedures and internal controls over financial reporting;
- our ability to attract and retain talented people;

general economic conditions in the United States and abroad, including the availability of credit and debt financing and market conditions at the time our contracts expire; and  
other risks and uncertainties affecting our businesses described in Item 1A. Risk Factors of Covanta's Annual Report on Form 10-K for the year ended December 31, 2012 and in other filings by Covanta with the SEC.  
Although we believe that our 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 our forward-looking statements. Our 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 we do 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.

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

COVANTA HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		
	2013	2012	
	(Unaudited)		
	(In millions, except per share amounts)		
OPERATING REVENUES:			
Waste and service revenues	\$231	\$238	
Recycled metals revenues	16	20	
Electricity and steam sales	102	91	
Other operating revenues	24	43	
Total operating revenues	373	392	
OPERATING EXPENSES:			
Plant operating expenses	281	267	
Other operating expenses	17	39	
General and administrative expenses	24	25	
Depreciation and amortization expense	53	50	
Net interest expense on project debt	3	8	
Total operating expenses	378	389	
Operating (loss) income	(5	) 3	
Other income (expense):			
Interest expense	(29	) (18	)
Non-cash convertible debt related expense	(7	) (6	)
Loss on extinguishment of debt	(1	) (2	)
Other income, net	—	3	
Total other expenses	(37	) (23	)
Loss before income tax benefit and equity in net income from unconsolidated investments	(42	) (20	)
Income tax benefit	17	8	
Equity in net (loss) income from unconsolidated investments	(1	) 1	
NET LOSS	(26	) (11	)
Less: Net loss (income) attributable to noncontrolling interests in subsidiaries	1	(1	)
NET LOSS ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	\$(25	) \$(12	)
Weighted Average Common Shares Outstanding:			
Basic	130	134	
Diluted	130	134	
Loss Per Share:			
Basic	\$(0.19	) \$(0.09	)
Diluted	\$(0.19	) \$(0.09	)
Cash Dividend Declared Per Share:	\$0.165	\$0.15	

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

4

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Table of ContentsCOVANTA HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31,		
	2013	2012	
	(Unaudited)		
	(In millions)		
Net loss	\$ (26	) \$ (11	)
Foreign currency translation	(5	) 1	
Adjustment for defined benefit pension plan settlement, net of tax benefit of \$2	(4	) —	
Pension and postretirement plan unrecognized benefits, net of tax expense of \$1	3	—	
Net unrealized (loss) gain on derivative instruments, net of tax benefit of \$1 and tax expense of \$0, respectively	(2	) 1	
Net unrealized gain on available for sale securities, net of tax expense of \$0	1	—	
Other comprehensive (loss) income attributable to Covanta Holding Corporation	(7	) 2	
Comprehensive loss	(33	) (9	)
Less:			
Net loss (income) attributable to noncontrolling interests in subsidiaries	1	(1	)
Comprehensive loss (income) attributable to noncontrolling interests in subsidiaries	1	(1	)
Comprehensive loss attributable to Covanta Holding Corporation	\$ (32	) \$ (10	)

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

Table of ContentsCOVANTA HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2013 (Unaudited)	December 31, 2012
	(In millions, except per share amounts)	
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$211	\$246
Restricted funds held in trust	53	53
Receivables (less allowances of \$7 and \$6, respectively)	262	256
Unbilled service receivables	13	18
Deferred income taxes	35	18
Prepaid expenses and other current assets	114	97
Total Current Assets	688	688
Property, plant and equipment, net	2,575	2,561
Investments in fixed maturities at market (cost: \$35 and \$36, respectively)	36	36
Restricted funds held in trust	155	161
Unbilled service receivables	15	17
Waste, service and energy contracts, net	389	399
Other intangible assets, net	23	23
Goodwill	249	249
Investments in investees and joint ventures	46	49
Other assets	376	343
Total Assets	\$4,552	\$4,526
<b>LIABILITIES AND EQUITY</b>		
Current:		
Current portion of long-term debt	\$3	\$3
Current portion of project debt	72	80
Accounts payable	55	41
Deferred revenue	23	31
Accrued expenses and other current liabilities	245	205
Total Current Liabilities	398	360
Long-term debt	2,101	2,012
Project debt	229	237
Deferred income taxes	694	691
Waste and service contracts	33	35
Other liabilities	135	136
Total Liabilities	3,590	3,471
Commitments and Contingencies (Note 13)		
Equity:		
Covanta Holding Corporation stockholders equity:		
Preferred stock (\$0.10 par value; authorized 10 shares; none issued and outstanding)	—	—
Common stock (\$0.10 par value; authorized 250 shares; issued 159 and 159 shares, respectively; outstanding 131 and 132 shares, respectively)	16	16
Additional paid-in capital	786	806

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Accumulated other comprehensive income	—	7
Accumulated earnings	159	222
Treasury stock, at par	(3	) (3
Total Covanta Holding Corporation stockholders equity	958	1,048
Noncontrolling interests in subsidiaries	4	7
Total Equity	962	1,055
Total Liabilities and Equity	\$4,552	\$4,526

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

Table of ContentsCOVANTA HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2013	2012
	(Unaudited, in millions)	
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$(26	) \$(11
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	53	50
Amortization of long-term debt deferred financing costs	2	1
Amortization of debt premium and discount	—	(1
Defined benefit pension plan settlement gain	(6	) —
Loss on extinguishment of debt	1	2
Non-cash convertible debt related expense	7	6
Stock-based compensation expense	5	5
Equity in net loss (income) from unconsolidated investments	1	(1
Deferred income taxes	(12	) (7
Other, net	(5	) (5
Change in restricted funds held in trust	9	2
Change in working capital	33	63
Total adjustments	88	115
Net cash provided by operating activities	62	104
<b>INVESTING ACTIVITIES:</b>		
Proceeds from the sale of investment securities	2	1
Purchase of investment securities	(13	) —
Purchase of property, plant and equipment	(63	) (32
Acquisition of noncontrolling interest in subsidiary	(14	) —
Acquisition of land use rights	—	(1
Other, net	1	—
Net cash used in investing activities	(87	) (32
<b>FINANCING ACTIVITIES:</b>		
Proceeds from borrowings on long-term debt	—	699
Payment of deferred financing costs	(1	) (23
Principal payments on long-term debt	(1	) (619
Principal payments on project debt	(16	) (37
Convertible debenture repurchases	—	(25
Payments of borrowings on revolving credit facility	(51	) —
Proceeds from borrowings on revolving credit facility	98	—
Change in restricted funds held in trust	(3	) 12
Cash dividends paid to stockholders	—	(10
Common stock repurchased	(24	) (30
Financing of insurance premiums, net	—	(3
Other, net	(12	) (1
Net cash used in financing activities	(10	) (37
Effect of exchange rate changes on cash and cash equivalents	—	—
Net (decrease) increase in cash and cash equivalents	(35	) 35
Cash and cash equivalents at beginning of period	246	234

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Cash and cash equivalents at end of period	211	269
Less: Cash and cash equivalents of discontinued operations at end of period	—	2
Cash and cash equivalents of continuing operations at end of period	\$211	\$267

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

7

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Table of Contents

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” refers to our subsidiary Covanta Energy Corporation and its subsidiaries.

Organization

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

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 20 million tons of solid waste annually. We operate and/or have ownership positions in 44 energy-from-waste facilities, which are primarily located in North America, and 14 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). In total, these assets produce approximately 10 million megawatt hours (“MWh”) of baseload electricity annually. We also operate a waste management infrastructure that is complementary to our core EfW business.

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

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete condensed consolidated financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for fair presentation have been included in our condensed consolidated 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, 2013. 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, 2012 (“Form 10-K”).

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board issued updates concerning parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries of groups of assets within a foreign entity or of an investment in a foreign entity. This update provides for the release of the cumulative translation adjustment into net income when a parent sells a part or all of its investment within a foreign entity, no longer holds a controlling interest in an investment in a foreign entity or obtains control of an investment in a foreign entity that was previously recognized as an equity method investment (step acquisition). We are required to adopt this standard prospectively for the first quarter of 2014, however early adoption is permitted. We are currently evaluating the impact of this guidance on our condensed consolidated financial statements.

Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## NOTE 3. BUSINESS DEVELOPMENT AND ORGANIC GROWTH

## Huntington Energy-from-Waste Facility

In January 2013, we purchased the remaining equity interests in the Huntington EfW facility from two minority partners for approximately \$14 million, increasing our ownership interest to 100%.

## Organic Growth Investments

During the three months ended March 31, 2013, we invested approximately \$25 million in various organic growth initiatives, including enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue and/or reducing expenses, increasing metals recovery, and expanding our specialty waste and other waste management services.

## NOTE 4. EQUITY AND EARNINGS PER SHARE (“EPS”)

## Equity

During the three months ended March 31, 2013, we granted 572,074 restricted stock awards and 219,484 restricted stock units. For information related to stock-based award plans, see Note 10. Stock-Based Compensation.

During the three months ended March 31, 2013, we repurchased 343,948 shares of our common stock in connection with tax withholdings for vested stock awards.

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

	Three Months Ended March 31,	
	2013	2012
Regular cash dividend		
Declared	\$22	\$21
Per Share	\$0.165	\$0.15

We increased the current share repurchase authorization to a total of \$150 million during the three months ended March 31, 2013. Under the program, common stock repurchases may be made in the open market, in privately negotiated transactions from time to time, or by other available methods, at management’s discretion in accordance with applicable federal securities laws. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of our common stock and overall market conditions. As of March 31, 2013, the amount remaining under our currently authorized share repurchase program was \$126 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, 2013	\$24	1.2	\$19.27

## Noncontrolling interests in subsidiaries

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

	As of March 31,	
	2013	2012
Noncontrolling interests in subsidiaries, balance as of beginning of period	\$7	\$5
Acquisition of noncontrolling interests in subsidiaries	(2	) —
Net (loss) income	(1	) 1
Noncontrolling interests in subsidiaries, balance as of end of period	\$4	\$6





Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## Earnings Per Share

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

	Three Months Ended March 31,	
	2013	2012
Net loss attributable to Covanta Holding Corporation	\$(25 )	\$(12 )
Basic loss per share:		
Weighted average basic common shares outstanding	130	134
Basic loss per share	\$(0.19 )	\$(0.09 )
Diluted loss per share:		
Weighted average basic common shares outstanding	130	134
Dilutive effect of stock options	—	—
Dilutive effect of restricted stock	—	—
Dilutive effect of convertible securities	—	—
Dilutive effect of warrants	—	—
Weighted average diluted common shares outstanding	130	134
Diluted loss per share	\$(0.19 )	\$(0.09 )
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been anti-dilutive:		
Stock options	2	2
Restricted stock	1	1
Restricted stock units	—	—
Warrants	29	28

In 2009, we entered into privately negotiated warrant transactions in connection with the issuance of 3.25% Cash Convertible Senior Notes due 2014. These warrants could have a dilutive effect to the extent that the price of our common stock exceeds the applicable strike price of \$22.20. As of March 31, 2013, the warrants did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

## NOTE 5. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

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

	Americas	All Other <sup>(1)</sup>	Total
Three Months Ended March 31, 2013			
Operating revenues	\$363	\$10	\$373
Depreciation and amortization expense	52	1	53

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Operating loss	—	(5	) (5	)
Three Months Ended March 31, 2012				
Operating revenues	\$381	\$11	\$392	
Depreciation and amortization expense	49	1	50	
Operating income (loss)	9	(6	) 3	

(1) All other is comprised of the financial results of our insurance subsidiaries' operations and all assets outside of North America.

Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## NOTE 6. CONSOLIDATED DEBT

Consolidated debt is as follows (in millions):

	As of March 31, 2013	December 31, 2012
<b>LONG-TERM DEBT:</b>		
Revolving credit facility	\$107	\$60
Term loan due 2019	297	298
Debt discount related to Term loan	(1	) (1
Term loan, net	296	297
Credit Facilities Sub-total	\$403	\$357
7.25% Senior Notes due 2020	\$400	\$400
6.375% Senior Notes due 2022	400	400
3.25% Cash Convertible Senior Notes due 2014	460	460
Debt discount related to 3.25% Cash Convertible Senior Notes	(35	) (42
Cash conversion option derivative at fair value	141	105
3.25% Cash Convertible Senior Notes, net	566	523
Notes Sub-total	\$1,366	\$1,323
4.00% - 5.25% Tax-Exempt Bonds due from 2024 to 2042	\$335	\$335
Total long-term debt	\$2,104	\$2,015
Less: current portion	(3	) (3
Noncurrent long-term debt	\$2,101	\$2,012
<b>PROJECT DEBT:</b>		
Americas project debt		
3.00% - 7.00% Americas project debt related to Service Fee structures due 2013 through 2022	\$207	\$223
5.248% - 5.875% Americas project debt related to Tip Fee structures due 2013 through 2020	69	68
Unamortized debt premium, net	2	3
Total Americas project debt	278	294
Other project debt	23	23
Total project debt	301	317
Less: Current project debt (includes \$1 and \$1 of unamortized premium, respectively)	(72	) (80
Noncurrent project debt	\$229	\$237
<b>TOTAL CONSOLIDATED DEBT</b>	<b>\$2,405</b>	<b>\$2,332</b>
Less: Current debt	(75	) (83
<b>TOTAL NONCURRENT CONSOLIDATED DEBT</b>	<b>\$2,330</b>	<b>\$2,249</b>

## Credit Facilities

We have credit facilities, which are comprised of a \$900 million revolving credit facility that expires in 2017 (the "Revolving Credit Facility") and a \$300 million term loan due 2019 (the "Term Loan") (collectively referred to as the "Credit Facilities").

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

and certain other currencies to be agreed upon, in each case for either borrowings or for the issuance of letters of credit. The proceeds under the Revolving Credit Facility are available for working capital and general corporate purposes of Covanta Energy and its subsidiaries.

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

Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## Availability under Revolving Credit Facility

As of March 31, 2013, we had availability under the Revolving Credit Facility as follows (in millions):

	Total Available Under Credit Facility	Maturing	Outstanding Borrowings as of March 31, 2013	Outstanding Letters of Credit as of March 31, 2013	Available as of March 31, 2013
Revolving Credit Facility	\$ 900	2017	\$107	\$257	\$536

During the three months ended March 31, 2013, we utilized \$98 million of the Revolving Credit Facility, of which we subsequently repaid \$51 million prior to the end of the period.

## Repayment Terms

As of March 31, 2013, the Term Loan has mandatory amortization payments remaining as follows (in millions):

	2013	2014	2015	2016	2017	2018	2019	Total
Annual Remaining Amortization	\$2	\$3	\$3	\$3	\$3	\$3	\$280	\$297

The Credit Facilities (both the Term Loan and Revolving Credit Facility) are pre-payable at our option at any time. Under certain circumstances, the Credit Facilities obligate us to apply 25% of our excess cash flow (as defined in the Credit Agreement) for each fiscal year commencing in 2013, as well as net cash proceeds from specified other sources, such as asset sales or insurance proceeds, to prepay the Term Loan, provided that this excess cash flow percentage shall be reduced to 0% in the event the Leverage Ratio (as defined below under Credit Agreement Covenants) is at or below 3.00:1.00.

## Interest and Fees

Borrowings under the Credit Facilities bear interest, at our option, at either a base rate or a Eurodollar rate plus an applicable margin determined by pricing grids, which are based on Covanta Energy's leverage ratio. Base rate is defined as the higher of (i) the Federal Funds Effective Rate plus 0.50%, (ii) the rate the administrative agent announces from time to time as its per annum "prime rate" or (iii) the one-month LIBOR rate plus 1.00%. Eurodollar rate borrowings bear interest at the British Bankers' Association LIBOR Rate, commonly referred to as "LIBOR", for the interest period selected by us. Base rate borrowings under the Revolving Credit Facility shall bear interest at the base rate plus an applicable margin ranging from 1.25% to 1.75%. Eurodollar borrowings under the Revolving Credit Facility shall bear interest at LIBOR plus an applicable margin ranging from 2.00% to 2.75%. Fees for issuances of letters of credit include fronting fees equal to 0.125% per annum and a participation fee for the lenders equal to the applicable interest margin for LIBOR rate borrowings. We will incur an unused commitment fee ranging from 0.375% to 0.50% on the unused amount of commitments under the Revolving Credit Facility. The Term Loan bore interest, at our option, at either (i) the base rate plus an applicable margin ranging from 1.75% to 2.00%, or (ii) LIBOR plus an applicable margin ranging from 2.75% to 3.00%, subject to a LIBOR floor of 1.00%. Effective March 29, 2013, we modified the Term Loan and it now bears interest at LIBOR plus 2.75% with a 0.75% LIBOR floor.

## Guarantees and Securitization

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

## Credit Agreement Covenants

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

compliance with all required covenants as of March 31, 2013.

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

- incur additional indebtedness (including guarantee obligations);
- create certain liens against or security interests over certain property;
- pay dividends on, redeem, or repurchase our capital stock or make other restricted junior payments;
- enter into agreements that restrict the ability of our subsidiaries to make distributions or other payments to us;
- make investments;
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis;
- dispose of certain assets; and
- make certain acquisitions.

Table of Contents

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

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

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

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

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

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

**6.375% Senior Notes due 2022 (the "6.375% Notes")**

For specific criteria related to redemption features of the 6.375% Notes, refer to Note 11. Consolidated Debt 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 and subject to certain customary adjustments as provided in the indenture for the 3.25% Notes, the 3.25% Notes are convertible by the holders thereof into cash only (the "Cash Conversion Option"), based on a conversion rate, effective as of December 14, 2012, of 62.5216 shares of our common stock per \$1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately \$15.99 per share). We will not deliver common stock (or any other securities) upon conversion under any circumstances. In connection with the issuance of the 3.25% Notes, we also sold warrants (the "Warrants"), correlating to the number of shares underlying the 3.25% Notes, which currently have a strike price of \$22.20 and settle on a net share basis. As the 3.25% Notes convert only into cash, the strike price of the Warrants effectively represents the conversion price above which we may issue shares in connection with these two issuances. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Form 10-K.

The debt discount related to the 3.25% Notes is accreted over their term and recognized as non-cash convertible debt related expense. The amount of the debt discount accretion expected to be included in our consolidated financial statements is \$22 million and \$13 million for the remainder of 2013 and for the year ended December 31, 2014, respectively.

For specific criteria related to contingent interest, conversion or redemption features of the 3.25% Notes and details related to the Cash Conversion Option, cash convertible note hedge and Warrants related to the 3.25% Notes, refer to Note 11. Consolidated Debt 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.

**4.00% - 5.25% Tax-Exempt Bonds due from 2024 to 2042 ("Tax Exempt Bonds")**

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

**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, 2013 to be approximately 45.6%. 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 40.4% and 38.0% for the three months ended March 31, 2013 and 2012, respectively. The increase in the effective tax rate is primarily due to an increase in taxes on foreign operations and development activities and an increase in state taxes related to the mix of earnings and losses from subsidiaries that are subject to state taxes on a separate entity basis.

Uncertain tax positions, exclusive of interest and penalties, were \$124 million for both March 31, 2013 and December 31, 2012. Included in the balance of unrecognized tax benefits as of March 31, 2013 are potential benefits of \$124 million that, if recognized, would impact the effective tax rate. For both the three months ended March 31, 2013 and 2012, we recognized a net tax expense for uncertain tax positions of less than \$1 million, including interest and penalties. We have accrued interest and penalties associated

Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

with liabilities for uncertain tax positions of \$1 million for both March 31, 2013 and December 31, 2012. We continue to reflect tax related interest 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. The IRS is currently auditing our tax returns for the years 2004 through 2009, which includes years during the carryforward period including returns in which some of the losses giving rise to the NOLs that were reported. In connection with this audit, the IRS has proposed certain adjustments to our 2008 tax return. We do not believe such proposed adjustments are consistent with applicable rules, and we intend to challenge them through the IRS's administrative appeals procedures. If we are unsuccessful in challenging such adjustments, some portion of the NOLs would not be available to offset consolidated taxable income, and/or we could be required to pay federal income taxes (and potentially interest and penalties) for prior years. State income tax returns are generally subject to examination for a period of three to five years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

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

While we cannot predict what amounts, if any, may be includable in taxable income as a result of the final administration of these grantor trusts, substantial actions toward such final administration have been taken and we believe that neither arrangements with the California Commissioner of Insurance nor the final administration by the Director of the Division of Insurance for the State of Missouri will result in a material reduction in available NOLs. We had consolidated federal NOLs estimated to be approximately \$392 million for federal income tax purposes as of December 31, 2012, based on the income tax returns filed. The federal NOLs will expire in various amounts from December 31, 2023 through December 31, 2031, if not used. In addition to the consolidated federal NOLs, as of December 31, 2012, we had state NOL carryforwards of approximately \$303 million, which expire between 2013 and 2031, net foreign NOL carryforwards of approximately \$29 million expiring between 2015 and 2031, and federal tax credit carryforwards, including production tax credits of \$48 million expiring between 2014 and 2022, and minimum tax credits of \$7 million with no expiration. These deferred tax assets are offset by a valuation allowance of approximately \$34 million. For further information, refer to Note 15. Income Taxes of the Notes to the Consolidated Financial Statements in our Form 10-K.

## NOTE 8. SUPPLEMENTARY INFORMATION

## Operating Revenues

The components of waste and service revenues are as follows (in millions):

	Three Months Ended March 31,	
	2013	2012
Waste and service revenue unrelated to project debt	\$222	\$226
Revenue earned explicitly to service project debt - principal	8	10
Revenue earned explicitly to service project debt - interest	1	2

Total waste and service revenue	\$231	\$238
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Under some of our service agreements, we bill municipalities fees to service project debt (principal and interest). The amounts billed are based on the actual principal amortization schedule for the project bonds. Regardless of the amounts billed to client communities relating to project debt principal, we recognize revenue earned explicitly to service project debt principal on a levelized basis over the term of the applicable agreement. In the beginning of the agreement, principal billed is less than the amount of levelized revenue recognized related to principal and we record an unbilled service receivable asset. At some point during the agreement, the amount we bill will exceed the levelized revenue and the unbilled service receivable begins to reduce, and ultimately becomes nil at the end of the contract.

Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

In the final year(s) of a contract, cash may be utilized from available debt service reserve accounts to pay remaining principal amounts due to project bondholders and such amounts are no longer billed to or paid by municipalities. Generally, therefore, in the last year of the applicable agreement, little or no cash is received from municipalities relating to project debt, while our levelized service revenue continues to be recognized until the expiration date of the term of the agreement.

**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 \$17 million and \$22 million for the three months ended March 31, 2013 and 2012, respectively.

**Other operating expenses**

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

	Three Months Ended March 31,	
	2013	2012
Construction costs	\$22	\$38
Insurance subsidiary operating expenses <sup>(1)</sup>	1	3
Defined benefit pension plan settlement gain <sup>(2)</sup>	(6	) —
Other	—	(2
Total other operating expenses	\$17	\$39

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

(2) During the first quarter of 2013, we had final settlement of our defined benefit pension plan. For additional information see Note 9. Benefit Obligations.

**Amortization of waste, service and energy contracts**

Our waste, service and energy contracts are intangible assets and liabilities relating to long-term operating contracts at acquired facilities and are recorded upon acquisition at their estimated fair market values based upon discounted cash flows. Intangible assets and liabilities are amortized using the straight line method over their remaining useful lives. The following table details the amount of the actual/estimated amortization expense and contra-expense associated with these intangible assets and liabilities as of March 31, 2013 included or expected to be included in our condensed consolidated statements of operations for each of the years indicated (in millions):

	Waste, Service and Energy Contracts (Amortization Expense)	Waste and Service Contracts (Contra-Expense)
Three Months Ended March 31, 2013	\$ 8	\$(2
Remainder of 2013	\$ 23	\$(8
2014	29	(10
2015	26	(5
2016	23	(5
2017	15	(3
Thereafter	273	(2
Total	\$ 389	\$(33



Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## Non-Cash Convertible Debt Related Expense

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

	Three Months Ended	
	March 31,	
	2013	2012
Debt discount accretion related to the 3.25% Notes	\$7	\$6
Fair value changes related to the cash convertible note hedge	(36	) (27
Fair value changes related to the cash conversion option derivative	36	27
Total non-cash convertible debt related expense	\$7	\$6

## Other Income, Net

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

## Accumulated Other Comprehensive Income ("AOCI")

The changes in accumulated other comprehensive income are as follows (in millions):

	Foreign Currency Translation	Pension and Other Postretirement Plan Unrecognized Net Gain (Loss)	Net Unrealized Gain (Loss) on Derivatives	Net Unrealized Gain (Loss) on Securities	Total
Balance December 31, 2012	\$4	\$2	\$—	\$1	\$7
Other comprehensive (loss) income before reclassifications	(5	) 3	(2	) 1	(3
Amounts reclassified from accumulated other comprehensive income	—	(4	) —	—	(4
Net current period comprehensive (loss) income	(5	) (1	) (2	) 1	(7
Balance March 31, 2013	\$(1	) \$1	\$(2	) \$2	\$—

Reclassifications out of accumulated other comprehensive income are as follows (in millions):

## Amount Reclassified from Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Income Component	For the Three Months Ended March 31, 2013	Affected Line Item in the Condensed Consolidated Statement of Operations
Defined benefit pension plan		
Prior service costs	\$(9	) Other operating expenses
Net actuarial loss	3	Other operating expenses
	(6	) Total before tax
	2	Tax benefit
	\$(4	) Net of tax

## Capitalized Development Costs

As of March 31, 2013, we had \$51 million of capitalized costs related to development efforts primarily in Europe. Among the various projects is a project located at Ince Park, Cheshire, England ("Ince Project"). The Merseyside Recycling and Waste Authority ("MRWA") is expected to announce its selection of preferred bidder for its waste contract procurement in the near term. The volume of waste that would be procured if we are selected as preferred bidder will account for a significant portion of the capacity at the Ince Project. As of the date of this filing, we have

not been advised if we have been selected as the preferred bidder. While we await the final decision, we have positioned our resources to prepare for construction of the Ince Project. In the event that we are not selected as preferred bidder by the MRWA, we will evaluate the reasons for the non-selection and the impact this might have on the recoverability of our European capitalized costs as it would then be probable that a significant portion may have to be impaired.

16

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Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## NOTE 9. BENEFIT OBLIGATIONS

## Defined Benefit Pension Plan

The components of net periodic benefit costs, interest costs and the expected return on plan assets for the pension and other post-retirement benefits were not material for the three months ended March 31, 2013 and 2012.

During 2012, the IRS approved the defined benefit pension plan termination. Employees were given two disbursement elections, either a lump sum payment or an annuity option. Approximately 72% of plan participants elected the lump sum payment option, and during the fourth quarter of 2012, \$62 million was distributed to such participants. During the first quarter of 2013, \$35 million of annuity contracts were purchased on behalf of participants choosing the annuity option. During the first quarter of 2013, we recorded a pre-tax defined benefit pension plan settlement gain of \$6 million which was recorded as other operating income in our condensed consolidated statements of operations. The defined benefit pension plan termination concluded with the purchase of the annuities during the first quarter of 2013. Accordingly, we have no future obligations related to the defined benefit pension plan, including future funding requirements.

## Defined Contribution Plans

Substantially all of our employees in the United States are eligible to participate in defined contribution plans we sponsor. Our costs related to defined contribution plans were \$4 million for both the three months ended March 31, 2013 and 2012.

## NOTE 10. STOCK-BASED COMPENSATION

During the three months ended March 31, 2013, we awarded certain employees 572,074 restricted stock awards and 24,003 restricted stock units ("RSUs"). The restricted stock awards will be expensed over the requisite service period, subject to an assumed 12% average forfeiture rate. The terms of the restricted stock awards include vesting provisions based solely on continued service. If the service criteria are satisfied, the restricted stock awards vest during March of 2014, 2015, and 2016. These RSUs were expensed during the three months ended March 31, 2013.

During the three months ended March 31, 2013, we awarded an additional 195,481 RSUs that will vest based upon the total stockholder return ("TSR") performance of our common stock over a three year period relative to companies included in published indices for the waste and disposal industry, the conventional electricity utilities industry and other similarly sized "mid-cap" companies (the "TSR Equity Awards"). We recognize compensation expense for the TSR Equity Awards based on the grant date fair value of the award which was determined using a Monte Carlo model. Compensation expense related to our stock-based awards totaled \$5 million for both the three months ended March 31, 2013 and 2012. Unrecognized stock-based compensation expense and weighted-average years to be recognized are as follows (in millions, except for weighted average years):

	As of March 31, 2013	Weighted-average years
	Unrecognized stock-	to be recognized
	based compensation	
Restricted Stock Awards	\$ 14	1.8
Restricted Stock Units	\$ 4	2.4



Table of Contents

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

NOTE 11. FINANCIAL INSTRUMENTS

Fair Value Measurements

Authoritative guidance associated with fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), then significant other observable inputs (Level 2 inputs) and the lowest priority to significant unobservable inputs (Level 3 inputs). The following methods and assumptions were used to estimate the fair value of each class of financial instruments: For cash and cash equivalents, restricted funds, and marketable securities, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of restricted funds held in trust is based on quoted market prices of the investments held by the trustee.

Fair values for long-term debt and project debt are determined using quoted market prices.

The fair value of the note hedge and the cash conversion option are determined using an option pricing model based on observable inputs such as implied volatility, risk free interest rate, and other factors. The fair value of the note hedge is adjusted to reflect counterparty risk of non-performance, and is based on the counterparty's credit spread in the credit derivatives market. The contingent interest features related to the Debentures and the 3.25% Notes are valued quarterly using the present value of expected cash flow models incorporating the probabilities of the contingent events occurring.

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of March 31, 2013. Such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2013, and current estimates of fair value may differ significantly from the amounts presented herein.



Table of Contents

## 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 March 31, 2013 and December 31, 2012:

Financial Instruments Recorded at Fair Value on a Recurring Basis:	Fair Value Measurement Level	As of	
		March 31, 2013	December 31, 2012
		(In millions)	
<b>Assets:</b>			
<b>Cash and cash equivalents:</b>			
Bank deposits and certificates of deposit	1	\$205	\$240
Money market funds	1	6	6
Total cash and cash equivalents:		211	246
<b>Restricted funds held in trust:</b>			
Bank deposits and certificates of deposit	1	3	2
Money market funds	1	60	64
U.S. Treasury/Agency obligations <sup>(1)</sup>	1	117	125
State and municipal obligations	1	13	11
Commercial paper/Guaranteed investment contracts/Repurchase agreements	1	15	12
Total restricted funds held in trust:		208	214
<b>Restricted funds — other:</b>			
Bank deposits and certificates of deposit <sup>(2)(3)</sup>	1	4	5
Money market funds <sup>(3)</sup>	1	8	8
Residential mortgage-backed securities <sup>(3)</sup>	1	1	1
Total restricted funds other:		13	14
<b>Investments:</b>			
Mutual and bond funds <sup>(2)(3)</sup>	1	13	2
<b>Investments available for sale:</b>			
U.S. Treasury/Agency obligations <sup>(4)</sup>	1	6	6
Residential mortgage-backed securities <sup>(4)</sup>	1	11	11
Other government obligations <sup>(4)</sup>	1	5	5
Corporate investments <sup>(4)</sup>	1	14	14
Equity securities <sup>(3)</sup>	1	4	3
Total investments:		53	41
Derivative Asset — Note Hedge	2	140	104
Total assets:		\$625	\$619
<b>Liabilities:</b>			
Derivative Liability — Cash Conversion Option	2	\$141	\$105
Derivative Liabilities — Contingent interest features of the 3.25% Notes and Debentures	2	0	0
Derivative Liability — Energy Hedges	2	3	1
Total liabilities:		\$144	\$106

The following financial instruments are recorded at their carrying amount.

Financial Instruments Recorded at Carrying Amount:	As of March 31, 2013		As of December 31, 2012	
	Carrying	Estimated	Carrying	Estimated

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	Amount	Fair Value	Amount	Fair Value
Assets:				
Accounts receivables <sup>(5)</sup>	\$290	\$290	\$283	\$283
Liabilities:				
Long-term debt	\$2,104	\$2,132	\$2,015	\$2,081
Project debt	\$301	\$317	\$317	\$329

19

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Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

- (1) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.
- (2) Included in other noncurrent assets in the condensed consolidated balance sheets.
- (3) Included in prepaid expenses and other current assets in the condensed consolidated balance sheets.
- (4) Included in investments in fixed maturities at market in the condensed consolidated balance sheets.
- (5) Includes \$28 million and \$27 million of noncurrent receivables in other noncurrent assets in the condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012, respectively.

## Investments

Our insurance subsidiaries' fixed maturity debt and equity securities portfolio are classified as "available-for-sale" and are carried at 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.

As of March 31, 2013 and December 31, 2012, the cost or amortized cost of our investments approximated their fair value as unrealized gains and losses were not material. The change in net unrealized gain on securities included as a separate component of AOCI in the consolidated statements of comprehensive income was not material for the three months ended March 31, 2013 and 2012, respectively.

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

	As of March 31, 2013	
	Amortized Cost	Fair Value
Available-for-sale:		
One year or less	\$4	\$4
Over one year to five years	15	16
Over five years to ten years	16	16
More than ten years	—	—
Total fixed maturities	\$35	\$36

Our fixed maturities held by our insurance subsidiary include mortgage-backed securities and collateralized mortgage obligations, collectively ("MBS") representing 31% of the total fixed maturities as of both March 31, 2013 and December 31, 2012. 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. As of both March 31, 2013 and December 31, 2012, the aggregate losses from temporarily impaired investments were less than \$1 million. As of March 31, 2013, all of the temporarily impaired fixed maturity investments had maturities greater than 12 months. The following table sets forth a summary of temporarily impaired investments held by our insurance subsidiary (dollars in millions):

Description of Investments	As of March 31, 2013		As of December 31, 2012	
	Fair Value	Number of Investments	Fair Value	Number of Investments
U.S. Treasury and other direct U.S. Government obligations	\$2	2	\$1	1
Residential mortgage-backed securities	9	14	9	12
Other government obligations	—	1	—	1
Corporate bonds	2	5	1	3
Total fixed maturities	13		11	
Equity securities	—	1	1	8

Total temporarily impaired investments	\$13	\$12
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20

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Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## NOTE 12. DERIVATIVE INSTRUMENTS

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

Derivative Instruments Not Designated As Hedging Instruments	Balance Sheet Location	Fair Value as of	
		March 31, 2013	December 31, 2012
Asset Derivatives:			
Note Hedge	Other noncurrent assets	\$ 140	\$ 104
Liability Derivatives:			
Cash Conversion Option	Long-term debt	\$ 141	\$ 105
Contingent interest features of the Debentures and 3.25% Notes	Other noncurrent liabilities	\$ 0	\$ 0
		Amount of Gain or (Loss) Recognized In Income on Derivatives	
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 March 31,	
		2013	2012
Note Hedge	Non-cash convertible debt related expense	\$ 36	\$ 27
Cash Conversion Option	Non-cash convertible debt related expense	(36	) (27
Contingent interest features of the 3.25% Notes and Debentures	Non-cash convertible debt related expense	—	—
Effect on income of derivative instruments not designated as hedging instruments		\$—	\$—

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

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

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

**Energy Price Risk**

Following the expiration of certain long-term energy sales contracts, we may have exposure to market risk, and therefore revenue fluctuations, in energy markets. We have entered into contractual arrangements that will mitigate

our exposure to this volatility through a variety of hedging techniques, and will continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading. Consequently, we have entered into agreements with various financial institutions to hedge our exposure to market risk. As of March 31, 2013, the fair value of the energy derivatives of \$3 million, pre-tax, was recorded as a current liability and as a component of AOCI.

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

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



Table of Contents

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

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, the contractual arrangement with the purchaser of such operations.

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

**Lower Passaic River Matter.** In August 2004, the United States Environmental Protection Agency (“EPA”) notified Covanta Essex Company (“Essex”) that it was a potentially responsible party (“PRP”) for Superfund response actions in the Lower Passaic River Study Area, referred to as “LPRSA,” a 17 mile stretch of river in northern New Jersey. Essex is one of 71 PRPs named thus far that have joined the LPRSA PRP group, which is undertaking a Remedial Investigation/Feasibility Study (“Study”) of the LPRSA under EPA oversight. Essex’s share of the Study costs to date are not material to its financial position and results of operations; however, the Study costs are exclusive of any LPRSA remedial costs or natural resource damages that may ultimately be assessed against PRPs. In February 2009, Essex and over 300 other PRPs were named as third-party defendants in a suit brought by the State of New Jersey Department of Environmental Protection (“NJDEP”) in New Jersey Superior Court of Essex County (“Superior Court”) 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. Recently, NJDEP and third party defendants including Essex agreed to a settlement which is subject to public comment and approval by the Superior Court prior to becoming final and effective. The Company's share of the proposed settlement is not material to our financial position or results of operations. The Superior Court litigation remains stayed pending consideration of the proposed settlement. Considering the history of industrial and other discharges into the LPRSA from other sources, including named PRPs, Essex believes any releases to the LPRSA from its facility to be de minimis; however, it is not possible at this time to predict that outcome or to estimate Essex’s liability in the matter, including for LPRSA remedial costs and/or natural resource damages and/or contribution claims made by Occidental and/or other PRPs.

**California Matter.** On March 5, 2012, we received a letter from the Department of Toxic Substances Control of the State of California (the “Department”) notifying us that the Department and several District Attorneys’ offices in the State of California are investigating the operation of our biomass facilities in California. It is our understanding that the investigation is focused on issues relating to (i) the feedstock at our biomass facilities and the impact of that fuel on the quality and character of the ash residue generated at these facilities and (ii) our compliance with California’s environmental laws at our biomass facilities. We believe that our biomass operations in California are in compliance with existing environmental laws and regulations in all material respects. We are cooperating with the Department’s and District Attorneys’ investigation. We do not believe that the investigation or any matters arising there from will have a material adverse effect on our condensed consolidated financial position or results of operations.

North Carolina Transformer Site Matter. In a letter from the EPA dated December 19, 2012, our subsidiary, Covanta Dade Power Corp. (“Dade”) was named as a PRP, along with numerous other unidentified PRPs, relating to the cleanup of the Ward Transformer Superfund Site in Raleigh, North Carolina (“Ward Site”). Dade's alleged liability as a PRP stems from the 1994 servicing at the Ward Site of a transformer alleged to have contained PCB-contaminated oil. EPA is seeking reimbursement from PRPs for its oversight costs in connection with ongoing cleanup activities at the Ward Site. While our investigation in this matter is continuing, based on information obtained to date, we believe Dade's responsibility, if any, in connection with this matter to be de minimis; however, it is not possible at this time to estimate the range of possible loss relating to Dade's ultimate liability, if any, in this matter.

Table of Contents

## COVANTA HOLDING CORPORATION AND SUBSIDIARIES

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

## Other Matters

Other commitments as of March 31, 2013 were as follows (in millions):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	\$257	\$6	\$251
Surety bonds	185	—	185
Total other commitments — net	\$442	\$6	\$436

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

We believe that we will be able to fully perform under our contracts to which these existing letters of credit relate, and that it is unlikely that letters of credit would be drawn because of a default of our performance obligations. If any of these letters of credit were to be drawn by the beneficiary, the amount drawn would be immediately repayable by us to the issuing bank. If we do not immediately repay such amounts drawn under these letters of credit, unreimbursed amounts would be treated under the Credit Facilities as either additional term loans 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 (\$172 million) and support for closure obligations of various energy projects when such projects cease operating (\$13 million). Were these bonds to be drawn upon, we would have a contractual obligation to indemnify the surety company.

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

- holders may require us to repurchase their 7.25% Notes, 6.375% Notes and their 3.25% Notes if a fundamental change occurs; and

- holders may exercise their conversion rights upon the occurrence of certain events, which would require us to pay the conversion settlement amount in cash.

For specific criteria related to contingent interest, conversion or redemption features of the 7.25% Notes, the 6.375% Notes and the 3.25% Notes, refer to Note 11. Consolidated Debt 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 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.

We are planning significant operational improvements, at a cost estimated to be between approximately \$75 million to \$100 million, for the Essex EfW facility, including a state-of-the-art particulate emissions control system and a new recycling system for ferrous and non-ferrous metals. Construction is expected to commence in 2014 and be

completed by 2016. The facility's environmental performance is currently compliant with all environmental permits and will be further improved with the baghouse installation.

Table of Contents

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" refers to our subsidiary Covanta Energy Corporation and its subsidiaries. The following discussion addresses our financial condition as of March 31, 2013 and our results of operations for the three months ended March 31, 2013, compared with the same period last year. It should be read in conjunction with our Audited Consolidated Financial Statements and Notes thereto for the year ended December 31, 2012 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, 2012 ("Form 10-K"), to which the reader is directed for additional information.

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

OVERVIEW

Covanta is one of the world's largest owners and operators of infrastructure for the conversion of waste to energy (known as "energy-from-waste" or "EfW"), as well as other waste disposal and renewable energy production businesses. Energy-from-waste serves two key markets as both a sustainable waste management solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions.

Energy-from-waste is also 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. For a discussion of our facilities, the energy-from-waste process and the environmental benefits of energy-from-waste, see Item. 1. Business included in our Form 10-K.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 20 million tons of solid waste annually, representing approximately 5% of the solid waste generation in the United States. We operate and/or have ownership positions in 44 energy-from-waste facilities, which are primarily located in North America, and 14 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). In total, these assets produce approximately 10 million megawatt hours ("MWh") of baseload electricity annually, representing approximately 6% of the nation's non-hydroelectric renewable power. We also operate a waste management infrastructure that is complementary to our core EfW business.

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

We also have investments in subsidiaries engaged in insurance operations in California, primarily in property and casualty insurance, whose remaining business was transitioned into run-off in 2012, and collectively account for less than 1% of our consolidated revenue.

Capital Access/Capital Allocation

We plan to allocate capital to maximize stockholder value by: investing in our existing businesses to maintain and enhance assets; investing in high value core business development projects and strategic acquisitions when available; and returning surplus capital to our stockholders. During the first quarter of 2013, we

• increased our quarterly cash dividend by 10%, to \$0.66 per share on an annualized basis,

• increased the current share repurchase authorization to a total of \$150 million,

•

lowered the pricing on our \$297 million senior secured term loan B due 2019 by approximately 0.50% from the prior rate; an estimated annual interest savings of approximately \$1.5 million, based on the current LIBOR rate.

Strategy

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

Grow the value of our existing portfolio. We intend to maximize the long-term value of our existing portfolio by continuously improving safety, health and environmental performance, working in partnership with our client communities, continuing to operate at our historic production levels, maintaining our facilities in optimal condition, and managing our expenses. We also intend to effect organic growth through adding or extending waste and service contracts, seeking incremental revenue

Table of Contents

opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs and expanding our customer base and service offerings. Expand through development and/or acquisitions in selected attractive markets. We seek to grow our portfolio primarily through the development of new facilities and acquisitions where we believe that market and regulatory conditions will enable us to invest our capital at attractive risk-adjusted rates of return. We are currently focusing on development opportunities in the United States and Canada, which we consider to be our core markets. In addition, we believe that there are attractive opportunities in the United Kingdom, where national policies, such as a substantial tax on landfill use, are intended to achieve compliance with the European Union (“EU”) Landfill Directive. We believe that our approach to development opportunities is highly-disciplined, both with regard to our required rates of return and the manner in which potential new projects will be structured and financed. In general, prior to the commencement of construction of a new facility, we intend to enter into long-term contracts with municipal and/or commercial customers for a substantial portion of the disposal capacity and obtain non-recourse project financing for a substantial portion of the capital investment. We intend to finance new projects in a prudent manner, minimizing the impact on our balance sheet and credit profile at the parent company level where possible.

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

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

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

Factors Affecting Business Conditions and Financial Results

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

The largest component of our revenue is waste revenue, which has generally been subject to less price volatility than our revenue derived from the sale of energy and metals. Waste markets tend to be affected, both with respect to volume and price, by local and regional economic activity, as well as state and local waste management policies. Furthermore, global demand and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities have also been materially affected by economic activity in recent years. Metal markets tend to be affected by national and global economic activity.

At the same time, United States natural gas market prices influence electricity and steam pricing in regions where we operate, and thus affect our revenue for the portion of the energy we sell which is not under fixed-price contracts. Energy markets tend to be affected by regional and national economic activity and regulations. Natural gas prices declined in 2011 and the first half of 2012; but recently, prices have rebounded.

At certain of our biomass facilities, lower energy prices combined with higher fuel prices have caused us to economically dispatch operations where continued operations are not currently profitable. We will continue to

consider this practice until we experience increased energy revenue, or decreased fuel costs or both.

25

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Table of Contents

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.

The following are various published pricing indices relating to the U.S. economic drivers that are relevant to those aspects of our business where we have market exposure; however there is not an exact correlation between our results and changes in these metrics.

	As of March 31,		
	2013	2012	
Consumer Price Index <sup>(1)</sup>	1.5	% 2.7	%
PJM Pricing (Electricity) <sup>(2)</sup>	\$44.82	\$31.93	
Henry Hub Pricing (Natural Gas) <sup>(3)</sup>	\$3.49	\$2.46	
#1 HMS Pricing (Ferrous Metals) <sup>(4)</sup>	\$350	\$411	
Scrap Metals - Old Sheet & Old Cast <sup>(5)</sup>	\$0.74	\$0.74	

(1) Represents the year-over-year percent change in the Headline CPI number. The Consumer Price Index (CPI-U) data is provided by the U.S. Department of Labor Bureau of Labor Statistics.

(2) Average price per MWh for Q1 2013 and Q1 2012. Pricing for the PJM PSEG Zone is provided by the PJM ISO.

(3) Average price per MMBtu for Q1 2013 and Q1 2012. The Henry Hub Pricing data is provided by the Natural Gas Weekly Update, Energy Information Administration, Washington, DC. Nebraska Energy Office, Lincoln, NE.

(4) Average price per gross ton for Q1 2013 and Q1 2012. The #1 Heavy Melt Steel ("HMS") composite index (\$/gross ton) price is published by American Metal Market.

(5) Average price per pound for Q1 2013 and Q1 2012. Calculated using high and low prices for Old Sheet & Old Cast Scrap Metals (\$/lb) published by American Metal Market.

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 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, while the third quarter scheduled maintenance period is the least extensive. Given these factors, we normally experience our lowest operating income from our projects during our first half of each year.

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

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

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

-

seasonal or long-term changes in market prices for waste, energy, or ferrous and non-ferrous metals for projects where we sell into those markets;

•seasonal or geographic changes in the price and availability of wood waste as fuel for our biomass facilities;

•seasonal, geographic and other variations in the heat content of waste processed, and thereby the amount of waste that can be processed by an energy-from-waste facility;

•our ability to avoid unexpected increases in operating and maintenance costs and unscheduled or extended outages

•while ensuring that adequate facility maintenance is conducted so that historic levels of operating performance can be sustained;

Table of Contents

contract counterparties' ability to fulfill their obligations, including the ability of our various municipal customers to supply waste in contractually committed amounts, and the availability of alternate or additional sources of waste if excess processing capacity exists at our facilities; and the availability and adequacy of insurance to cover losses from business interruption in the event of casualty or other insured events.

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

**Business Segment**

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

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

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

**Contract Structures**

We currently operate energy-from-waste projects in 16 states and one Canadian province, and are constructing an energy-from-waste project in a second Canadian province. Most of our energy-from-waste projects were developed and structured contractually as part of competitive procurement processes conducted by municipal entities. As a result, many of these projects have common features. However, each service agreement is different reflecting the specific needs and concerns of a client community, applicable regulatory requirements and other factors. The following summarizes the typical contractual and economic characteristics of the three project structures in the Americas segment:

	Tip Fee	Service Fee (Owned)	Service Fee (Operated)
Number of facilities:	16	9	15
Client(s):	Host community and municipal and commercial waste customers	Host community, with limited merchant capacity in some cases	Dedicated to host community exclusively
Waste or service revenue:	Per ton "tipping fee"	Fixed fee, with performance incentives and inflation escalation	Fixed fee, with performance incentives and inflation escalation
Energy revenue:	Covanta retains 100%	Share with client (typically retain 10%)	Share with client (typically retain 10%)
Metals revenue:	Covanta retains 100%	Share with client	Share with client
Operating costs:	Covanta responsible for all operating costs	Pass through certain costs to municipal client	Pass through certain costs to municipal client

		(e.g. ash disposal)	(e.g. ash disposal)
Project debt service:	Covanta project subsidiary responsible	Paid explicitly as part of service fee	Client responsible for debt service
After service contract expiration:	N/A	Covanta owns the facility; clients have certain rights set forth in contracts	Client owns the facility; extend with Covanta or tender for new contract

The following describes features generally common to these agreements, as well as important distinctions among them:

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

Our projects were generally financed at construction with project debt in the form of tax-exempt municipal bonds issued by a sponsoring municipality, which generally mature at the same time the initial term of our service contract expires and are

Table of Contents

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

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

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

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

At facilities we own or lease, we also either own or lease the related real estate. Where we have a leasehold interest, we generally have renewal rights which extend beyond our service contracts with client communities. Rent prior to the expiration of service contracts is generally nominal; during site lease renewal periods rent may be either factored into service renewal terms, or set based on market conditions. If we are unable to negotiate leasehold extensions beyond all existing renewal terms, we generally have rights to remove and retain the facility components.

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

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

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

## Table of Contents

### Contracted and Merchant Capacity

Our waste service and 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 and/or the related real estate, 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. As our waste service agreements at facilities we own or lease expire, we intend to seek replacement or additional contracts, and because project debt on these facilities will be paid off at such time, we expect to be able to offer rates that will attract sufficient quantities of waste while providing acceptable revenues to us. At facilities we own, the expiration of existing energy contracts will require us to sell our output either into the local electricity grid at prevailing rates or pursuant to new contracts.

To date, we have been successful in extending a majority of our existing contracts to operate energy-from-waste facilities owned by municipal clients where market conditions and other factors make it attractive for both us and our municipal clients to do so. See the Business Development and Organic Growth 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 in the next several years.

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

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

### BUSINESS DEVELOPMENT AND ORGANIC GROWTH

We intend to grow our business through expanding the capabilities of our existing business, and adding new projects through development and/or acquisition, all with the goal of maximizing long-term stockholder return. Our growth opportunities include:

- organic growth;
- new energy-from-waste and other renewable energy projects;
- existing project expansions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing, recovery and disposal businesses.

We also intend to maintain a focus on research and development of technologies that we believe will enhance our competitive position, and offer new technical solutions to waste and energy problems that augment and complement our business.

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

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

We have a project development pipeline and continue to pursue several billion dollars in energy-from-waste opportunities. There is substantial time and uncertainty involved in the bidding and permitting process for each project opportunity; if and when, development efforts are successful, we plan to invest in these projects to achieve an attractive return leveraged with project debt which we intend to utilize for all of our development projects. As of March 31, 2013, we had \$51 million of capitalized costs related to such development efforts primarily in Europe.

Among the various projects in our development pipeline is a project located at Ince Park, Cheshire, England (“Ince Project”). The Merseyside Recycling and Waste Authority (the “MRWA”) is expected to announce its selection of preferred bidder for its waste contract procurement in the near term. In the event we are



Table of Contents

selected as preferred bidder, a contract with the MRWA would be an important milestone in obtaining financing for the Ince Project. In the event that we are not selected as preferred bidder by the MRWA, we will evaluate the reasons for the non-selection and the impact this might have on the recoverability of our European capitalized costs as it would then be probable that a significant portion may have to be impaired.

Additional details related to business development are described in Item 1. Financial Statements - Note 3. Business Development and Organic Growth in this document and in Item 8. Financial Statements And Supplementary Data — Note 3. Business Development and Acquisitions in our Form 10-K.

**RESULTS OF OPERATIONS**

The following general discussions should be read in conjunction with 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.

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 — Business Development and Organic Growth and in Item 8. Financial Statements And Supplementary Data — Note 3. Business Development and Acquisitions in our Form 10-K, our business development initiatives resulted in various additional projects which increase comparative revenues and expenses. These factors must be taken into account in developing meaningful comparisons between the periods compared below.

**RESULTS OF OPERATIONS — OPERATING INCOME**

Three Months Ended March 31, 2013 vs. Three Months Ended March 31, 2012

	Consolidated		Americas		Variance Increase (Decrease)	
	2013	2012	2013	2012	Consolidated	Americas
	(In millions)					
<b>OPERATING REVENUES:</b>						
Waste and service revenues	\$231	\$238	\$229	\$237	\$(7)	\$(8)
Recycled metals revenues	16	20	16	20	(4)	(4)
Electricity and steam sales	102	91	95	84	11	11
Other operating revenues	24	43	23	40	(19)	(17)
Total operating revenues	373	392	363	381	(19)	(18)
<b>OPERATING EXPENSES:</b>						
Plant operating expenses	281	267	272	260	14	12
Other operating expenses	17	39	16	37	(22)	(21)
General and administrative expenses	24	25	20	19	(1)	1
Depreciation and amortization expense	53	50	52	49	3	3
Net interest expense on project debt	3	8	3	7	(5)	(4)
Total operating expenses	378	389	363	372	(11)	(9)
Operating (loss) income	\$(5)	\$3	\$—	\$9	\$(8)	\$(9)

Table of Contents

## Operating Revenues

## Waste and Service Revenues

Waste and service revenues decreased by \$7 million. This decrease resulted from \$8 million in lower Americas segment revenue, which was driven by several factors, including \$3 million in lower revenue earned explicitly to service project debt principal and interest, lower waste volume associated with downtime from unscheduled and extended 2013 maintenance outages, lower tip fee pricing and waste contract transitions, partially offset by higher special waste revenue, new units coming online, and service fee contract escalations. Consolidated waste and service revenues included \$1 million of higher revenue from our international projects.

Consolidated (In millions):	For the Three Months Ended		
	March 31,		
	2013	2012	Variance
Waste and service revenue unrelated to project debt	\$222	\$226	\$(4 )
Revenue earned explicitly to service project debt - principal	8	10	(2 )
Revenue earned explicitly to service project debt - interest	1	2	(1 )
Total waste and service revenue	\$231	\$238	(7 )

## Recycled Metal Revenues

Recycled metal revenues decreased primarily due to the negative effect of lower market pricing of \$3 million and lower recovered metal volumes due to lower waste volumes associated with downtime from unscheduled and extended 2013 maintenance outages. Recovered metal volume was also lower due to our efforts to produce a cleaner product. This volume reduction was more than offset by higher pricing for the cleaner product.

Recycled Metal Revenues (In millions)	For the Quarters Ended		
	2013	2012	2011
March 31,	\$16	\$20	\$17
June 30,	—	18	18
September 30,	—	17	20
December 31,	—	17	19
Total for the Year Ended December 31,	N/A	\$72	\$74

	Last Twelve Months as of March 31,		Net Tons Recovered by Type	
	Recycled Metal Revenue by Type		(In thousands) <sup>(1)</sup>	
	(In millions)		2013	2012
Ferrous Metal	\$55	\$63	300.0	319.3
Non-Ferrous Metal	13	14	14.8	14.5
Total	\$68	\$77	314.8	333.8

(1) Covanta share only.

Table of Contents

## Electricity and Steam Sales

Electricity and steam sales from our Americas EfW facilities increased by \$8 million primarily due to service contract transitions that increased our share of the energy revenue at certain facilities and higher market prices, partially offset by lower production primarily associated with downtime from unscheduled and extended 2013 maintenance outages at our EfW facilities. Electricity sales at our biomass facilities increased by \$3 million due to both higher production and higher pricing.

Americas - Energy Revenue and Megawatt Hours ("MWh") at Market and Contracted by Facility Type  
(in millions, except MWhs and percentages)

Americas:	Three Months Ended March 31, 2013			2012			Variance	
	Revenue (1)	Volume <sup>(1)</sup> , (2)	% of Total Volume	Revenue (1)	Volume <sup>(1)</sup> , (2)	% of Total Volume	Revenue	Volume
EfW								
At Market	\$7	0.17	12 %	\$16	0.31	23 %		
Contracted & Hedged	74	1.05	74 %	57	0.85	63 %		
Total EfW	\$81	1.22	86 %	\$73	1.16	86 %	\$8	0.06
Biomass								
At Market	\$7	0.11	8 %	\$3	0.11	8 %		
Contracted	7	0.09	6 %	8	0.08	6 %		
Total Biomass	\$14	0.20	14 %	\$11	0.19	14 %	\$3	0.01
Total	\$95	1.42	100 %	\$84	1.35	100 %	\$11	0.07

(1) Covanta share only.

(2) Steam sales converted to MWh equivalent (0.2 MWh for both 2013 and 2012).

## Other Operating Revenues

The decrease of \$17 million in other operating revenues was primarily due to lower construction revenue in the Americas segment. Consolidated other operating revenues included lower revenues of \$2 million related to our insurance business, whose remaining business was transitioned to run-off during 2012.

## Operating Expenses

## Plant Operating Expenses

Plant operating expenses in our Americas segment increased by \$12 million primarily due to higher plant maintenance expenses of \$7 million, driven by unscheduled and extended 2013 maintenance outages and timing of scheduled maintenance outages. Other plant operating expenses increased by \$5 million due to normal cost escalations, higher hauling and disposal costs, increased costs from service contract transitions, and higher wood costs for our biomass facilities related to the increased production, partially offset by organic growth initiatives and lower operating lease expense due to the acquisition of the Delaware Valley EfW facility.

Americas (In millions):	For the Three Months Ended March 31,		
	2013	2012	Variance
Plant Operating Expenses:			
Plant maintenance <sup>(1)</sup>	\$88	\$81	\$7
All other	184	179	5
Plant operating expenses	\$272	\$260	12

(1) Plant maintenance costs include our internal maintenance team and non-facility employee costs for facility scheduled and unscheduled maintenance and repair expenses.

Consolidated plant operating expenses included \$2 million of higher plant operating expenses from our international projects.

Other Operating Expenses

Other operating expenses decreased primarily due to a gain of \$6 million related to the elimination of the defined benefit pension plan and lower construction expense. For additional information, see Item 1. Financial Statements - Note 8. Supplementary Information - Other Operating Expenses.

Table of Contents

## Operating Income (Loss)

For the Americas segment, operating income was approximately \$0 for the three months ended March 31, 2013, compared to operating income of \$9 million in the prior year comparative period. The decrease of \$9 million in operating income was primarily due to increased maintenance activity including timing, partially offset by a gain related to the elimination of the defined benefit pension plan obligation.

For the consolidated results of operations, operating loss was \$5 million for the three months ended March 31, 2013, compared to operating income of \$3 million in the prior year comparative period. The decrease of \$8 million in operating income was primarily due to the same drivers in the Americas segment.

## CONSOLIDATED RESULTS OF OPERATIONS — NON-OPERATING INCOME ITEMS

Three Months Ended March 31, 2013 and 2012

Other Expenses:

	For the Three Months Ended March 31,		Variance Increase (Decrease)
	2013	2012	2013 vs 2012
	(In millions)		
Other expenses:			
Interest expense	\$29	\$18	\$ 11
Non-cash convertible debt related expense	7	6	1
Loss on extinguishment of debt	1	2	(1 )
Other income, net	—	(3 )	3
Total other expenses	\$37	\$23	14

Total other expenses increased by \$14 million primarily due to higher interest expense of \$11 million related to the 6.375% Senior Notes, Tax-Exempt Bonds and Term Loan issued in 2012 and lower other income of \$3 million resulting from a foreign currency exchange gain related to intercompany loans recognized in 2012.

Income Tax Benefit:

	For the Three Months Ended March 31,		Variance Increase (Decrease)
	2013	2012	2013 vs 2012
	(In millions, except percentages)		
CONSOLIDATED RESULTS OF OPERATIONS:			
Income tax benefit	\$17	\$8	\$ 9
Effective income tax rate	(40.4 )%	(38.0 )%	2.4

The income tax benefit increased for the three month comparative period, which was reflective of the increase in the overall effective tax rate. We currently estimate our annual effective tax rate for the year ending December 31, 2013 to be approximately 45.6%. 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 40.4% and 38.0% for the three months ended March 31, 2013 and 2012, respectively. The increase in the effective tax rate was primarily a result of an increase in taxes on foreign operations and development activities, and an increase in state taxes related to the mix of earnings and losses from subsidiaries that are subject to state taxes on a separate entity basis. For additional information, see Item 1. Financial Statements - Note 7. Income Taxes.

Table of Contents

## Net Loss Attributable to Covanta Holding Corporation and Loss Per Share:

	For the Three Months Ended March 31,		Variance Increase (Decrease) 2013 vs 2012
	2013	2012	
(In millions, except per share amounts)			
<b>CONSOLIDATED RESULTS OF OPERATIONS:</b>			
Net Loss Attributable to Covanta Holding Corporation	\$ (25 )	\$ (12 )	\$ (13 )
Loss Per Share Attributable to Covanta Holding Corporation:			
Weighted Average Common Shares Outstanding:			
Basic	130	134	(4 )
Diluted	130	134	(4 )
Loss Per Share:			
Basic	\$ (0.19 )	\$ (0.09 )	(0.10 )
Diluted	\$ (0.19 )	\$ (0.09 )	(0.10 )
Cash Dividend Declared Per Share <sup>(1)</sup>	\$0.165	\$0.15	0.015
Adjusted EPS — Non-GAAP <sup>(2)</sup>	\$ (0.21 )	\$ (0.09 )	(0.12 )

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

(2) See Supplementary Financial Information — Adjusted EPS (Non-GAAP Discussion) below.

## 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 financial 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 financial measures used by other companies, limiting their usefulness for comparison purposes. We use the non-GAAP financial 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.

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 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 the results of operations of our insurance subsidiaries, write-offs of assets and liabilities, the effect of derivative instruments not designated as hedging instruments, significant gains or losses from the disposition or restructuring 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. In order to provide a meaningful basis for comparison, we are providing information with respect to our Adjusted EPS for the three months ended March 31, 2013 and 2012, respectively, reconciled for each such period to diluted loss per share, which is believed to be the most directly comparable measure under GAAP (in millions, except per share amounts):

	Three Months Ended	
	March 31,	
	2013	2012
Diluted Loss Per Share	\$ (0.19)	\$ (0.09)
Reconciling Items <sup>(1)</sup>	(0.02)	—
Adjusted EPS	\$ (0.21)	\$ (0.09)

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

Table of Contents

	Three Months Ended March 31,		
	2013	2012	
Reconciling Items			
Operating loss related to insurance subsidiaries	\$—	\$1	
Defined benefit pension plan settlement gain <sup>(1)</sup>	(6	) —	
Loss on extinguishment of debt	1	2	
Effect of foreign exchange gain on indebtedness	—	(3	)
Other	1	—	
Total reconciling items, pre-tax	(4	) —	
Pro forma income tax impact	2	—	
Total reconciling items, net of tax	\$(2	) \$—	
Diluted Loss Per Share Impact	\$(0.02	) \$—	
Weighted Average Diluted Shares Outstanding	130	134	

(1)For additional information, see Item 1. Financial Statements - Note 9. Benefit Obligations.

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 financial 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 financial 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, 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 defined and 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, less the results of operations of our insurance subsidiaries. Under the 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 March 31, 2013. Failure to comply with such financial covenants could result in a default under the Credit Facilities, which default would have a material adverse affect on our financial condition and liquidity.

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 months ended March 31, 2013 and 2012, respectively, reconciled for each such period to net



income (loss) and cash flow provided by operating activities, which are believed to be the most directly comparable measures under GAAP.

Table of Contents

The following is a reconciliation of Net Loss to Adjusted EBITDA (in millions):

	Three Months Ended March 31,	
	2013	2012
Net Loss Attributable to Covanta Holding Corporation	\$(25	) \$(12
Operating loss related to insurance subsidiaries	—	1
Depreciation and amortization expense	53	50
Debt service:		
Net interest expense on project debt	3	8
Interest expense	29	18
Non-cash convertible debt related expense	7	6
Subtotal debt service	39	32
Income tax benefit	(17	) (8
Defined benefit pension plan settlement gain <sup>(1)</sup>	(6	) —
Loss on extinguishment of debt	1	2
Net (loss) income attributable to noncontrolling interests in subsidiaries	(1	) 1
Other adjustments:		
Debt service billing in excess of revenue recognized	7	6
Non-cash compensation expense	5	5
Other non-cash item <sup>(2)</sup>	2	(3
Subtotal other adjustments	14	8
Total adjustments	83	86
Adjusted EBITDA	\$58	\$74

(1) See Adjusted EPS above.

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

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

	Three Months Ended March 31,	
	2013	2012
Cash flow provided by operating activities	\$62	\$104
Cash flow provided by operating activities from insurance subsidiaries	1	1
Debt service	39	32
Change in working capital	(33	) (63
Change in restricted funds held in trust	(9	) (2
Non-cash convertible debt related expense	(7	) (6
Equity in net income from unconsolidated investments	(1	) 1

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Dividends from unconsolidated investments	(1	)	—
Current tax provision	(5	)	(1 )
Other	12		8
Sub-total:	(44	)	(63 )
Adjusted EBITDA	\$58		\$74

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.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

Our principal sources of liquidity are our cash and cash equivalents, as well as the substantial cash flow from our ongoing business, which we believe will allow us to meet our liquidity needs, and the available capacity under of our Revolving Credit Facility, as discussed in Available Sources of Liquidity below. As of March 31, 2013, our available liquidity was as follows (in millions).

	As of March 31, 2013
Cash	\$211
Borrowings available under Revolving Credit Facility	536
Total available liquidity	\$747

In addition, as of March 31, 2013, we had restricted cash of \$208 million, of which \$74 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 our existing businesses, make debt service payments, grow our business through organic growth, acquisitions and business development, and return surplus capital to our stockholders. 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.

**2013 Share Repurchases and Dividends**

We plan to allocate capital to maximize stockholder value by returning surplus capital to our stockholders through dividends and share repurchases.

Under our share repurchase program, common stock repurchases may be made in the open market, in privately negotiated transactions from time to time, or by other available methods. 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, and whether any restrictions then exist under our policies relating to trading in compliance with securities laws. During the three months ended March 31, 2013, we increased the current share repurchase authorization to a total of \$150 million. During the three months ended March 31, 2013, we repurchased 1.2 million shares of our common stock at a weighted average cost of \$19.27 per share for approximately \$24 million. As of March 31, 2013, the amount remaining under our currently authorized share repurchase program was \$126 million.

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

	Three Months Ended March 31,	
	2013	2012
Regular cash dividend		
Declared	\$22	\$21
Per Share	\$0.165	\$0.15

Due to potential tax law changes, we paid the fourth quarter 2012 dividend prior to year-end. The quarterly cash dividend declared for the first quarter 2013 was paid on April 5, 2013 to shareholders of record as of the close of business on March 28, 2013.



Table of Contents

## Sources and Uses of Cash Flow for the Three Months Ended March 31, 2013 and 2012:

	Three Months Ended March 31,		Increase (Decrease)
	2013	2012	2013 vs 2012
	(Unaudited, in millions)		
Net cash provided by operating activities	\$62	\$104	\$(42 )
Net cash used in investing activities	(87 )	(32 )	55
Net cash used in financing activities	(10 )	(37 )	(27 )
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net (decrease) increase in cash and cash equivalents	\$(35 )	\$35	(70 )

Net cash provided by operating activities for the three months ended March 31, 2013 was \$62 million, a decrease of \$42 million from the prior year period. The decrease was primarily due to the timing of construction working capital. Net cash used in investing activities for the three months ended March 31, 2013 was \$87 million, an increase of \$55 million from the prior year period. The increase was primarily comprised of higher outflows for the purchase of property, plant and equipment of \$31 million, the acquisition of the noncontrolling interest for the Huntington EfW facility for \$14 million and the purchase of marketable securities of \$11 million.

Net cash used in financing activities for the three months ended March 31, 2013 was \$10 million, a net change of \$27 million from the prior period. The net change was primarily driven by the issuance of the 6.375% Senior Notes and refinanced Term Loan with net proceeds of \$55 million in the first quarter of 2012. Net cash used in financing activities also decreased due to lower principal payments on project debt and lower cash dividends paid to stockholders. Due to potential tax law changes, we paid the fourth quarter 2012 dividend prior to year-end rather than our usual payment pattern of payment during the following quarter (i.e. the first quarter of 2013).

**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 its 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 financial 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, excluding the cash flow provided by or used in our insurance subsidiaries, less maintenance capital expenditures, which are capital expenditures primarily to maintain our existing facilities. We use Free Cash Flow as a measure of liquidity to determine amounts we can reinvest in our core businesses, such as amounts available to make acquisitions, invest in construction of new projects, make principal payments on debt, or return capital to our stockholders through dividends and/or stock repurchases. 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 months ended March 31, 2013 and 2012, reconciled for each such period to cash flow provided by operating activities, which we believe to be the most directly comparable measure under GAAP.

Table of Contents

The following is a reconciliation of Free Cash Flow and its primary uses (in millions):

	Three Months Ended March 31,	
	2013	2012
Cash flow provided by operating activities	\$62	\$104
Plus: Cash flow used in operating activities from insurance activities	1	1
Less: Maintenance capital expenditures <sup>(1)</sup>	(38	) (28
Free Cash Flow	\$25	\$77
Weighted Average Diluted Shares Outstanding	130	134
Uses of Free Cash Flow		
Investments:		
Acquisition of noncontrolling interests in subsidiaries	\$(14	) \$—
Non-maintenance capital expenditures <sup>(2)</sup>	(25	) (4
Acquisition of land use rights <sup>(2)</sup>	—	(1
Other growth investments <sup>(2)</sup>	—	1
Other investing activities, net <sup>(3)</sup>	(10	) —
Total investments	\$(49	) \$(4
Return of capital to stockholders:		
Cash dividends paid to stockholders	\$—	\$(10
Common stock repurchased	(24	) (30
Total return of capital to stockholders	\$(24	) \$(40
Capital raising activities:		
Net proceeds from issuance of corporate debt <sup>(4)</sup>	\$—	\$676
Other financing activities, net	(13	) (1
Net proceeds from capital raising activities	\$(13	) \$675
Debt repayments:		
Net cash used for scheduled principal payments on corporate debt	\$(1	) \$(23
Net cash used for scheduled principal payments on project debt <sup>(5)</sup>	(19	) (25
Optional repayment of corporate debt <sup>(6)</sup>	—	(621
Total debt repayments	\$(20	) \$(669
Borrowing activities - Revolving credit facility, net	\$47	\$—
Short-term borrowing activities - Financing of insurance premiums, net	\$—	\$(3
Net change in cash and cash equivalents	\$(34	) \$36

Purchases of property, plant and equipment are also referred to as capital expenditures. Capital expenditures that (1) primarily maintain existing facilities are classified as maintenance capital expenditures. The following table provides the components of total purchases of property, plant and equipment:

Three Months Ended March 31,	
2013	2012

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Maintenance capital expenditures	\$(38	)	\$(28	)
Capital expenditures associated with organic growth initiatives and technology development	(25	)	(4	)
Total purchases of property, plant and equipment	\$(63	)	\$(32	)

Investments in growth opportunities are primarily comprised of purchases of property, plant and equipment for (2) organic growth initiatives, technology, business development, and other similar expenditures, excluding acquisitions of businesses.



Table of Contents

(3) Other investing activities is primarily comprised of net payments from the purchase/sale of investment securities and business development expenses.

(4) Excludes borrowings under Revolving Credit Facility. Calculated as follows:

	Three Months Ended March 31,	
	2013	2012
Proceeds from borrowings on long-term debt	\$—	\$699
Less: Financing costs related to issuance of long-term debt	—	(23)
Net proceeds from issuance of corporate debt	\$—	\$676

(5) Calculated as follows:

	Three Months Ended March 31,	
	2013	2012
Total scheduled principal payments on project debt	\$(16)	\$(37)
(Increase) decrease in related restricted funds held in trust	(3)	12
Net cash used for principal payments on project debt	\$(19)	\$(25)

(6) Calculated as follows:

	Three Months Ended March 31,	
	2013	2012
Redemption of Term Loan due 2014	\$—	\$(619)
Redemption of Convertible Debentures	—	(2)
Total optional repayment of corporate debt	\$—	\$(621)

#### Available Sources of Liquidity

##### 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 March 31, 2013, we had unrestricted cash and cash equivalents of \$211 million. Balances held by our international and insurance subsidiaries are not generally available for near-term liquidity in our domestic operations.

A substantial majority of our cash held outside the United States is denominated in US dollars.

	As of March 31, 2013 (in millions)	December 31, 2012
Domestic	\$11	\$12
International	193	215
Insurance Subsidiary	7	19
Total Cash and Cash Equivalents	\$211	\$246

##### Credit Facilities

Available Credit Facilities issued by our subsidiary, Covanta Energy are as follows (in millions):

	Credit Facilities Available As of March 31, 2013
Term loan	\$300
Revolving credit facility	\$900
Total capacity to issue letters of credit	\$900



Table of Contents

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

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

Availability under Revolving Credit Facility

As of March 31, 2013, we had availability under the Revolving Credit Facility as follows (in millions):

	Total Available Under Facility	Maturing	Outstanding Borrowings as of March 31, 2013	Outstanding Letters of Credit as of March 31, 2013	Available as of March 31, 2013
Revolving Credit Facility	\$900	2017	\$107	\$257	\$536

During the three months ended March 31, 2013, we utilized \$98 million of the Revolving Credit Facility, of which we subsequently repaid \$51 million prior to the end of the period. The proceeds under the Revolving Credit Facility are available for working capital and general corporate purposes of Covanta Energy and its subsidiaries.

Repayment Terms

As of March 31, 2013, the Term Loan has mandatory amortization payments remaining as follows (in millions):

	2013	2014	2015	2016	2017	2018	2019	Total
Annual Remaining Amortization	\$2	\$3	\$3	\$3	\$3	\$3	\$280	\$297

The Credit Facilities (both the Term Loan and Revolving Credit Facility) are pre-payable at our option at any time. Under certain circumstances, the Credit Facilities obligate us to apply 25% of our excess Cash Flow (as defined in the Credit Agreement) for each fiscal year, commencing in 2013, as well as net cash proceeds from specified other sources, such as asset sales or insurance proceeds, under certain circumstances to prepay the Term Loan, provided that this excess Cash Flow percentage shall be reduced to 0% in the event the Leverage Ratio (as defined below under Credit Agreement Financial Covenants) is at or below 3.00:1.00.

For a detailed description of the terms of the Credit Facilities, see Item. 8. Financial Data and Supplementary Data - Note 11. Consolidated Debt included in our Form 10-K.

Interest and Fees

Borrowings under the Credit Facilities bear interest, at our option, at either a base rate or a Eurodollar rate plus an applicable margin determined by pricing grids, which are based on Covanta Energy’s leverage ratio. Base rate is defined as the higher of (i) the Federal Funds Effective Rate plus 0.50%, (ii) the rate the administrative agent announces from time to time as its per annum “prime rate” or (iii) the one-month LIBOR rate plus 1.00%. Eurodollar rate borrowings bear interest at the British Bankers’ Association LIBOR Rate, commonly referred to as “LIBOR”, for the interest period selected by us. Base rate borrowings under the Revolving Credit Facility shall bear interest at the base rate plus an applicable margin ranging from 1.25% to 1.75%. Eurodollar borrowings under the Revolving Credit Facility shall bear interest at LIBOR plus an applicable margin ranging from 2.00% to 2.75%. Fees for issuances of letters of credit include fronting fees equal to 0.125% per annum and a participation fee for the lenders equal to the applicable interest margin for LIBOR rate borrowings. We will incur an unused commitment fee ranging from 0.375% to 0.50% on the unused amount of commitments under the Revolving Credit Facility. The Term Loan bears interest, at our option, at either (i) the base rate plus an applicable margin ranging from 1.75% to 2.00%, or (ii) LIBOR plus an applicable margin ranging from 2.75% to 3.00%, subject to a LIBOR floor of 1.00%. Effective March 29, 2013, we

modified the Term Loan and it now bears interest at LIBOR plus 2.75% with a 0.75% LIBOR floor.

**Guarantees and Securitization**

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

Table of Contents

## Credit Agreement Financial Covenants

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants as discussed in Item 1. Financial Statements — Note 6. Consolidated Debt. As of March 31, 2013, we were in compliance with the covenants under the Credit Facilities.

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

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

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

For additional information on the calculation of Adjusted EBITDA, see Results of Operations — Supplementary Financial Information — Adjusted EBITDA (Non-GAAP Discussion) above.

## Consolidated Debt

Consolidated debt is as follows (in millions):

	As of March 31, 2013		As of December 31, 2012	
	Face Value	Book Value	Face Value	Book Value
<b>Corporate Debt:</b>				
Revolving Credit Facility	\$ 107	\$ 107	\$ 60	\$ 60
Term Loan due 2019	297	296	298	297
7.25% Senior Notes due 2020	400	400	400	400
6.375% Senior Notes due 2022	400	400	400	400
3.25% Cash Convertible Senior Notes due 2014	460	566	460	523
4.00% - 5.25% Tax-Exempt Bonds due 2024 - 2042	335	335	335	335
Total corporate debt (including current portion)	\$ 1,999	\$ 2,104	\$ 1,953	\$ 2,015
<b>Project Debt:</b>				
Domestic project debt - service fee facilities	\$ 207	\$ 209	\$ 223	\$ 226
Domestic project debt - tip fee facilities	69	69	68	68
International project debt	23	23	23	23
Total project debt (including current portion)	\$ 299	\$ 301	\$ 314	\$ 317
<b>Total Debt Outstanding</b>	<b>\$ 2,298</b>	<b>\$ 2,405</b>	<b>\$ 2,267</b>	<b>\$ 2,332</b>

As of March 31, 2013, the maturities of debt, excluding premiums are as follows (in millions):

	2013	2014	2015	2016	2017	Thereafter	Total
Revolving Credit Facility	\$—	\$—	\$—	\$—	\$ 107	\$—	\$ 107
Term Loan	2	3	3	3	3	283	297
Senior Notes	—	460	—	—	—	800	1,260
Tax-Exempt Bonds	—	—	—	—	—	335	335
Project Debt	64	57	40	17	19	102	299
<b>Total</b>	<b>\$ 66</b>	<b>\$ 520</b>	<b>\$ 43</b>	<b>\$ 20</b>	<b>\$ 129</b>	<b>\$ 1,520</b>	<b>\$ 2,298</b>



Table of Contents

Long-Term Debt

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

For specific criteria related to redemption features of the 7.25% Notes, see Item. 8. Financial Data and Supplementary Data - Note 11. Consolidated Debt in our Form 10-K.

6.375% Senior Notes due 2022 (the “6.375% Notes”)

For specific criteria related to redemption features of the 6.375% Notes, see Item. 8. Financial Data and Supplementary Data - Note 11. Consolidated Debt in our Form 10-K.

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

Under limited circumstances and subject to certain customary adjustments as provided in the indenture for the 3.25% Notes, the 3.25% Notes are convertible by the holders thereof into cash only (the “Cash Conversion Option”), based on a conversion rate, effective December 14, 2012, of 62.5216 shares of our common stock per \$1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately \$15.99 per share). We will not deliver common stock (or any other securities) upon conversion under any circumstances. In connection with the issuance of the 3.25% Notes, we also sold warrants (the “Warrants”), correlating to the number of shares underlying the 3.25% Notes, which currently have a strike price of \$22.20 and settle on a net share basis. As the 3.25% Notes convert only into cash, the strike price of the Warrants effectively represents the conversion price above which we may issue shares in connection with these two issuances. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Form 10-K.

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, see Item. 8. Financial Data and Supplementary Data - Note 11. Consolidated Debt 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 Item 1. Financial Statements — Note 12. Derivative Instruments.

4.00% - 5.25% Tax-Exempt Bonds due from 2024 to 2042 (“Tax Exempt Bonds”)

For a detailed description of the terms of the Tax-Exempt bonds, see Item 8. Financial Statements And Supplementary Data — Note 11. Consolidated Debt in our Form 10-K.

Project Debt - Americas Project Debt

Financing for the construction of 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. As of December 31, 2012, certain of our intermediate subsidiaries have recourse liability for project debt of \$44 million at our Southeast Connecticut facility, which is non-recourse to us.

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 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, United States government agency securities, and high-quality municipal bonds. Restricted fund balances are as follows (in millions):

43

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Table of Contents

	As of		December 31, 2012	
	March 31, 2013			
	Current	Noncurrent	Current	Noncurrent
Debt service funds - principal	\$38	\$36	\$33	\$39
Debt service funds - interest	6	—	6	—
Total debt service funds	44	36	39	39
Revenue funds	6	—	9	—
Other funds	3	119	5	122
Total	\$53	\$155	\$53	\$161

Of the \$208 million in total restricted funds as of March 31, 2013, approximately \$74 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, 2012. 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 March 31, 2013 were as follows (in millions):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	\$257	\$6	\$251
Surety bonds	185	—	185
Total other commitments — net	\$442	\$6	\$436

The letters of credit were issued under the Revolving Credit Facility to secure our performance under various contractual undertakings related to our domestic and international projects, or to secure obligations under our insurance program. Each letter of credit relating to a project is required to be maintained in effect for the period specified in related project contracts, and generally may be drawn if it is not renewed prior to expiration of that period. We believe that we will be able to fully perform under our contracts to which these existing letters of credit relate, and that it is unlikely that letters of credit would be drawn because of a default of our performance obligations. If any of these letters of credit were to be drawn by the beneficiary, the amount drawn would be immediately repayable by us to the issuing bank. If we do not immediately repay such amounts drawn under these letters of credit, unreimbursed amounts would be treated under the Credit Facilities as either additional term loans 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 (\$172 million) and support for closure obligations of various energy projects when such projects cease operating (\$13 million). Were these bonds to be drawn upon, we would have a contractual obligation to indemnify the surety company.

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

- holders may require us to repurchase their 7.25% Notes, 6.375% Notes and their 3.25% Notes if a fundamental change occurs; and

- holders may exercise their conversion rights upon the occurrence of certain events, which would require us to pay the conversion settlement amount in cash.

For specific criteria related to redemption features of the 6.375% Notes, see Liquidity and Capital Resources above.

For specific criteria related to contingent interest, conversion or redemption features of the 7.25% Notes or 3.25% Notes, see Item 8. Financial Statements And Supplementary Data — Note 11. Consolidated Debt in our Form 10-K.

As discussed in the Overview discussion above, we are focused on developing new projects and making acquisitions to grow our business in the United Kingdom, Ireland, Canada and the United States. We are pursuing additional growth opportunities through the development and construction of new waste and energy facilities. Due to permitting and other regulatory factors, these projects generally evolve over lengthy periods and project financing is generally obtained at the time construction begins, at which time, we can more accurately determine our commitment for a development project.

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

Table of Contents

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 performance guarantees.

**Essex Energy-from-Waste Facility**

We are planning significant capital improvements, at a cost estimated to be between approximately \$75 to \$100 million, at the Essex EfW facility, including a state-of-the-art particulate emissions control system and a new recycling system for ferrous and non-ferrous metals. Construction on the baghouse is expected to commence in 2014 and be completed by 2016. The facility's environmental performance is currently compliant with all environmental permits and will be further improved with the baghouse installation.

**Income Tax Implications on Liquidity**

We had consolidated federal NOLs estimated to be approximately \$392 million for federal income tax purposes as of December 31, 2012, based on the income tax returns filed. Our federal and state NOLs act to reduce the cash taxes we pay and thus enhance our liquidity. We expect that our federal NOLs will be fully utilized sometime mid-decade and thereafter our cash tax liability for federal income tax will increase substantially as production tax credit carryforwards and minimum tax credits are utilized over the next several years after that. Our actual federal NOL utilization will be a function of numerous factors, including in particular our overall performance, the outcome of the current audit of our consolidated federal tax returns by the IRS, federal tax law changes that may come into effect, and any tax planning measures we are able to put into effect. For additional information, see discussion under Item 1A. Risk Factors - We cannot be certain that our NOLs will continue to be available to offset our federal tax liability and Item 8. Financial Statements And Supplementary Data - Note 15. Income Taxes in our Form 10-K.

**Recent Accounting Pronouncements**

See Item 1. Financial Statements — Note 2. Recent Accounting Pronouncements 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 ("GAAP"), 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 three months ended March 31, 2013 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, 2012.

**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 three months ended March 31, 2013 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, 2012. For details related to fair value estimates for the Cash Conversion Option, Note Hedge and contingent interest as of March 31, 2013, refer to Item 1. Financial Statements — Note 11. Financial Instruments and Note 12. Derivative Instruments.

Table of Contents**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 March 31, 2013. 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 March 31, 2013 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 Item 1. Financial Statements — Note 13. Commitments and Contingencies.

**Item 1A. RISK FACTORS**

There have been no material changes during the three months ended March 31, 2013 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

We increased the current share repurchase authorization to \$150 million as of December 31, 2012. 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.

The following table provides information as of March 31, 2013 with respect to shares of common stock we repurchased during the first quarter of fiscal 2013:

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid Per Share <sup>(a)</sup>	Total Number of Shares Purchased	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under

			as Part of Publicly Announced Program	the Program
	(in millions, except per share amounts)			
January 1 - January 31	—	\$ —	—	\$ 150
February 1 - February 28	1.2	\$ 19.27	1.2	\$ 126
March 1 - March 31	—	\$ —	—	\$ 126
Total:	1.2	\$ 19.27	1.2	

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

Table of Contents

We announced our share repurchase program during the second quarter of 2010. Since then, we have periodically authorized additional repurchases under the program, and during the first quarter of 2013, we increased our remaining authorization to \$150 million and we repurchased 1.2 million shares of our common stock for \$24 million. The repurchases may employ a variety of methods including open market purchases, privately negotiated transactions, block trades or otherwise, or any combination of methods. The amount and timing of any repurchases will be determined based on an evaluation of a variety of factors at the time of any repurchases. The share buyback program does not obligate the us to acquire any specific number of shares in any period.

During the three months ended March 31, 2013, we repurchased 0.3 million shares of our common stock in connection with tax withholdings for vested stock awards.

## Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

## 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 Linkbase*
Exhibit 101.LAB:	XBRL Taxonomy Extension Labels Linkbase*
Exhibit 101.PRE:	XBRL Taxonomy Extension Presentation Linkbase*

\* XBRL information is furnished, not filed.

Table of Contents

**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

Senior Vice President and Chief Accounting  
Officer

Date: April 17, 2013