

COVANTA HOLDING CORP

Form 10-Q

July 26, 2011

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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 June 30, 2011**

**or**

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

**For the transition period from to**

**Commission file number 1-06732**

**COVANTA HOLDING CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**445 South Street, Morristown, NJ**

*(Address of Principal Executive Office)*

**95-6021257**

*(I.R.S. Employer  
Identification Number)*

**07960**

*(Zip Code)*

**(862) 345-5000**

**(Registrant's telephone number including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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   
(Do not check if a smaller reporting  
company)

Smaller reporting  
company

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

**Applicable Only to Corporate Issuers:**

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

<b>Class</b>	<b>Outstanding at July 14, 2011</b>
Common Stock, \$0.10 par value	142,906,190 shares

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**  
**FORM 10-Q QUARTERLY REPORT**  
**For the Quarter Ended June 30, 2011**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act ), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act ), the Private Securities Litigation Reform Act of 1995 (the PSLRA ) or in releases made by the Securities and Exchange Commission ( SEC ), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Covanta Holding Corporation and its subsidiaries ( Covanta ) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, will, would, could, should, seeks, 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 Covanta are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to Covanta include, but are not limited to, the risks and uncertainties affecting their businesses described in Item 1A. Risk Factors of Covanta s Annual Report on Form 10-K for the year ended December 31, 2010 and in other filings by Covanta with the SEC.

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

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****COVANTA HOLDING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>			
	<b>(In thousands, except per share amounts)</b>			
<b>OPERATING REVENUES:</b>				
Waste and service revenues	\$ 276,345	\$ 267,786	\$ 527,441	\$ 509,007
Electricity and steam sales	97,803	99,643	192,135	200,566
Other operating revenues	37,387	25,948	68,729	51,497
Total operating revenues	411,535	393,377	788,305	761,070
<b>OPERATING EXPENSES:</b>				
Plant operating expenses	247,740	233,526	518,988	497,162
Other operating expenses	31,083	25,148	58,416	48,676
General and administrative expenses	25,274	28,197	49,777	54,387
Depreciation and amortization expense	47,215	46,398	94,580	94,836
Net interest expense on project debt	7,862	9,812	15,825	20,094
Total operating expenses	359,174	343,081	737,586	715,155
Operating income	52,361	50,296	50,719	45,915
<b>Other income (expense):</b>				
Investment income	118	173	379	396
Interest expense	(16,811)	(10,693)	(33,572)	(21,279)
Non-cash convertible debt related expense	(6,425)	(11,734)	(11,585)	(19,981)
Other expenses, net	(2,778)		(3,134)	
Total other expenses	(25,896)	(22,254)	(47,912)	(40,864)
Income from continuing operations before income tax expense and equity in net income (loss) from unconsolidated investments	26,465	28,042	2,807	5,051
Income tax expense	(10,564)	(12,889)	(578)	(3,007)
Equity in net income (loss) from unconsolidated investments	1,850	1,099	1,973	(243)

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Income from continuing operations	17,751	16,252	4,202	1,801
Income from discontinued operations, net of income tax expense of \$913, \$1,919, \$3,106 and \$3,926, respectively	1,924	11,022	150,866	20,740
<b>NET INCOME</b>	<b>19,675</b>	<b>27,274</b>	<b>155,068</b>	<b>22,541</b>
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(809)	(773)	(901)	(2,335)
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries	(726)	(712)	(2,534)	(1,650)
Net income attributable to noncontrolling interests in subsidiaries	(1,535)	(1,485)	(3,435)	(3,985)
<b>NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION</b>	<b>\$ 18,140</b>	<b>\$ 25,789</b>	<b>\$ 151,633</b>	<b>\$ 18,556</b>
<b>Amounts Attributable to Covanta Holding Corporation stockholders :</b>				
Continuing operations	\$ 16,942	\$ 15,479	\$ 3,301	\$ (534)
Discontinued operations	1,198	10,310	148,332	19,090
Net Income Attributable to Covanta Holding Corporation	\$ 18,140	\$ 25,789	\$ 151,633	\$ 18,556
<b>Earnings Per Share Attributable to Covanta Holding Corporation stockholders :</b>				
Basic				
Continuing operations	\$ 0.12	\$ 0.10	\$ 0.02	\$ 0.00
Discontinued operations	0.01	0.07	1.02	0.12
Covanta Holding Corporation	\$ 0.13	\$ 0.17	\$ 1.04	\$ 0.12
Weighted Average Shares	143,970	154,377	145,415	154,139
Diluted				
Continuing operations	\$ 0.12	\$ 0.10	\$ 0.02	\$ 0.00
Discontinued operations	0.01	0.07	1.02	0.12
Covanta Holding Corporation	\$ 0.13	\$ 0.17	\$ 1.04	\$ 0.12
Weighted Average Shares	144,938	155,026	146,323	154,139
<b>Cash Dividend Declared Per Share:</b>	<b>\$ 0.075</b>	<b>\$ 1.50</b>	<b>\$ 0.15</b>	<b>\$ 1.50</b>

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



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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	As of	
	June 30, 2011 (Unaudited)	December 31, 2010
	(In thousands, except per share amounts)	
<b>ASSETS</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 235,061	\$ 126,439
Restricted funds held in trust	110,574	125,568
Receivables (less allowances of \$3,938 and \$3,192, respectively)	251,321	271,549
Unbilled service receivables	17,563	23,080
Deferred income taxes	35,401	27,459
Prepaid expenses and other current assets	117,850	110,071
Assets held for sale	81,277	190,957
<b>Total Current Assets</b>	<b>849,047</b>	<b>875,123</b>
Property, plant and equipment, net	2,460,837	2,478,019
Investments in fixed maturities at market (cost: \$26,761 and \$28,537, respectively)	27,534	29,022
Restricted funds held in trust	108,387	107,424
Unbilled service receivables	27,891	31,804
Waste, service and energy contracts, net	453,882	472,190
Other intangible assets, net	76,218	78,892
Goodwill	237,510	230,020
Investments in investees and joint ventures	43,105	45,742
Other assets	325,272	328,066
<b>Total Assets</b>	<b>\$ 4,609,683</b>	<b>\$ 4,676,302</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current:</b>		
Current portion of long-term debt	\$ 56,041	\$ 6,710
Current portion of project debt	98,634	141,515
Accounts payable	26,795	23,033
Deferred revenue	83,970	71,503
Accrued expenses and other current liabilities	205,525	186,395
Liabilities held for sale	18,947	34,266
<b>Total Current Liabilities</b>	<b>489,912</b>	<b>463,422</b>
Long-term debt	1,486,978	1,557,701
Project debt	635,351	661,788
Deferred income taxes	612,633	604,501
Waste and service contracts	82,429	88,632

Other liabilities	142,038	139,799
<b>Total Liabilities</b>	<b>3,449,341</b>	<b>3,515,843</b>
<b>Commitments and Contingencies (Note 13)</b>		
<b>Equity:</b>		
<b>Covanta Holding Corporation stockholders equity:</b>		
Preferred stock (\$0.10 par value; authorized 10,000 shares; none issued and outstanding)		
Common stock (\$0.10 par value; authorized 250,000 shares; issued 157,658 and 156,847 shares; outstanding 143,011 and 149,891 shares)	15,766	15,685
Additional paid-in capital	857,619	893,373
Accumulated other comprehensive income	13,507	5,233
Accumulated earnings	260,174	214,091
Treasury stock, at par	(1,465)	(696)
Total Covanta Holding Corporation stockholders equity	1,145,601	1,127,686
Noncontrolling interests in subsidiaries	14,741	32,773
<b>Total Equity</b>	<b>1,160,342</b>	<b>1,160,459</b>
<b>Total Liabilities and Equity</b>	<b>\$ 4,609,683</b>	<b>\$ 4,676,302</b>

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

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