COVANTA HOLDING CORP
Form 10-Q
July 19, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended June 30, 2012
or

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

For the transition period from to
Commission file number 1-06732
COVANTA HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

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

(862) 345-5000
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Applicable Only to Corporate Issuers:
The number of shares of the registrant's Common Stock outstanding as of the latest practicable date.

Class	Outstanding at July 12, 2012
Common Stock, $0.10 par value	132,945,825 shares

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended June 30, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q may constitute "forward-looking" statements as defined in Section 27A of the Securities Act of 1933 (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), the Private Securities Litigation Reform Act of 1995 (the "PSLRA") or in releases made by the Securities and Exchange Commission ("SEC"), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Covanta Holding Corporation and its subsidiaries ("Covanta") or general industry results or broader economic performance in domestic and international markets in which we operate or compete, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words "plan," "believe," "expect," "anticipate," "intend," "estimate," "project," "may," "will," "would," "could," "should," "seeks," or "sche 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 its businesses described in Item 1A. Risk Factors of Covanta's Annual Report on Form 10-K for the year ended December 31, 2011 and in other filings by Covanta with the SEC.

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

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited) (In millions, except per share amounts)			
OPERATING REVENUES:				
Waste and service revenues	$280	$276	$538	$527
Electricity and steam sales	91	98	182	192
Other operating revenues	39	37	82	69
Total operating revenues	410	411	802	788
OPERATING EXPENSES:				
Plant operating expenses	243	248	510	519
Other operating expenses	30	30	69	58
General and administrative expenses	25	25	50	50
Depreciation and amortization expense	49	47	99	94
Net interest expense on project debt	7	8	15	16
Total operating expenses	354	358	743	737
Operating income	56	53	59	51
Other income (expense):				
Interest expense	(24)	(17)	(42)	(34)
Non-cash convertible debt related expense	(7)	(6)	(13)	(11)
Loss on extinguishment of debt	—	—	(2)	—
Other (expense) income, net	—	(3)	3	(3)
Total other expenses	(31)	(26)	(54)	(48)
Income from continuing operations before income tax expense and equity in net income from unconsolidated investments	25	27	5	3
Income tax expense	(11)	(11)	(3)	(1)
Equity in net income from unconsolidated investments	5	2	6	2
Income from continuing operations	19	18	8	4
(Loss) income from discontinued operations, net of income tax expense of $1, $1, $1 and $3, respectively	(2)	2	(2)	151
NET INCOME	17	20	6	155
Less: Net loss (income) from continuing operations attributable to noncontrolling interests in subsidiaries	1	(1)	—	(1)
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries	—	(1)	—	(3)
Total net loss (income) attributable to noncontrolling interests in subsidiaries	1	(2)	—	(4)

NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$18	$18	$6	$151
Amounts Attributable to Covanta Holding Corporation stockholders':				
Continuing operations	$20	$17	$8	$3
Discontinued operations	(2)	1	(2)	148
Net Income Attributable to Covanta Holding Corporation	$18	$18	$6	$151

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)			
	(In millions, except per share amounts)			
Earnings Per Share Attributable to Covanta Holding Corporation stockholders’:				
Basic				
Continuing operations	$0.15	$0.12	$0.06	$0.02
Discontinued operations	(0.01)	0.01	(0.01)	1.02
Covanta Holding Corporation	$0.14	$0.13	$0.05	$1.04
Weighted Average Shares	133	144	133	145
Diluted				
Continuing operations	$0.15	$0.12	$0.06	$0.02
Discontinued operations	(0.01)	0.01	(0.01)	1.02
Covanta Holding Corporation	$0.14	$0.13	$0.05	$1.04
Weighted Average Shares	134	145	134	146
Cash Dividend Declared Per Share:	$0.15	$0.075	$0.30	$0.15

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited) (In millions)			
Net income	$17	$20	$6	$155
Foreign currency translation	(5)	—	(4)	8
Net unrealized gain on derivative instruments, net of tax	—	—	1	—
Other comprehensive (loss) income attributable to Covanta Holding Corporation	(5)	—	(3)	8
Comprehensive income	12	20	3	163
Less: Net loss (income) attributable to noncontrolling interests in subsidiaries	1	(2)	—	(4)
Comprehensive income attributable to Covanta Holding Corporation	$13	$18	$3	$159

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, 2012	December 31, 2011
	(Unaudited)	
	(In millions, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$220	$232
Restricted funds held in trust	101	101
Receivables (less allowances of $5 and $5, respectively)	231	260
Unbilled service receivables	16	20
Deferred income taxes	24	28
Prepaid expenses and other current assets	110	105
Assets held for sale	—	18
Total Current Assets	702	764
Property, plant and equipment, net	2,403	2,423
Investments in fixed maturities at market (cost: $30 and $31, respectively)	30	31
Restricted funds held in trust	90	90
Unbilled service receivables	21	25
Waste, service and energy contracts, net	415	434
Other intangible assets, net	76	78
Goodwill	232	232
Investments in investees and joint ventures	47	43
Other assets	329	265
Total Assets	$4,345	$4,385
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$3	$32
Current portion of project debt	140	147
Accounts payable	41	25
Deferred revenue	39	61
Accrued expenses and other current liabilities	213	211
Liabilities held for sale	—	3
Total Current Liabilities	436	479
Long-term debt	1,590	1,454
Project debt	500	533
Deferred income taxes	629	633
Waste and service contracts	70	76
Other liabilities	124	122
Total Liabilities	3,349	3,297
Commitments and Contingencies (Note 13)		
Equity:		
Covanta Holding Corporation stockholders equity:		
Preferred stock ($0.10 par value; authorized 10 shares; none issued and outstanding)	—	—
	16	16

Common stock ($0.10 par value; authorized 250 shares; issued 159 and 158 shares; outstanding 133 and 136 shares)		
Additional paid-in capital	808	824
Accumulated other comprehensive (loss) income	(3)	1
Accumulated earnings	173	244
Treasury stock, at par	(3)	(2)
Total Covanta Holding Corporation stockholders equity	991	1,083
Noncontrolling interests in subsidiaries	5	5
Total Equity	996	1,088
Total Liabilities and Equity	$4,345	$4,385

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2012	2011
	(Unaudited)	
	(In millions)	
OPERATING ACTIVITIES:		
Net income	$6	$155
Less: (Loss) income from discontinued operations, net of tax expense	(2)	151
Income from continuing operations	8	4
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities from continuing operations:		
Depreciation and amortization expense	99	94
Amortization of long-term debt deferred financing costs	3	3
Amortization of debt premium and discount	(2)	(2)
Loss on extinguishment of debt	2	—
Non-cash convertible debt related expense	13	11
Stock-based compensation expense	10	9
Equity in net income from unconsolidated investments	(6)	(2)
Dividends from unconsolidated investments	3	4
Deferred income taxes	—	(2)
Other, net	(10)	4
Change in restricted funds held in trust	2	(9)
Change in working capital, net of effects of acquisitions	22	42
Total adjustments for continuing operations	136	152
Net cash provided by operating activities from continuing operations	144	156
Net cash used in operating activities from discontinued operations	—	(4)
Net cash provided by operating activities	144	152
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	2	10
Purchase of investment securities	—	(8)
Purchase of property, plant and equipment	(66)	(68)
Acquisition of businesses, net of cash acquired	—	(10)
Acquisition of land use rights	(1)	(8)
Other, net	4	(5)
Net cash used in investing activities from continuing operations	(61)	(89)
Net cash provided by investing activities from discontinued operations	11	219
Net cash (used in) provided by investing activities	(50)	130
FINANCING ACTIVITIES:		
Proceeds from borrowings on long-term debt	699	—
Payment of deferred financing costs	(24)	—
Principal payments on long-term debt	(620)	(3)
Principal payments on project debt	(39)	(77)
Convertible debenture repurchases	(25)	(6)
Payments of borrowings on revolving credit facility	(15)	—
Proceeds from borrowings on revolving credit facility	15	—
Proceeds from borrowings on project debt	—	8

Change in restricted funds held in trust	(1)	24
Cash dividends paid to stockholders	(31)	(11)
Common stock repurchased	(59)	(123)
Financing of insurance premiums, net	(7)	—
Distributions to partners of noncontrolling interests in subsidiaries	—	(3)
Other, net	1	(2)
Net cash used in financing activities from continuing operations	(106)	(193)
Net cash (used in) provided by financing activities from discontinued operations	(2)	14
Net cash used in financing activities	(108)	(179)
Effect of exchange rate changes on cash and cash equivalents	—	1
Net (decrease) increase in cash and cash equivalents	(14)	104
Cash and cash equivalents at beginning of period	234	141
Cash and cash equivalents at end of period	220	245
Less: Cash and cash equivalents of discontinued operations at end of period	—	10
Cash and cash equivalents of continuing operations at end of period	$220	$235

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

The terms “we,” “our,” “ours,” “us” and “Company” refer to Covanta Holding Corporation and its subsidiaries; the term “Cova 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 disposal solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 20 million tons of solid waste annually. We operate and/or have ownership positions in 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 (“MW”) hours of baseload electricity annually. We also operate a waste management infrastructure that is complementary to our core EfW business.

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

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

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

Basis of Presentation

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

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

Business Development and Organic Growth

Alexandria/Arlington County Energy-from-Waste Facility

In February 2012, we entered into a new tip fee contract with the City of Alexandria and Arlington County to provide for continued waste supply to our Alexandria EfW facility through 2025. Both parties have the option to terminate the agreement in 2019. The agreement also provides the City of Alexandria and Arlington County with the option to extend the agreement to 2038.

Braintree Transfer Station

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

Montgomery County Energy-from-Waste Facility

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

Niagara Energy-from-Waste Facility

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

Springfield Energy-from-Waste Facility

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

Stanislaus Energy-from-Waste Facility

In June 2012, we amended and extended our service fee agreement with the City of Modesto and the County of Stanislaus, California. The contract was amended to a tip fee agreement under which the City of Modesto and the County of Stanislaus will continue to supply nearly all the facility's waste through 2027.

Tulsa Energy-from-Waste Facility

In June 2012, we extended a tip fee agreement for our Tulsa EfW facility with the City of Tulsa, Oklahoma from 2012 to 2022. The City of Tulsa will supply approximately one third of the facility's waste.

Organic Growth Investments

During the six months ended June 30, 2012, we invested approximately $11 million in various organic growth initiatives, including enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue and expanding our customer base and service offerings.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Assets Held for Sale and Dispositions

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	$—	$23	$—	$69
Operating expenses, including net gain on disposal of assets held for sale in 2011 [(1)]	$(2)	$(21)	$(3)	$78
(Loss) income before income tax expense and equity in net income from unconsolidated investments	$(2)	$2	$(3)	$147
Equity in net income from unconsolidated investments	$1	$1	$2	$7
(Loss) income from discontinued operations, net of income tax expense of $1, $1, $1 and $3, respectively	$(2)	$2	$(2)	$151

(1) During the three and six months ended June 30, 2011, we recorded a net after-tax (loss) gain on disposal of assets held for sale of $(4) million and $132 million, respectively.

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

	As of June 30, 2012	December 31, 2011
Cash and cash equivalents	$—	$2
Accounts receivable	—	1
Investments in investees and joint ventures	—	15
Assets held for sale	$—	$18
Accrued expenses and other	$—	$3
Liabilities held for sale	$—	$3

NOTE 4. EARNINGS PER SHARE ("EPS")

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income from continuing operations	$20	$17	$8	$3
Net income from discontinued operations	(2)	1	(2)	148
Net income attributable to Covanta Holding Corporation	$18	$18	$6	$151
Basic earnings per share:				
Weighted average basic common shares outstanding	133	144	133	145
Continuing operations	$0.15	$0.12	$0.06	$0.02
Discontinued operations	(0.01)	0.01	(0.01)	1.02
Covanta Holding Corporation	$0.14	$0.13	$0.05	$1.04
Diluted earnings per share:				
Weighted average basic common shares outstanding	133	144	133	145
Dilutive effect of stock options	—	1	—	1
Dilutive effect of restricted stock	1	—	1	—
Dilutive effect of warrants	—	—	—	—
Weighted average diluted common shares outstanding	134	145	134	146
Continuing operations	$0.15	$0.12	$0.06	$0.02
Discontinued operations	(0.01)	0.01	(0.01)	1.02
Covanta Holding Corporation	$0.14	$0.13	$0.05	$1.04
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been anti-dilutive:				
Stock options	2	2	2	2
Restricted stock	—	—	—	—
Restricted stock units	—	—	—	—
Warrants	28	27	28	27

In 2009, we entered into privately negotiated warrant transactions in connection with the issuance of 3.25% Cash Convertible Senior Notes due 2014 (the "3.25% Notes"). These warrants could have a dilutive effect to the extent that the price of our common stock exceeds the applicable strike price of $22.57. As of June 30, 2012, the warrants did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

NOTE 5. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

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

	Americas	All Other (1)	Total
Three Months Ended June 30, 2012			
Operating revenues	$400	$10	$410

Depreciation and amortization expense	48	1	49
Operating income (loss)	62	(6)	56
Three Months Ended June 30, 2011			
Operating revenues	$401	$10	$411
Depreciation and amortization expense	47	—	47
Operating income (loss)	57	(4)	53

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

	Americas	All Other [(1)]	Total
Six Months Ended June 30, 2012			
Operating revenues	$781	$21	$802
Depreciation and amortization expense	97	2	99
Operating income (loss)	71	(12)	59
Six Months Ended June 30, 2011			
Operating revenues	$768	$20	$788
Depreciation and amortization expense	94	—	94
Operating income (loss)	64	(13)	51

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

NOTE 6. CHANGES IN CAPITALIZATION

2012 Debt Refinancing

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

As a result of the refinancing, we recognized a loss on extinguishment of debt of approximately $2 million, pre-tax, during the six months ended June 30, 2012, which was comprised of the write-off of deferred financing costs in connection with previously existing financing arrangements.

Long-Term Debt

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

	As of June 30, 2012	December 31, 2011
7.25% Senior Notes due 2020	$400	$400
6.375% Senior Notes due 2022	400	—
1.00% Senior Convertible Debentures due 2027 [(1)]	—	25
3.25% Cash Convertible Senior Notes due 2014	460	460
Debt discount related to 3.25% Cash Convertible Senior Notes	(55)	(67)
Cash conversion option derivative at fair value	90	49
3.25% Cash Convertible Senior Notes, net	495	442
Term loan	299	619
Debt discount related to Term loan	(1)	—

Term loan, net	298	619
Total	1,593	1,486
Less: current portion	(3)	(32)
Total long-term debt	$1,590	$1,454

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

2012 Credit Facilities

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

	Credit Facilities As of	
	June 30, 2012	December 31, 2011
Term loan	$299	$650
Revolving credit facility	$900	$300
Funded letter of credit facility	N/A	$320
Total capacity to issue letters of credit	$900	$520

The Revolving Credit Facility is available for the issuance of letters of credit up to the full amount of the facility, provides for a $50 million sub-limit for the issuance of swing line loans (a loan that can be requested in US Dollars on a same day basis for a short drawing period); and is available in US Dollars, Euros, Pounds Sterling, Canadian Dollars and certain other currencies to be agreed upon, in each case for either borrowings 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 2012 Credit Facilities (the "Credit Agreement"), exceeding 2.75:1.00.

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

Availability under Revolving Credit Facility

As of June 30, 2012, we had availability under the Revolving Credit Facility as follows (in millions):

	Total Available Under Credit Facility	Maturing	Outstanding Borrowings as of June 30, 2012	Outstanding Letters of Credit as of June 30, 2012	Available as of June 30, 2012
Revolving Credit Facility	$ 900	2017	$—	$280	$620

During the three months ended June 30, 2012, we utilized $15 million of the Revolving Credit Facility which we subsequently repaid prior to the end of the period.

Repayment Terms

As of June 30, 2012, the Term Loan has mandatory amortization payments remaining as follows (in millions):

	2012	2013	2014	2015	2016	2017	2018	2019	Total
Annual Remaining Amortization	$1	$3	$3	$3	$3	$3	$3	$280	$299

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

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

Interest and Fees

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

Guarantees and Securitization

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

Credit Agreement Covenants

The loan documentation under the 2012 Credit Facilities contains various affirmative and negative covenants, as well as financial maintenance covenants, that limit our ability to engage in certain types of transactions. We were in compliance with all required covenants as of June 30, 2012.

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

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

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

- a maximum Leverage Ratio of 4.00 to 1.00 for the trailing four quarter period, which measures the principal amount of Covanta Energy's consolidated debt less certain restricted funds dedicated to repayment of project debt principal and construction costs ("Consolidated Adjusted Debt") to its adjusted earnings before interest, taxes, depreciation and amortization, as calculated in the Credit Agreement ("Adjusted EBITDA"). The definition of Adjusted EBITDA in the 2012 Credit Facilities excludes certain non-recurring and non-cash charges.
- a minimum Interest Coverage Ratio of 3.00 to 1.00, which measures Covanta Energy's Adjusted EBITDA to its consolidated interest expense plus certain interest expense of ours, to the extent paid by Covanta Energy as calculated in the Credit Agreement.

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

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

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

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

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

If and for so long as the 6.375% Notes have an investment grade rating and no default under the indenture has occurred, certain of the covenants will be suspended. At our option, the 6.375% Notes are subject to redemption at any time on or after April 1, 2017, in whole or in part, at the redemption prices set forth in the indenture, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to April 1, 2015, we may redeem up to 35% of the original principal amount of the 6.375% Notes with the proceeds of certain equity offerings at a redemption price of 106.375% of their principal amount, together with accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to April 1, 2017, we may redeem some or all of the 6.375% Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, plus a "make-whole premium".

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

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

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

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

Under limited circumstances, the 3.25% Notes are convertible by the holders thereof into cash only, based on a conversion rate of 61.4782 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.27 per share) subject to certain customary adjustments as provided in the indenture for the 3.25% Notes. The conversion rate for the 3.25% Notes was adjusted to its current level in connection the quarterly cash dividend payable on July 6, 2012 and became effective on June 20, 2012. 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 $22.57 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 following table details the amount of the accretion of debt discount as of June 30, 2012 expected to be included in our condensed consolidated financial statements for each of the periods indicated (in millions):

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

For specific criteria related to contingent interest, conversion or redemption features of the 3.25% Notes and details related to the cash conversion option, cash convertible note hedge and warrants related to the 3.25% Notes, refer to Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.
For details related to the fair value for the contingent interest feature, cash conversion option, and cash convertible note hedge related to the 3.25% Notes, see Note 12. Derivative Instruments.

1.00% Senior Convertible Debentures due 2027 (the "Debentures")
As of December 31, 2011, there were $25 million aggregate principal amount of the Debentures outstanding. On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. The Debentures were also subject to redemption at our option at any time on or after February 1, 2012, and we subsequently redeemed the remaining $2 million of outstanding Debentures on March 23, 2012.

Equity
During the six months ended June 30, 2012, we granted 778,724 restricted stock awards and 108,164 restricted stock units. For information related to stock-based award plans, see Note 10. Stock-Based Compensation.
During the six months ended June 30, 2012, we withheld 280,831 shares of our common stock in connection with tax withholdings for vested stock awards.
Dividends declared to stockholders are as follows (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Regular cash dividend				
Declared	$20	$11	$41	$22
Per Share	$0.15	$0.075	$0.30	$0.15

During the six months ended June 30, 2012, the Board of Directors approved an additional $100 million share repurchase authorization. Under the program, common stock repurchases may be made in the open market, in privately negotiated transactions from time to time, or by other available methods, at management's discretion in accordance with applicable federal securities laws. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of our common stock and overall market conditions. As of June 30, 2012, the amount remaining under our currently authorized share repurchase program was $115 million.
Common stock repurchased is as follows (in millions, except per share amounts):

	Amount	Shares Repurchased	Weighted Average Cost per Share
Three Months Ended March 31, 2012	$30	1.8	$16.45
Three Months Ended June 30, 2012 (1)	$30	1.9	$16.04
Six Months Ended June 30, 2012	$60	3.7	$16.25

(1) Approximately $1 million of common stock repurchased during the three months ended June 30, 2012 was paid in July 2012.

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Noncontrolling interests in subsidiaries

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

	As of June 30, 2012	2011
Noncontrolling interests in subsidiaries, balance as of beginning of period	$5	$33
Elimination due to sale of controlling interests in subsidiaries	—	(19)
Distributions to partners of noncontrolling interests in subsidiaries	—	(3)
Net income	—	4
Noncontrolling interests in subsidiaries, balance as of end of period	$5	$15

NOTE 7. INCOME TAXES

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

We currently estimate our annual effective tax rate for the year ending December 31, 2012 to be approximately 43.0%. 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 60.3% and 20.6% for the six months ended June 30, 2012 and 2011, respectively. The increase in the effective tax rate was primarily due to increases in state taxes in jurisdictions where we do not have sufficient tax attributes to reduce the liability or where we have increased our valuation allowance for losses we may not be able to utilize.

Uncertain tax positions, exclusive of interest and penalties, were $120 million and $119 million as of June 30, 2012 and December 31, 2011, respectively. Included in the balance of unrecognized tax benefits as of June 30, 2012 are potential benefits of $120 million that, if recognized, would impact the effective tax rate. For both the three months ended June 30, 2012 and 2011, we recognized a net tax expense of less than $1 million and for the six months ended June 30, 2012 and 2011, we recognized a net tax benefit of less than $1 million and a net tax expense of less than $1 million, respectively, for interest and penalties on uncertain tax positions. We have accrued interest and penalties associated with liabilities for uncertain tax positions of $2 million for both June 30, 2012 and December 31, 2011. We continue to reflect 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. If the IRS were successful in challenging our NOLs, it is possible that some portion of the NOLs would not be available to offset consolidated taxable income. State income tax returns are generally subject to examination for a period of three to five years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

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

While we cannot predict what amounts, if any, may be includable in taxable income as a result of the final administration of these grantor trusts, substantial actions toward such final administration have been taken and we believe that neither arrangements with the California Commissioner of Insurance nor the final administration by the Director of the Division of Insurance for the State of Missouri will result in a material reduction in available NOLs. We have consolidated federal NOLs estimated to be approximately $427 million for federal income tax purposes as of December 31, 2011, based on the income tax returns filed and projected to be filed. The federal NOLs will expire in various amounts from December 31, 2023 through December 31, 2030, if not used. In addition to the consolidated federal NOLs, as of December 31, 2011, we have state NOL carryforwards of approximately $223 million, which expire between 2012 and 2031, capital loss carryforwards of $4 million expiring between 2012 and 2015, net foreign NOL carryforwards of approximately $2 million expiring between 2015 and 2031, and federal tax credit carryforwards, including production tax credits of $44 million expiring between 2014 and 2022, and minimum tax credits of $7 million with no expiration. These deferred tax assets are offset by a valuation allowance of approximately $22 million. For further information, refer to Note 16. Income Taxes of the Notes to the Consolidated Financial Statements in our Form 10-K.

NOTE 8. SUPPLEMENTARY INFORMATION

Operating Costs

Pass through costs

Pass through costs are costs for which we receive a direct contractually committed reimbursement from the municipal client which sponsors an energy-from-waste project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal and certain chemical costs. These costs are recorded net of municipal client reimbursements in our condensed consolidated financial statements. Total pass through costs were $17 million and $20 million for the three months ended June 30, 2012 and 2011, respectively and $39 million and $43 million for the six months ended June 30, 2012 and 2011, respectively.

Other operating expenses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Construction costs	$32	$30	$70	$56
Insurance subsidiary operating expenses (1)	2	4	5	8
Foreign exchange gain	—	(2)	(1)	(2)
Insurance recoveries	(5)	(1)	(5)	(4)
Other	1	(1)	—	—
Total other operating expenses	$30	$30	$69	$58

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

Stanislaus EfW Facility

On January 14, 2012, our Stanislaus, California energy-from-waste facility experienced a turbine generator failure. Damage to the turbine generator was extensive and operations at the facility were suspended promptly to assess the cause and extent of damage. The facility is capable of processing waste without utilizing the turbine generator to generate electricity, and we resumed waste processing operations during the first quarter of 2012. We expect the facility will not be able to generate electricity for a substantial portion of 2012. The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. During the second quarter of 2012, we received installments of approximately $8 million under applicable insurance policies. Approximately $2 million of the insurance recoveries offset the write-down of assets for the repair and reconstruction of the turbine, and $5 million was recorded as reductions to plant operating expenses and other operating expenses. We believe this event will not have a material adverse impact on our results of operations, financial position or cash flows.

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.

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The following table details the amount of the actual/estimated amortization expense and contra-expense associated with these intangible assets and liabilities as of June 30, 2012 included or expected to be included in our condensed consolidated statement of income for each of the years indicated (in millions):

	Waste, Service and Energy Contracts (Amortization Expense)	Waste and Service Contracts (Contra-Expense)
Six Months Ended June 30, 2012	$ 18	$(6)
Remainder of 2012	$ 17	$(6)
2013	32	(12)
2014	29	(13)
2015	26	(8)
2016	22	(8)
Thereafter	289	(23)
Total	$ 415	$(70)

Non-Cash Convertible Debt Related Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Debt discount accretion related to the 3.25% Notes	$7	$5	$13	$11
Debt discount accretion related to the Debentures	—	1	—	1
Fair value changes related to the cash convertible note hedge	(14)	15	(41)	24
Fair value changes related to the cash conversion option derivative	14	(15)	41	(25)
Total non-cash convertible debt related expense	$7	$6	$13	$11

Other (Expense) Income, Net

For the six months ended June 30, 2012, other (expense) income, net included a $3 million foreign currency gain related to intercompany loans. For the six months ended June 30, 2011, other (expense) income, net included a $3 million foreign currency loss related to intercompany loans.

Equity in Net Income From Unconsolidated Investments

China Energy-from-Waste Facilities

We own a 40% equity interest in Chongqing Sanfeng Covanta Environmental Industry Co., Ltd. (“Sanfeng”). During the three months ended June 30, 2012, Sanfeng sold its existing 32% interest in the Fuzhou EfW project in China. Equity in net income from unconsolidated investments includes a $2 million gain for our equity interest in the sale of Sanfeng's interest in the Fuzhou EfW project. In a related transaction, Sanfeng increased its ownership interest in the Tongxing EfW facility in China from 25% to 40%.

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NOTE 9. BENEFIT OBLIGATIONS

Pension and Other Benefit Obligations

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

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest cost	$1	$1	$2	$2
Expected return on plan assets	(1)	(2)	(2)	(3)
Net periodic benefit cost	$—	$(1)	$—	$(1)

Interest costs and the expected return on plan assets for other post-retirement benefits were not material for the three and six months ended June 30, 2012 and 2011.

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

Defined Contribution Plans

Substantially all of our employees in the United States are eligible to participate in defined contribution plans we sponsor. Our costs related to defined contribution plans were $4 million for both of the three months ended June 30, 2012 and 2011, and $8 million and $7 million for the six months ended June 30, 2012 and 2011, respectively.

NOTE 10. STOCK-BASED COMPENSATION

During the six months ended June 30, 2012, we awarded certain employees 719,566 restricted stock awards. The restricted stock awards will be expensed over the requisite service period, subject to an assumed 12% average forfeiture rate. The terms of the restricted stock awards include vesting provisions based solely on continued service. If the service criteria are satisfied, the restricted stock awards vest during March of 2013, 2014, and 2015.

On May 9, 2012, in accordance with our existing program for annual director compensation, we awarded 59,158 shares of restricted stock under the Directors Plan. We determined that the service vesting condition of these restricted stock awards to be non-substantive and, in accordance with accounting principles for stock compensation, recorded the entire fair value of the award as compensation expense on the grant date.

During the six months ended June 30, 2012, we awarded certain employees 108,164 shares of restricted stock units ("RSUs") under the Growth Equity Plan. The Growth Equity Plan provides for the award of RSUs to certain employees in connection with specified growth-based acquisitions that have been completed or development projects that have commenced.

Compensation expense related to our stock-based awards totaled $5 million and $4 million for the three months ended June 30, 2012 and 2011, respectively and $10 million and $9 million for the six months ended June 30, 2012 and 2011, respectively. Unrecognized stock-based compensation expense and weighted-average years to be recognized are as follows (in millions, except for weighted average years):

As of June 30, 2012

	Unrecognized stock-based compensation	Weighted-average years to be recognized
Restricted Stock Awards	$12	2
Restricted Stock Units	$3	2

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NOTE 11. FINANCIAL INSTRUMENTS

Fair Value Measurements

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

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

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of June 30, 2012. Such amounts have not been comprehensively revalued for purposes of these financial statements since June 30, 2012, and current estimates of fair value may differ significantly from the amounts presented herein.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

The following table presents information about the fair value measurement of our assets and liabilities as of June 30, 2012:

Financial Instruments Recorded at Fair Value on a Recurring Basis:	As of June 30, 2012 Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$213	$213	$213	$—	$—
Money market funds	7	7	7	—	—
Total cash and cash equivalents:	220	220	220	—	—
Restricted funds held in trust:					
Bank deposits and certificates of deposit	5	5	5	—	—
Money market funds	118	118	118	—	—
U.S. Treasury/Agency obligations (1)	16	16	16	—	—
State and municipal obligations	7	7	7	—	—
Commercial paper/Guaranteed investment contracts/Repurchase agreements	45	45	45	—	—
Total restricted funds held in trust:	191	191	191	—	—
Restricted funds — other:					
Bank deposits and certificates of deposit (2)(3)	4	4	4	—	—
Money market funds (3)	8	8	8	—	—
Residential mortgage-backed securities (3)	1	1	1	—	—
Total restricted funds other:	13	13	13	—	—
Investments:					
Mutual and bond funds (2)	2	2	2	—	—
Investments available for sale:					
U.S. Treasury/Agency obligations (4)	8	8	8	—	—
Residential mortgage-backed securities (4)	6	6	6	—	—
Other government obligations (4)	2	2	2	—	—
Corporate investments (4)	14	14	14	—	—
Equity securities (3)	1	1	1	—	—
Total investments:	33	33	33		