

COVANTA HOLDING CORP

Form 10-Q

April 22, 2009

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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, 2009

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 1-6732

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)*

40 Lane Road, Fairfield, NJ

(Address of Principal Executive Office)

07004

(Zip Code)

(973) 882-9000

(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 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:

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

Class	Outstanding at April 16, 2009
Common Stock, \$0.10 par value	154,840,440 shares

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended March 31, 2009

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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, 2008 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 INCOME**

	For the Three Months Ended March 31,	
	2009	2008
	(As Adjusted)	
	(Unaudited)	
	(In thousands, except per share amounts)	
OPERATING REVENUES:		
Waste and service revenues	\$ 206,269	\$ 217,623
Electricity and steam sales	141,869	153,065
Other operating revenues	10,622	18,078
Total operating revenues	358,760	388,766
OPERATING EXPENSES:		
Plant operating expenses	256,042	259,011
Depreciation and amortization expense	51,498	48,574
Net interest expense on project debt	12,769	13,761
General and administrative expenses	25,515	24,154
Other operating expenses	9,744	12,501
Total operating expenses	355,568	358,001
Operating income	3,192	30,765
Other income (expense):		
Investment income	1,028	1,640
Interest expense	(9,506)	(15,199)
Total other expenses	(8,478)	(13,559)
(Loss) income before income tax benefit (expense), equity in net income from unconsolidated investments and noncontrolling interests in subsidiaries	(5,286)	17,206
Income tax benefit (expense)	1,992	(6,905)
Equity in net income from unconsolidated investments	5,809	5,492
NET INCOME	2,515	15,793

Less: Net income attributable to noncontrolling interests in subsidiaries	(1,380)	(1,869)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	\$ 1,135	\$ 13,924
Weighted Average Common Shares Outstanding:		
Basic	153,467	153,165
Diluted	154,737	154,572
Earnings Per Share:		
Basic	\$ 0.01	\$ 0.09
Diluted	\$ 0.01	\$ 0.09

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of	
	March 31, 2009 (Unaudited) (In thousands, except per share amounts)	December 31, 2008 (As Adjusted)
ASSETS		
Current:		
Cash and cash equivalents	\$ 159,472	\$ 192,393
Marketable securities available for sale	300	300
Restricted funds held in trust	186,202	175,093
Receivables (less allowances of \$3,404 and \$3,437)	225,689	243,791
Unbilled service receivables	52,062	49,468
Deferred income taxes	39,219	
Prepaid expenses and other current assets	115,913	123,214
Total Current Assets	778,857	784,259
Property, plant and equipment, net	2,511,601	2,530,035
Investments in fixed maturities at market (cost: \$27,090 and \$26,620, respectively)	27,111	26,737
Restricted funds held in trust	142,603	149,818
Unbilled service receivables	36,939	44,298
Waste, service and energy contracts, net	211,938	223,397
Other intangible assets, net	82,020	83,331
Goodwill	195,617	195,617
Investments in investees and joint ventures	108,783	102,953
Other assets	154,322	139,544
Total Assets	\$ 4,249,791	\$ 4,279,989
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	\$ 6,657	\$ 6,922
Current portion of project debt	195,997	198,034
Accounts payable	35,986	24,470
Deferred revenue	16,163	15,202
Accrued expenses and other current liabilities	174,170	215,046
Total Current Liabilities	428,973	459,674
Long-term debt	771,129	770,949
Project debt	834,496	880,336

Deferred income taxes	619,078	566,687
Waste and service contracts	111,251	114,532
Other liabilities	165,624	165,881
Total Liabilities	2,930,551	2,958,059

Commitments and Contingencies (Note 14)**Equity:**

Covanta Holding Corporation stockholders' equity:

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 155,506 and 154,797 shares; outstanding 154,841 and 154,280 shares)

Additional paid-in capital	15,551	15,480
Accumulated other comprehensive loss	919,883	917,810
Accumulated earnings	(10,332)	(8,205)
Treasury stock, at par	363,018	361,883
	(67)	(52)

Total Covanta Holding Corporation stockholders' equity	1,288,053	1,286,916
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Noncontrolling interests in subsidiaries	31,187	35,014
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Total Equity	1,319,240	1,321,930
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Total Liabilities and Equity	\$ 4,249,791	\$ 4,279,989
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended	
	March 31,	
	2009	2008
	(As Adjusted)	
	(Unaudited)	
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	\$ 2,515	\$ 15,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	51,498	48,574
Amortization of long-term debt deferred financing costs	904	931
Amortization of debt premium and discount	(2,082)	(2,770)
Non-cash convertible debt interest expense	1,590	1,479
Stock-based compensation expense	3,907	3,651
Equity in net income from unconsolidated investments	(5,809)	(5,492)
Dividends from unconsolidated investments	266	9,122
Deferred income taxes	(4,317)	172
Other, net	462	(595)
Increase in restricted funds held in trust	(9,413)	(25,629)
Change in working capital, net of effects of acquisitions	11,874	4,470
 Net cash provided by operating activities	 51,395	 49,706
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	3,405	13,401
Purchase of investment securities	(3,779)	(9,137)
Purchase of property, plant and equipment	(26,833)	(38,990)
Purchase of equity interest	(1,083)	
Loan issued to client community to fund certain facility improvements	(6,192)	
Property insurance proceeds		3,500
Other, net	(238)	(1,524)
 Net cash used in investing activities	 (34,720)	 (32,750)
FINANCING ACTIVITIES:		
Proceeds from the exercise of options for common stock, net	147	221
Financings of insurance premiums, net	(3,112)	(3,455)
Proceeds from borrowings on project debt		4,076
Principal payments on long-term debt	(1,675)	(1,691)
Principal payments on project debt	(45,268)	(55,119)
Decrease in restricted funds held in trust	4,321	16,077

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Distributions to partners of noncontrolling interests in subsidiaries	(3,716)	(2,346)
Net cash used in financing activities	(49,303)	(42,237)
Effect of exchange rate changes on cash and cash equivalents	(293)	269
Net decrease in cash and cash equivalents	(32,921)	(25,012)
Cash and cash equivalents at beginning of period	192,393	149,406
Cash and cash equivalents at end of period	\$ 159,472	\$ 124,394

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

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**COVANTA HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
For the Three Months Ended March 31, 2009**

Covanta Holding Corporation Stockholders' Equity				
	Accumulated			
	Additional	Other		Noncontrolling
Common	Paid-In	Comprehensiv	Accumulated	Interests
Stock	In	iv	Stock	in
Shares				