

COVANTA HOLDING CORP

Form 10-K

February 22, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009**
- or**
- o 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)*

40 Lane Road, Fairfield, N.J.
(Address of Principal Executive Offices)

95-6021257
*(I.R.S. Employee
Identification No.)*

07004
(Zip Code)

Registrant's telephone number, including area code:
(973) 882-9000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.10 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input type="radio"/> (Do not check if a smaller reporting company)	Smaller reporting Company <input type="radio"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$2,186,734,461. The aggregate market value was computed by using the closing price of the common stock as of that date on the New York Stock Exchange. (For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	February 17, 2010
Common Stock, \$0.10 par value per share	154,936,092 shares

Documents Incorporated By Reference:

Part of Form 10-K of Covanta Holding Corporation

Documents Incorporated by Reference

Part III

Portions of the Proxy Statement to be filed with the Securities and Exchange Commission in connection with the 2010 Annual Meeting of Stockholders.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K 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 its businesses described in Item 1A. Risk Factors of this Annual Report on Form 10-K 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 Annual Report on Form 10-K 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.

AVAILABILITY OF INFORMATION

You may read and copy any materials Covanta files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of such materials also can be obtained free of charge at the SEC s website, www.sec.gov, or by mail from the Public Reference Room of the SEC, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Covanta s SEC filings are also available to the public, free of charge, on its corporate website, www.covantaholding.com as soon as reasonably practicable after Covanta electronically files such material with, or furnishes it to, the SEC. Covanta s common stock is traded on the New York Stock Exchange. Material filed by Covanta can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, N.Y. 10005.

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PART I

Item 1. BUSINESS

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.

About Covanta Holding Corporation

We are a leading developer, owner and operator of infrastructure for the conversion of waste to energy (known as energy-from-waste), as well as other waste disposal and renewable energy production businesses in the Americas, Europe and Asia. We are organized as a holding company which was incorporated in Delaware on April 16, 1992. We conduct all of our operations through subsidiaries which are engaged predominantly in the businesses of waste and energy services. We also engage in the independent power production business outside the Americas. We have investments in subsidiaries engaged in insurance operations in California, primarily in property and casualty insurance.

As of December 31, 2009, we owned, had equity investments in, and/or operated 64 energy generation facilities, 56 of which are in the Americas and eight of which are located outside the Americas. Our energy generation facilities use a variety of fuels, including municipal solid waste, wood waste (biomass), landfill gas, water (hydroelectric), natural gas, coal, and heavy fuel-oil. We also own or operate several businesses that are associated with our energy-from-waste business, including a waste procurement business, two ashfills and two landfills, which we use primarily for ash disposal, and 13 waste transfer stations.

Business Segments

Our reportable segments are Americas (formerly referred to as Domestic) and International. The Americas segment is comprised of waste and energy services operations primarily in the United States and Canada. The International segment is comprised of waste and energy services operations in other countries, currently the United Kingdom, Ireland, Italy, China, The Philippines, India, and Bangladesh.

Additional information about our business segments is contained in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Business Segments* and in *Item 8. Financial Statements And Supplementary Data - Note 5. Financial Information by Business Segments*.

The Energy-From-Waste Solution

Our mission is to be the world's leading energy-from-waste company, with a complementary network of renewable energy generation and waste disposal assets. We expect to build value for our stockholders by satisfying our clients waste disposal and energy generation needs with safe, reliable and environmentally sustainable solutions. In order to accomplish this mission and create additional value for our stockholders, we are focused on:

- providing customers with superior service and effectively managing our existing business;
- generating sufficient cash to meet our liquidity needs and invest in our business;
- advancing our Clean World Initiative in order to enhance the value of our existing business and create new opportunities; and
- developing new projects and making acquisitions to grow our business in the Americas, Europe and Asia.

We believe that our business offers solutions to public sector leaders around the world in two related elements of critical infrastructure: waste disposal and renewable energy generation. We believe that the environmental benefits of energy-from-waste, as an alternative to landfilling, are clear and compelling: by processing municipal solid waste in energy-from-waste facilities we reduce greenhouse gas (GHG) emissions, lower the risk of groundwater contamination, and conserve land. At the same time, energy-from-waste generates clean, reliable energy from a renewable fuel source, thus reducing dependence on fossil fuels, the combustion of which is itself a major contributor of GHG emissions. As public planners in the Americas, Europe and Asia address their needs for more environmentally sustainable waste disposal and energy generation in the years ahead, we believe that energy-from-waste will be an increasingly attractive alternative. We will also consider acquiring or developing new technologies that complement our existing renewable energy and waste services businesses.

Our business offers sustainable solutions to energy and environmental problems, and our corporate culture is increasingly focused on themes of sustainability in all of its forms. We aspire to continuous improvement in environmental performance, beyond mere compliance with legally required standards. This ethos is embodied in our Clean World Initiative, an umbrella program under which we are:

investing in research and development of new technologies to enhance existing operations and create new business opportunities in renewable energy and waste management;

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exploring and implementing processes and technologies at our facilities to improve energy efficiency and lessen environmental impacts; and
partnering with governments and non-governmental organizations to pursue sustainable programs, reduce the use of environmentally harmful materials in commerce, and communicate the benefits of energy-from-waste.

Our Clean World Initiative is designed to be consistent with our mission to be the world's leading energy-from-waste company by providing environmentally superior solutions, advancing our technical expertise and creating new business opportunities. It represents an investment in our future that we believe will enhance stockholder value.

In order to create new business opportunities and benefits and enhance stockholder value, we are actively engaged in the current discussion among policy makers in the United States regarding the benefits of energy-from-waste and the reduction of our dependence on landfilling for waste disposal and fossil fuels for energy. Given the ongoing global economic slowdown and related unemployment, policy makers are focused on themes of economic stimulus, job creation, and energy security. We believe that the construction and permanent jobs created by additional energy-from-waste development represent the type of "green jobs" that are consistent with this focus. The extent to which we are successful in growing our business will depend in part on our ability to effectively communicate the benefits of energy-from-waste to public planners seeking waste disposal solutions and to policy makers seeking to encourage renewable energy technologies (and the associated "green jobs") as viable alternatives to reliance on fossil fuels as a source of energy.

The United States Congress is currently debating proposals designed to encourage two broad policy objectives: increased renewable energy generation and reduction of fossil fuel usage and related GHG emissions. The United States House of Representatives passed a bill known as the America Clean Energy and Security Act of 2009 ("ACES") which addresses both policy objectives, by means of a phased-in national renewable energy standard and a "cap-and-trade" system to reduce GHG emissions. Energy-from-waste and biomass have generally been included in the ACES bill to be among the technologies that help to achieve both of these policy objectives. Similar legislation has been introduced in the United States Senate. While legislation is far from final and a vigorous debate is expected when the House of Representatives and Senate bills are reconciled, we believe the direction of Congressional efforts could create additional growth opportunities for our business and increase energy revenue from existing facilities.

Growth and Development

We have extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We intend to continue to focus our efforts on pursuing development and acquisition-based growth. We anticipate that a part of our future growth will come from acquiring or investing in additional energy-from-waste, waste disposal and renewable energy production businesses in the Americas, Europe and Asia. Our business is capital intensive because it is based on 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.

In the Americas, we are pursuing additional growth opportunities through project expansions, new energy-from-waste and other renewable energy projects, contract extensions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing and disposal businesses. We are also pursuing international waste and/or renewable energy business opportunities, particularly in locations where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste in order to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce GHG emissions. Outside of the Americas, we are focusing on the United Kingdom, Ireland, and China.

For several years, we have expanded our network of waste and energy services businesses through acquisitions, equity investments and additional operating and development contracts. In our Americas segment, from 2007 through 2009, we added ten energy-from-waste facilities, two ashfills, eight transfer stations and four biomass projects to the network of projects that we own, have equity investments in, and/or operate. In addition, we completed the expansion of the energy-from-waste facilities located in Lee County, Florida and Hillsborough County, Florida and extended the related service contracts for these facilities. We recently entered into agreements to expand the Honolulu, Hawaii energy-from-waste facility, and to extend our operating agreement for that facility. We also entered into various contract extensions or new service agreements with existing energy-from-waste facilities, such as in Detroit, Michigan; Stanislaus County, California; Wallingford, Connecticut; Pasco County, Florida; Indianapolis, Indiana; Kent County, Michigan; and Hempstead, New York. During this period, we added approximately 17% in waste disposal capacity and 17% in gross electric capacity for our Americas segment. We also acquired a 3,000 tons per day (tpd) energy-from-waste business in Miami-Dade, Florida in February 2010.

In our International segment, we have commenced construction of a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. We also have equity interests in two companies located in China,

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one through which we hold minority interests in two existing energy-from-waste facilities and the other through which we are constructing an 1,800 tpd energy-from-waste facility in Sichuan Province in China. We also hold a controlling interest in a company constructing a 350 tpd energy-from-waste facility in Jiangsu Province in China. Additional information related to our acquisitions and business development is described in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Growth and Development*.

AMERICAS SEGMENT

Energy-From-Waste Projects

Energy-from-waste projects have two essential purposes: to provide waste disposal services, typically to municipal clients who sponsor the projects, and to use that waste as a fuel source to generate renewable energy. The electricity or steam generated by the projects is generally sold to local utilities or industrial customers, and most of the resulting revenues reduce the overall cost of waste disposal services to the municipal clients. These projects are capable of providing waste disposal services and generating electricity or steam, if properly operated and maintained, for several decades. Generally, we provide these waste disposal services and sell the electricity and steam generated under contracts, which expire on various dates between 2010 and 2034. Many of our service contracts may be renewed for varying periods of time, at the option of the municipal client.

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

Contract Structures

We currently operate energy-from-waste projects in 16 states and one 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 describes features generally common to these agreements, as well as important distinctions among them:

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

For the energy-from-waste projects we own, financing is generally accomplished through tax-exempt and taxable revenue bonds issued by or on behalf of the client community. For these facilities, the bond proceeds are loaned to us to pay for facility construction and to fund a debt service reserve for the project, which is generally sufficient to pay principal and interest for one year. Project-related debt is included as project debt and the debt service reserves are included as restricted funds held in trust in our consolidated financial statements. Generally, project debt is secured by the project's revenue, contracts and other assets of our project subsidiary.

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Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating projects or for processing waste received, and payments we receive for electricity and/or steam we sell. Typical features of these agreements are as follows:

Contract types	Current number of projects	Fees for operating projects or for processing waste received	Payments for electricity and/or steam we sell
Service Fee	28	We charge a fixed fee (which escalates over time pursuant to contractual indices that we believe are appropriate to reflect price inflation) for operation and maintenance services provided to these energy-from-waste projects. At projects that we own and where project debt is in place, a portion of our fee is dedicated to project debt service. Our contracts at Service Fee projects provide revenue that does not materially vary based on the amount of waste processed or energy generated and as such is relatively stable for the contract term.	At most of our Service Fee projects, the operating subsidiary retains only a fraction of the energy revenues generated, with the balance (generally 90%) used to provide a credit to the municipal client against its disposal costs. Therefore, in these projects, the municipal client derives most of the benefit and risk of energy production and changing energy prices.
Tip Fee	13	We receive a per-ton fee under contracts for processing waste at Tip Fee projects. We generally enter into long-term waste disposal contracts for a substantial portion of the project's disposal capacity. These Tip Fee service agreements include stated fixed fees earned by us for processing waste up to certain base contractual amounts during specified periods. These Tip Fee service agreements also set forth the per-ton fees that are payable if we accept waste in excess of the base contractual amounts. The waste disposal and energy revenue from these projects is more dependent upon operating performance and, as such, is subject to greater revenue fluctuation to the extent performance levels fluctuate.	Where Tip Fee structures exist, we generally retain 100% of the energy revenues, as well as risk associated with energy production and changing energy pricing. The majority of Tip Fee structures are under long-term fixed-price energy contracts.

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. Where a Service Fee structure exists, portions of the service fee escalate to reflect indices for inflation, and in many cases, the client community must also pay for other costs, such as insurance, taxes, and transportation and disposal of the ash residue to the disposal site. Generally, expenses resulting from the delivery of unacceptable and hazardous waste on the site are also borne by the client community. In addition, the contracts generally require the client community to pay increased expenses and capital costs resulting from unforeseen circumstances, subject to specified limits. At three publicly-owned facilities we operate, our client community may terminate the operating contract under limited circumstances without cause.

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

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We receive the majority of our revenue under short- and long-term contracts, with little or no exposure to price volatility, but with adjustments intended to reflect changes in our costs. Where our revenue is received under other arrangements and depending upon the revenue source, we have varying amounts of exposure to price volatility. The largest component of our revenue is waste revenue, which has generally been subject to less price volatility than our revenue derived from the sale of energy and metals. During the second and third quarters of 2008, pricing for energy and recycled metals reached historically high levels and has subsequently declined materially. 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.

Contracted and Merchant Capacity

Our service and waste disposal agreements, as well as our energy contracts, expire at various times. The extent to which any such expiration will affect us will depend upon a variety of factors, including whether we own the project, market conditions then prevailing, and whether the municipal client exercises options it may have to extend the contract term. As our contracts expire, we will become subject to greater market risk in maintaining and enhancing our revenues. As service agreements at municipally-owned facilities expire, we intend to seek to enter into renewal or replacement contracts to operate such facilities. We will also seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. As our service and waste disposal agreements at facilities we own or lease begin to 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 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 discussion under *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Growth and Development* 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. See *Item 1A. Risk Factors We may face increased risk of market influences on our revenues after our contracts expire.*

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 energy will be less available than in the past. As a result, following the expiration of these long-term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets.

In conjunction with our energy-from-waste business, we also own and/or operate 13 transfer stations, two ashfills and two landfills in the northeast United States, which we utilize to supplement and manage more efficiently the fuel and ash disposal requirements at our energy-from-waste operations. We provide waste procurement services to our waste disposal and transfer 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 residue management for our energy-from-waste projects.

Biomass Projects

We own and operate seven wood-fired generation facilities and have a 55% interest in a partnership which owns another wood-fired generation facility. Six of these facilities are located in California, and two are located in Maine. The combined gross energy output from these facilities is 191 megawatts (MW). We derive revenue from our biomass facilities from sales of electricity, capacity, and where available, additional value from the sale of renewable energy credits. Four of these facilities sell their energy output at fixed rates pursuant to contracts, while the other four facilities sell into local power pools at rates that float with the market.

At all of these projects, we purchase fuel pursuant to short-term contracts or other arrangements, in each case at prevailing market rates which exposes us to fuel price risk. The price of fuel varies depending upon the time of year, local supply, and price of energy. As such, and unlike our energy-from-waste businesses, we earn income at our biomass facilities

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based on the margin between our cost of fuel and our revenue from selling the related output. During part of 2009, this margin was negative at two of our biomass facilities, and we temporarily suspended operations at those locations, and have subsequently entered into favorable long-term agreements for the energy output. We will consider taking similar action in the future if market conditions warrant such action. In both 2009 and 2008, revenue from our biomass projects represented approximately 6% of our Americas segment revenue.

Other Renewable Energy Projects

We also engage in developing, owning and/or operating renewable energy production facilities utilizing a variety of energy sources such as water (hydroelectric) and landfill gas. We derive our revenues from these facilities primarily from the sale of energy, capacity, and where available, renewable energy credits. We generally operate and maintain these projects for our own account or we do so on a cost-plus basis rather than a fixed-fee basis.

Hydroelectric We own a 50% equity interest in two small run-of-river hydroelectric facilities located in the State of Washington which sell energy and capacity to Puget Sound Energy under long-term energy contracts. We operate two hydroelectric facilities in Costa Rica through an operating subsidiary pursuant to long-term contracts. We also have a nominal equity investment in each project. The electric output from both of these facilities is sold to Instituto Costarricense de Electricidad, a Costa Rica national electric utility.

Landfill Gas We own and operate two landfill gas projects located in California and one in Massachusetts which produce electricity by combusting methane gas produced in landfills. These projects sell energy to various utilities. In both 2009 and 2008, revenue from our landfill gas projects was less than 1% of our Americas segment revenue. During 2009, we shut down operations of two landfill gas projects located in California. Upon the expiration of the remaining energy contracts, we expect that these projects will enter into new power off-take arrangements or will be shut down.

Summary information with respect to our Americas segment projects that are currently operating is provided in the following table:

	Location	Design Capacity		Nature of Interest	Contract Expiration Dates		
		Waste Disposal (TPD)	Gross Electric (MW)		Service/Waste Disposal	Energy	
A. ENERGY-FROM-WASTE PROJECTS							
TIP FEE STRUCTURES							
1.	Southeast Massachusetts(1)	Massachusetts	2,700	78.0	Owner/Operator	N/A	2015
2.	Delaware Valley	Pennsylvania	2,688	87.0	Lessee/Operator	2017	2016
3.	Hempstead(2)	New York	2,505	72.0	Owner/Operator	2034	N/A
4.	Indianapolis(3)	Indiana	2,362	6.5	Owner/Operator	2018	2028
5.	Niagara(3)	New York	2,250	50.0	Owner/Operator	N/A	2010-2018
6.	Haverhill	Massachusetts	1,650	44.6	Owner/Operator	N/A	2019
7.	Union County(2)	New Jersey	1,440	42.1	Lessee/Operator	2023	N/A
8.	Tulsa(3)	Oklahoma	1,125	16.5	Owner/Operator	2012	2019
9.	Alexandria/Arlington	Virginia	975	22.0	Owner/Operator	2013	2023
10.	Kent County(3)	Michigan	625	16.8	Operator	2023	2023
11.	Warren County	New Jersey	450	13.5	Owner/Operator	N/A	2013

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12.	Springfield	Massachusetts	400	9.4	Owner/Operator	2014	2010
13.	Pittsfield	Massachusetts	240	8.6	Owner/Operator	2015	2015
SERVICE FEE STRUCTURES							
14.	Fairfax County	Virginia	3,000	93.0	Owner/Operator	2011	2015
15.	Detroit(1)(3)(4)	Michigan	2,832	68.0	Part Owner/Operator	2010	2024
16.	Essex County	New Jersey	2,277	66.0	Owner/Operator	2020	2020
17.	Honolulu(1)(5)	Hawaii	2,160	90.0	Operator	2032	2015
18.	Hartford(1)(6)	Connecticut	2,000	68.5	Operator	2012	2012
19.	Lee County	Florida	1,836	57.3	Operator	2024	2015
20.	Montgomery County	Maryland	1,800	63.4	Operator	2016	2010
21.	Hillsborough County	Florida	1,800	46.5	Operator	2027	2010
22.	Long Beach	California	1,380	36.0	Operator	2018	2018
23.	York	Pennsylvania	1,344	42.0	Operator	2015	2016
24.	Plymouth	Pennsylvania	1,216	32.0	Owner/Operator	2014	2012
25.	Hennepin County	Minnesota	1,212	38.7	Operator	2018	2018
26.	Lancaster County	Pennsylvania	1,200	33.1	Operator	2016	2016
27.	Pasco County	Florida	1,050	29.7	Operator	2016	2024
28.	Onondaga County	New York	990	39.2	Owner/Operator	2015	2025
29.	Stanislaus County	California	800	22.4	Owner/Operator	2016	2010

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	Location	Design Capacity		Nature of Interest	Contract Expiration Dates		
		Waste Disposal (TPD)	Gross Electric (MW)		Service/Waste Disposal	Energy	
30.	Harrisburg(2)	Pennsylvania	800	20.8	Operator	2018	N/A
31.	Huntington(7)	New York	750	24.3	Owner/Operator	2012	2012
32.	Babylon	New York	750	16.8	Owner/Operator	2019	2018
33.	Burnaby	British Columbia	720	25.0	Operator	2025	2013
34.	Huntsville(3)	Alabama	690		Operator	2016	2014
35.	Southeast Connecticut	Connecticut	689	17.0	Owner/Operator	2015	2017
36.	Bristol	Connecticut	650	16.3	Owner/Operator	2014	2014
37.	Marion County	Oregon	550	13.1	Owner/Operator	2014	2014
38.	Lake County	Florida	528	14.5	Owner/Operator	2014	2014
39.	MacArthur	New York	486	12.0	Operator	2015	2010
40.	Hudson Valley	New York	450	9.8	Operator	2014	2014
41.	Wallingford	Connecticut	420	11.0	Owner/Operator	2020	2010
		SUBTOTAL	53,790	1,473.4			
B.	<u>ANCILLARY WASTE PROJECTS</u>						
	ASH and LANDFILLS						
42.	CMW Semass	Massachusetts	1,700	N/A	Operator	2016	N/A
43.	Peabody (ash only)	Massachusetts	700	N/A	Owner/Operator	N/A	N/A
44.	Haverhill	Massachusetts	555	N/A	Lessee/Operator	N/A	N/A
45.	Springfield (ash only)	Massachusetts	175	N/A	Owner/Operator	N/A	N/A
		SUBTOTAL	3,130				
	TRANSFER STATIONS						
46.	Derwood	Maryland	2,500	N/A	Operator	2015	N/A
47.	Girard Point	Pennsylvania	2,500	N/A	Owner/Operator	2012	N/A
48.	58 th Street	Pennsylvania	2,000	N/A	Owner/Operator	2012	N/A
49.	Braintree	Massachusetts	1,200	N/A	Owner/Operator	2015	N/A
50.	Abington	Pennsylvania	940	N/A	Operator	2014	N/A
51.	Lynn	Massachusetts	885	N/A	Owner/Operator	N/A	N/A
52.	Mamaroneck	New York	800	N/A	Owner/Operator	2015	N/A
53.	Holliston	Massachusetts	700	N/A	Owner/Operator	N/A	N/A
54.	Canaan	New York	600	N/A	Owner/Operator	N/A	N/A
55.	Springfield	Massachusetts	500	N/A	Owner/Operator	N/A	N/A
56.	Mt. Kisco	New York	350	N/A	Owner/Operator	2016	N/A
57.	Danvers	Massachusetts	250	N/A	Operator	2011	N/A
58.	Essex	Massachusetts	6	N/A	Operator	2015	N/A
		SUBTOTAL	13,231				
C.	<u>OTHER RENEWABLE ENERGY PROJECTS</u>						
	BIOMASS						

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59. Delano	California	N/A	49.5	Owner/Operator	N/A	2017
60. Pacific Ultrapower Chinese Station(8)	California	N/A	25.6	Part Owner	N/A	2017
61. Mendota	California	N/A	25.0	Owner/Operator	N/A	2014
62. Jonesboro(2)	Maine	N/A	24.5	Owner/Operator	N/A	N/A
63. West Enfield(2)	Maine	N/A	24.5	Owner/Operator	N/A	N/A
64. Pacific Oroville	California	N/A	18.7	Owner/Operator	N/A	2016
65. Burney Mountain	California	N/A	11.4	Owner/Operator	N/A	2015
66. Mount Lassen	California	N/A	11.4	Owner/Operator	N/A	2015
	SUBTOTAL		190.6			
	HYDROELECTRIC					
67. Rio Volcan(9)	Costa Rica	N/A	17.0	Part Owner/Operator	N/A	2010
68. Don Pedro(9)	Costa Rica	N/A	14.0	Part Owner/Operator	N/A	2010
69. Koma Kulshan(10)	Washington	N/A	12.0	Part Owner/Operator	N/A	2037
70. South Fork(10)	Washington	N/A	5.0	Part Owner	N/A	2022
	SUBTOTAL		48.0			
	LANDFILL GAS					
71. Otay	California	N/A	7.4	Owner/Operator	N/A	2011-2019
72. Haverhill	Massachusetts	N/A	1.6	Lessee/Operator	N/A	N/A
73. Stockton	California	N/A	0.8	Owner/Operator	N/A	2012
	SUBTOTAL		9.8			

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- (1) These facilities use a refuse-derived fuel technology.
- (2) These facilities sell electricity into the regional power pool at prevailing rates.
- (3) These facilities have been designed to export steam for sale.
- (4) The project receives waste under an agreement with the Greater Detroit Resource Recovery Authority (GDRRA) with a term of one year, which renews automatically for successive one year terms unless either party terminates. In addition, the project may call upon GDRRA to deliver the waste of the City of Detroit to the Detroit facility at market-based rates through 2035.
- (5) With respect to this project, we have entered into agreements to expand waste processing capacity from 2,160 tpd to 3,060 tpd and to increase gross electricity capacity from 57 MW to 90 MW. The agreements also extend the service contract term by 20 years. Environmental and other project related permits have been received and expansion construction has commenced.
- (6) Under contracts with the Connecticut Resource Recovery Authority, we operate only the boilers and turbines for this facility.
- (7) Owned by a limited partnership in which the limited partners are not affiliated with us.
- (8) We have a 55% ownership interest in this project.
- (9) We have nominal ownership interests in these projects.
- (10) We have a 50% ownership interest in these projects.

INTERNATIONAL SEGMENT

General Approach to International Projects

We have ownership interests in and/or operate facilities internationally, including independent power production facilities in the Philippines, Bangladesh and India where we generate electricity by combusting coal, natural gas and heavy fuel-oil, and energy-from-waste facilities in China and Italy. We are also constructing an energy-from-waste facility in Ireland. We receive revenue from operating fees, electricity and steam sales, construction activities, and in some cases cash from equity distributions. The projects sell the electricity and steam they generate under either short-term or long-term contracts or market concessions to utilities, governmental agencies providing power distribution, creditworthy industrial users, or local governmental units. Energy-from-waste facilities also sell waste disposal services.

In developing our international business, we have employed the same general approach to projects as is described above with respect to Americas segment projects. We intend to seek to develop or participate in additional international projects, particularly energy-from-waste projects, where the regulatory or market environment is attractive. With respect to some international energy-from-waste projects, ownership transfer to the sponsoring municipality (for nominal consideration) is required following expiration of the project's long-term operating contract. The ownership and operation of facilities in foreign countries potentially entails significant political and financial uncertainties that typically are not encountered in such activities in the United States, as described below and discussed in *Item 1A. Risk Factors*.

Some of the countries in which we currently operate are lesser developed countries or developing countries where the political, social and economic conditions are quite different, and are often less stable than those conditions prevailing in the United States or other developed countries. In order to mitigate these risks both at the outset of project development and over time, we often develop projects jointly with experienced and respected local companies.

When a project is developed, we undertake a credit analysis of the proposed power purchaser and/or fuel suppliers (which for energy-from-waste projects are often municipal governments).

We have typically sought to negotiate long-term contracts for the supply of fuel with reliable suppliers. For our projects that are not energy-from-waste facilities, we have sought, to the extent practicable, to shift the consequences of interruptions in the delivery of fuel (whether due to the fault of the fuel supplier or due to reasons beyond the fuel supplier's control) to the electricity purchaser or service recipient by securing a suspension of the project's operating responsibilities under the applicable agreements and an extension of our operating concession under such agreements. In some instances, we require the energy purchaser or service recipient to continue to make payments of fixed costs if such interruptions occur. In order to mitigate the effect of short-term interruptions in the supply of fuel, we have also endeavored to provide on-site storage of fuel in sufficient quantities to address such interruptions.

At some of our international independent power projects, our operating subsidiaries purchase fuel in the open market. However, in most cases, the fuel price risk is borne by the energy purchaser because such risk from changes in fuel prices is passed through under the contract. In some of our international projects, the project entity has entered into long-term fuel purchase contracts that protect the project from changes in fuel prices, provided counterparties to such contracts perform their commitments.

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For our energy-from-waste projects in international markets, typically a significant portion of each project's waste supply is under long-term contracts with sponsoring municipalities, thus reducing the risk of fuel supply interruptions or price instability. Where market conditions are favorable and we have the contractual right to do so, we may also reserve a portion of a facility's capacity for shorter term contracts or receive waste on a spot basis. For these energy-from-waste projects, long-term contracts for energy output are generally not available, and we expect to sell such output directly into the power pool at market rates, which may fluctuate.

Payment for services that we provide will often be made in whole or in part in the domestic currencies of the host countries. In some of our independent power projects, components of project costs incurred or funded in U.S. dollars are recovered without risk of currency fluctuation through negotiated contractual adjustments to the price charged for electricity or service provided. This contractual structure may cause the cost in local currency to the project's power purchaser or service recipient to rise from time to time in excess of local inflation, and consequently there is risk in such situations that such power purchaser or service recipient will, at least in the near-term, be less able or willing to pay for the project's power or service.

We expect to fund the energy-from-waste projects that we will develop and own in international markets through a combination of local financings and direct equity investment. To the extent that the equity investment is made in currencies other than local currency, both the amount of our investment and the returns we receive on that investment may be affected by currency fluctuations.

We have sought to manage and mitigate these risks through all appropriate means, including by:

- developing projects jointly with experienced local partners, where such relationships add value;
- political and financial analysis of the host countries and the key participants in each project;
- guarantees of relevant agreements with creditworthy entities;
- political risk and other forms of insurance; and/or
- participation by United States and/or international development finance institutions in the financing of projects.

We determine which mitigation measures to apply based on our ability to balance the risks presented, the availability of such measures and their cost.

We have generally participated in projects which provide services that are treated as a matter of national or key economic importance by the laws and politics of the host country. Therefore, there is a risk that the assets constituting the facilities of these projects could be temporarily or permanently expropriated or nationalized by a host country, made subject to local or national control or be subject to unfavorable legislative action, regulatory decisions or changes in taxation. We believe that working with experienced and reputable local joint venture partners mitigates this risk.

In certain cases, we have issued guarantees on behalf of our international operating subsidiaries with respect to contractual obligations to operate certain international power projects and energy-from-waste projects. The potential damages we may owe under such arrangements may be material. 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 any material liabilities under such guarantees on international projects.

International Projects

We presently have interests in international power projects with an aggregate generating capacity of approximately 938 MW (gross), with our portion of the ownership in these facilities representing approximately 365 MW. In addition to our headquarters in Fairfield, New Jersey, our international business is facilitated through field offices in Shanghai,

China; Chennai, India; Dublin, Ireland; and Birmingham, England. The following describes the important features of these projects, by fuel type:

Energy-From-Waste

In Operation

We own a 40% equity interest in Chongqing Sanfeng Covanta Environmental Industry Co., Ltd. (Sanfeng), a company located in Chongqing Municipality, People s Republic of China. Sanfeng is engaged in the business of owning and operating energy-from-waste projects and providing design and engineering, procurement and construction services for energy-from-waste facilities in China. Sanfeng currently owns minority equity interests in two 1,200 metric tpd, 24 MW mass-burn energy-from-waste projects (Fuzhou project and Tongqing project). Chongqing Iron & Steel Company (Group) Limited holds the remaining 60% equity interest in Sanfeng. The solid waste supply for the projects comes from municipalities under long-term contracts. The municipalities also have the obligation to coordinate the purchase of power

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from the facilities as part of the long-term contracts for waste disposal. The electrical output from these projects is sold at governmentally established preferential rates under short-term arrangements with local power bureaus.

We own a 13% equity interest in a 500 metric tpd, 18 MW mass-burn energy-from-waste project at Trezzo sull'Adda in the Lombardy Region of Italy. The remainder of the equity in the project is held by a subsidiary of Falck S.p.A. and the municipality of Trezzo sull'Adda. The project is operated by Ambiente 2000 S.r.l., an Italian special purpose limited liability company of which we own 40%. The solid waste supply for the project comes from municipalities and privately-owned waste haulers under long-term contracts. The electrical output from the Trezzo project is sold at governmentally established preferential rates under a long-term purchase contract to Italy's state-owned electricity grid operator, Gestore della Rete di Trasmissione Nazionale S.p.A.

Under Construction

Ireland

We have commenced construction of a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities at an estimated cost of approximately \$350 million. The Dublin project is being developed and will be owned by Dublin Waste to Energy Limited, which we control and co-own with DONG Energy Generation A/S. Dublin Waste to Energy Limited has a 25 year tip fee type contract to provide disposal service for approximately 320,000 metric tons of waste annually. The project is expected to sell electricity into the local electricity grid. A portion of the electricity is expected to be eligible for a preferential renewable tariff. We and DONG Energy Generation A/S have committed to provide financing for all phases of the project. We expect to fund construction through existing sources of liquidity and effect project financing as the project progresses. The primary approvals and licenses for the project have been obtained and construction commenced in December 2009.

China

We and Chongqing Iron & Steel Company (Group) Limited have entered into a 25 year contract to build, own, and operate an 1,800 tpd energy-from-waste facility for Chengdu Municipality in Sichuan Province, People's Republic of China. We have a 49% equity interest in the project joint venture. Construction of the facility has commenced and operation is expected to begin in 2011. The project company has obtained financing for Rmb 480 million for the project, of which 49% is guaranteed by us and 51% is guaranteed by Chongqing Iron & Steel Company (Group) Limited, until the project has been constructed and for one year after operations commence.

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

Independent Power Projects

A partnership, in which we hold a 26% equity interest, owns a 510 MW (gross) coal-fired electric power generation facility located in Mauban, Quezon Province, the Philippines (Quezon). The remaining equity interests are held by an affiliate of International Generating Company, an affiliate of Electricity Generating Public Company Limited (a company listed on the Stock Exchange of Thailand) and an entity owned by the original project developer. The Quezon project sells electricity to the Manila Electric Company (Meralco), the

largest electric distribution company in the Philippines, which serves the area surrounding and including metropolitan Manila.

Under an energy contract expiring in 2025, Meralco is obligated to take-or-pay for stated minimum annual quantities of electricity at an all-in price which consists of capacity, operating, energy, transmission and other fees adjusted for inflation, fuel cost and foreign exchange fluctuations. The Quezon project has entered into two coal supply contracts expiring in 2015 and 2022. Under these supply contracts, the cost of coal is determined using a base energy price adjusted to fluctuations of specified international benchmark prices. Our wholly-owned subsidiary, Covanta Philippines Operating, Inc., operates the project under a long-term agreement with the Quezon project, and we have obtained political risk insurance for our equity investment in this project.

We also have a majority equity interest in a 24 MW (gross) coal-fired cogeneration facility in the People's Republic of China. The project entity, in which we hold a majority interest, operates this project. The party holding a minority position in the project is an affiliate of the local municipal government. While the steam produced at this project is

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intended to be sold under a long-term contract to its industrial host, in practice, steam has been sold on either a short-term basis to local industries or the industrial host, in each case at varying rates and quantities. The electric power is sold at an average grid rate to a subsidiary of the provincial power bureau.

We hold a 45% equity interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. The remaining equity interests are held by Pendekar Energy (L) Ltd (a consortium of Tanjong Energy Holdings Sdn Bhd (Malaysia) and Al-Jomaih Group (Saudi Arabia)) and an affiliate of Wartsila North America, Inc. The electrical output of the project is sold to the Bangladesh Power Development Board (BPDB) pursuant to an energy contract with minimum energy off-take provisions at an all-in price divided into a fuel component and an other component. The fuel component reimburses the fuel cost incurred by the project up to a specified heat rate. The other component consists of a pre-determined base rate which is adjusted for the actual load factor and foreign exchange fluctuations. The BPDB also supplies all of the project's natural gas requirements at a pre-determined base cost adjusted for fluctuations on actual landed cost of the fuel in Bangladesh. The Government of Bangladesh guarantees the BPDB's contractual obligations. We operate the project under a long-term agreement with the project company and we have obtained political risk insurance for our equity interest in this project.

We hold majority equity interests in two 106 MW (gross) heavy fuel-oil fired electric power generation facilities in India. We hold a 60% equity interest in the first project (the Samalpatti project), which is located near Samalpatti, in the state of Tamil Nadu. The remaining equity interests in the Samalpatti project are held by affiliates of Shapoorji Pallonji Infrastructure Capital Co. Ltd. and by Wartsila India Power Investment, LLC. We hold a 77% equity interest in the second project (the Madurai project), which is located in Samayanallur, also in the state of Tamil Nadu. The remaining equity interest in the Madurai project is held by an Indian company controlled by the original project developer. Both projects sell their electrical output to the Tamil Nadu Electricity Board (TNEB) pursuant to long-term agreements with a full pass-through all-in pricing structure that takes into account specified heat rates, operation and maintenance costs, and equity returns. TNEB's obligations are guaranteed by the government of the state of Tamil Nadu. Indian oil companies supply the oil requirements of both projects through 15 year fuel supply agreements based on market prices. We operate both projects through subsidiaries under long-term agreements with the project companies.

Disputing several contractual provisions, TNEB has, since 2001, failed to pay the full amount due under the energy contracts for both the Samalpatti and Madurai projects. To date, TNEB has paid the undisputed portion of its payment obligations (approximately 95% of total billings) representing each project's operating costs, fuel costs, debt service and some equity return. Similar to many Indian state electricity boards, TNEB has also failed to fund an escrow account or post a letter of credit required under the project energy contracts, which failure constitutes a default under the project finance documents. Project lenders for both projects have either granted periodic waivers of such default or potential default and/or otherwise approved scheduled equity distributions. Neither such default nor potential default in the project financing arrangements constitutes a default under our financing arrangements. It is possible that the issue of the escrow account and/or letter of credit requirement will be resolved as part of the overall negotiation with TNEB with respect to the disputed receivables in both projects.

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Summary information with respect to our international projects that are currently operating is provided in the following table:

	Location	Design Capacity		Nature of Interest	Contract Expiration Dates		
		Waste Disposal (Metric TPD)	Gross Electric (MW)		Service/Waste Disposal	Energy	
A. <u>ENERGY-FROM-WASTE TIP FEE STRUCTURES</u>							
1.	Fuzhou(1)	China	1,200	24	Part Owner	2032	N/A
2.	Tongqing(1)	China	1,200	24	Part Owner	2027	N/A
3.	Trezzo	Italy	500	18	Part Owner	2023	2023
	SUBTOTAL		2,900	66			
B. <u>ENERGY-FROM-WASTE UNDER CONSTRUCTION</u>							
4.	Chengdu	China	1,800	36	Part Owner		
5.	Dublin	Ireland	1,700	68	Part Owner/Operator		
6.	Taixing	China	350	30	Part Owner/Operator		
	SUBTOTAL		3,850	134			
C. <u>INDEPENDENT POWER PROJECTS</u>							
COAL							
7.	Quezon(2)	Philippines	N/A	510	Part Owner/Operator	N/A	2025
8.	Yanjiang (Taixing)(3)	China	N/A	24	Part Owner/Operator	N/A	N/A
	SUBTOTAL			534			
NATURAL GAS							
9.	Haripur(4)	Bangladesh	N/A	126	Part Owner/Operator	N/A	2014
HEAVY FUEL-OIL							
10.	Madurai(5)	India	N/A	106	Part Owner/Operator	N/A	2016
11.	Samalpatti(6)	India	N/A	106	Part Owner/Operator	N/A	2016
	SUBTOTAL			212			

(1) We have a 40% equity interest in Sanfeng, which owns equity interests of approximately 32% and 25% in the Fuzhou and Tongqing projects, respectively. Sanfeng operates the Tongqing project. The Fuzhou project company, in which Sanfeng has a 32% interest, operates the Fuzhou project. Ownership of these projects transfers to the applicable municipality at the expiration of the applicable concession agreement.

(2) We have a 26% ownership interest in this project.

- (3) We have an 85% ownership interest in this project. Assets of this project revert back to the local Chinese partner at the expiration of the joint venture contract in 2034.
- (4) We have a 45% ownership interest in this project. This project is capable of operating through combustion of diesel oil in addition to natural gas.
- (5) We have a 77% ownership interest in this project.
- (6) We have a 60% ownership interest in this project.

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MARKETS, COMPETITION AND BUSINESS CONDITIONS

General Business Conditions

Our business can be adversely affected by general economic conditions, war, inflation, adverse competitive conditions, governmental restrictions and controls, changes in laws, natural disasters, energy shortages, fuel costs, weather, the adverse financial condition of customers and suppliers, various technological changes and other factors over which we have no control. As global populations and consequent economic activity increase, we expect that demand for energy and effective waste management technologies will increase. We expect this to create generally favorable long-term conditions for our existing business and for our efforts to grow our business. We expect that any cyclical or structural downturns in general economic activity may adversely affect both our existing businesses and our ability to grow through development or acquisitions.

Economic Conditions Affecting Business Conditions and Financial Results

The ongoing global economic slowdown has reduced demand for goods and services generally, which tends to reduce overall volumes of waste requiring disposal and the pricing at which we can attract waste to fill available capacity. At the same time, the declines in global natural gas and other fossil fuel prices have pushed electricity and steam pricing lower generally which causes lower revenue for the portion of the energy we sell which is not under fixed-price contracts. Lastly, the downturn in economic activity tends to reduce global demand for and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities. The combined effects of these conditions reduced our revenue and cash flow in 2009.

Many of our customers are municipalities and public authorities, which are generally experiencing fiscal pressure as local and central governments seek to reduce expenses in order to address declining tax revenues which may result from the slowdown and increases in unemployment. At the same time, continued dislocations in the financial sector may make it more difficult, and more costly, to finance new projects. These factors, particularly in the absence of energy policies which encourage renewable technologies such as energy-from-waste, may make it more difficult for us to sell waste disposal services or energy at prices sufficient to allow us to grow our business through developing and building new projects, or through the acquisition of additional businesses.

Additional Conditions Affecting Our Existing Business

With respect to our existing waste-related businesses, including our energy-from-waste and waste procurement business, we compete in waste disposal markets, which are highly competitive. In the United States, the market for waste disposal is almost entirely price-driven and is greatly influenced by economic factors within regional waste sheds. These factors include:

- regional population and overall waste production rates;
- the number of other waste disposal sites (including principally landfills and transfer stations) in existence or in the planning or permitting process;
- the available disposal capacity (in terms of tons of waste per day) that can be offered by other regional disposal sites; and
- the availability and cost of transportation options (e.g., rail, inter-modal, trucking) to provide access to more distant disposal sites, thereby affecting the size of the waste shed itself.

In the Americas segment waste disposal market, disposal service providers seek to obtain waste supplies for their facilities by competing on disposal price (usually on a per-ton basis) with other disposal service providers. At our service fee energy-from-waste facilities, we typically do not compete in this market because we do not have the contractual right to solicit waste. At these facilities, the client community is responsible for obtaining the waste, if necessary by competing on price to obtain the tons of waste it has contractually promised to deliver to us. At our energy-from-waste facilities governed by tip fee contracts and at our waste procurement services businesses, we are responsible for obtaining material amounts of waste supply, and therefore, actively compete in these markets to enter into spot, medium- and long-term contracts. These energy-from-waste projects are generally in densely-populated areas, with high waste generation rates and numerous large and small participants in the regional market. Our waste operations are largely concentrated in the northeastern United States. See *Item 1A. Risk Factors Our waste operations are concentrated in one region, and expose us to regional economic or market declines* for additional information concerning this geographic concentration. Certain of our competitors in these markets are vertically-integrated waste companies which include waste collection operations, and thus have the ability to control supplies of waste which may restrict our ability to offer disposal services at attractive prices. Our business does not include waste collection operations.

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If a long-term contract expires and is not renewed or extended by a client community, our percentage of contracted disposal capacity will decrease and we will need to compete in the regional market for waste disposal at the facilities we own. At that point, we will compete on price with landfills, transfer stations, other energy-from-waste facilities and other waste disposal technologies that are then offering disposal service in the region. See the discussion above under *Americas Segment Contract Duration* for additional information concerning the expiration of existing contracts.

With respect to our sales of electricity and other energy products, we currently sell the majority of our output pursuant to long-term contracts, and for this portion of our energy output we do not compete on price. As these contracts expire, we will sell an increasing portion of our energy output in markets where we will compete on price and, as such, generally expect to have a growing exposure to energy market price volatility. In certain countries where we are seeking new waste and energy projects, such as China and the United Kingdom, we may sell our electricity output pursuant to short-term arrangements with local or regional government entities, or directly into the local electricity grid, rather than pursuant to contract. In these markets, we will have exposure to electricity price fluctuations.

As our existing contracts expire, and as energy prices continue to fluctuate in the United States and other countries, we may sell our output pursuant to short-term agreements or directly into regional electricity grids, in which case we would have relatively greater exposure to energy market fluctuations. See discussion under *Item 1A. Risk Factors We may face increased risk of market influences on our revenues after our contracts expire* for additional information concerning the expiration of existing contracts. We may enter into contractual arrangements that will mitigate our exposure to this volatility through a variety of hedging techniques. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading.

The initial long-term contracts we entered into when our energy-from-waste projects were originally financed will be expiring at various dates through 2017. As we seek to enter into extended or new contracts following these expiration dates, we expect that medium- and long-term contracts for waste supply, 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 energy will be less available than in the past. As a result, following the expiration of these initial 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. By 2010, we expect approximately 20% of our energy revenue in the Americas segment to be generated by selling energy at market rates unless contractual arrangements we put in place provide otherwise.

Additional Conditions Affecting Our Growth

Competition for new contracts and projects is intense in all markets in which we conduct or intend to conduct business, and our businesses are subject to a variety of competitive, regulatory and market influences.

The marketplace in the Americas segment for new renewable energy projects, including energy-from-waste projects, may be affected by the ongoing global economic slowdown, as well as the outcome of current policy debates described below under *Regulation of Business Regulations Affecting our Americas Segment Recent Policy Debate Regarding Climate Change and Renewable Energy*.

In order to create new business opportunities and benefits and enhance stockholder value, we are actively engaged in the current discussion among policy makers in the United States regarding the benefits of energy-from-waste and the reduction of our dependence on landfilling for waste disposal and fossil fuels for energy. Given the ongoing global economic slowdown and related unemployment, policy makers are focused on themes of economic stimulus, job creation, and energy security. We believe that the construction and permanent jobs created by additional energy-from-waste development represents the type of green jobs that will be consistent with this focus. The extent to which we are successful in growing our business will depend in part on our ability to effectively communicate the

benefits of energy-from-waste to public planners seeking waste disposal solutions, and to policy makers seeking to encourage renewable energy technologies (and the associated green jobs) as viable alternatives to reliance on fossil fuels as a source of energy.

In both our Americas and International segments, we may develop or acquire, ourselves or jointly with others, additional waste or energy projects and/or businesses. If we were to do so in a competitive procurement, we would face competition in the selection process from other companies, some of which may have greater financial resources, or more experience in the regional waste and/or energy markets. If we were selected, the amount of market competition we would thereafter face would depend upon the extent to which the revenue at any such project or business would be committed under contract. If we were to develop or acquire additional projects or businesses not in the context of a competitive procurement, we would face competition in the regional market and compete on price with landfills, transfer stations, other energy-from-waste facilities, other energy producers and other waste disposal or energy generation technologies that are then offering service in the region.

In our International segment, we compete principally for new energy-from-waste contracts and projects in China and the United Kingdom, generally in response to public tenders. In both of these markets, regulatory conditions are favorable for

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energy-from-waste development, and there are numerous local and international companies with whom we compete for such contracts and projects. If we were to be successful in obtaining such contracts or projects, we expect that a significant portion of each project's waste disposal capacity would be under long-term contracts, thus reducing the competition to which we would be subject in waste disposal markets.

Once a contract is awarded or a project is financed, our business can be impacted by a variety of risk factors which can affect profitability during the construction period (which may extend over several years, depending upon the size and nature of the project), and subsequently over the life of a project. Some of these risks are at least partially within our control, such as successful operation in compliance with laws and the presence or absence of labor difficulties or disturbances. Other risk factors are largely out of our control and may have an adverse impact on a project over a long-term. See *Item 1A. Risk Factors* for more information on these types of risks.

Technology, Research and Development

In our energy-from-waste business, we deploy and operate a diverse number of mass-burn waste combustion technologies. In North America, we have the exclusive right to market the proprietary mass-burn combustion technology of Martin GmbH fur Umwelt und Energietechnik, referred to herein as Martin. Through our investment in Sanfeng, we also have access to certain of Martin's mass-burn combustion technology in China. We believe that our know-how and worldwide reputation in the field of energy-from-waste and our know-how in designing, constructing and operating energy-from-waste facilities of a variety of designs and incorporating numerous technologies, rather than the use of a particular technology, are important to our competitive position in the energy-from-waste industry.

We have pursued, and intend to continue to pursue, opportunities for mass-burn combustion and other technologies in all markets, including North America, and will seek to utilize the most appropriate technology for the markets where these opportunities exist and to obtain the necessary technology rights either on an exclusive or project-specific basis.

We believe that mass-burn combustion technology is now the predominant technology used for the combustion of municipal solid waste in large-scale applications. Through facility acquisitions, we own and/or operate energy-from-waste facilities which utilize various technologies from several different vendors, including non-Martin mass-burn combustion technologies and refuse-derived fuel technologies which include pre-combustion waste processing not required with a mass-burn design. As we continue our efforts to develop and/or acquire additional energy-from-waste projects internationally, we will consider mass-burn combustion and other technologies, including technologies other than those offered by Martin, which best fit the needs of the local environment of a particular project.

We believe that energy-from-waste technologies offer an environmentally superior solution to waste disposal and energy challenges faced by leaders around the world, and that our efforts to expand our business will be enhanced by the development of additional technologies in such fields as emission controls, residue disposal, alternative waste treatment processes, and combustion controls. We have advanced our research and development efforts in these areas, and have developed new and cost-effective technologies that represented major advances in controlling nitrogen oxide (NO_x) emissions. These technologies, for which patents are pending, have been tested at existing facilities and we are now operating and/or installing such systems at several of our facilities. We also developed and have patents pending 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. We intend to maintain a focus on research and development of technologies in these and other areas that we believe will enhance our competitive position, and offer new technical solutions to waste and energy problems that augment and complement our business.

REGULATION OF BUSINESS

Regulations Affecting Our Americas Segment

Environmental Regulations – General

Our business activities in the United States are pervasively regulated pursuant to federal, state and local environmental laws. Federal laws, such as the Clean Air Act and Clean Water Act, and their state counterparts, govern discharges of pollutants to air and water. Other federal, state and local laws comprehensively govern the generation, transportation, storage, treatment and disposal of solid and hazardous waste and also regulate the storage and handling of chemicals and petroleum products (such laws and regulations are referred to collectively as the Environmental Regulatory Laws).

Other federal, state and local laws, such as the Comprehensive Environmental Response Compensation and Liability Act, commonly known as CERCLA and collectively referred to with such other laws as the Environmental Remediation

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Laws, make us potentially liable on a joint and several basis for any onsite or offsite environmental contamination which may be associated with our activities and the activities at our sites. These include landfills we have owned, operated or leased, or at which there has been disposal of residue or other waste generated, handled or processed by our facilities. Some state and local laws also impose liabilities for injury to persons or property caused by site contamination. Some service agreements provide us with indemnification from certain liabilities. In addition, our landfill gas projects have access rights to landfill sites pursuant to certain leases that permit the installation, operation and maintenance of landfill gas collection systems.

The Environmental Regulatory Laws require that many permits be obtained before the commencement of construction and operation of any waste or renewable energy project, and further require that permits be maintained throughout the operating life of the facility. We can provide no assurance that all required permits will be issued or re-issued, and the process of obtaining such permits can often cause lengthy delays, including delays caused by third-party appeals challenging permit issuance. Our failure to meet conditions of these permits or of the Environmental Regulatory Laws can subject us to regulatory enforcement actions by the appropriate governmental unit, which could include fines, penalties, damages or other sanctions, such as orders requiring certain remedial actions or limiting or prohibiting operation. See *Item 1A. Risk Factors – Compliance with environmental laws could adversely affect our results of operations*. To date, we have not incurred material penalties, been required to incur material capital costs or additional expenses, or been subjected to material restrictions on our operations as a result of violations of Environmental Regulatory Laws or permit requirements.

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 Regulatory Laws. 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 CERCLA and/or analogous state Environmental Remediation Laws. Our ultimate 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 have also sent waste to a given site and, in the case of divested operations, our contractual arrangement with the purchaser of such operations.

The Environmental Regulatory Laws may change. New technology may be required or stricter standards may be established for the control of discharges of air or water pollutants, for storage and handling of petroleum products or chemicals, or for solid or hazardous waste or ash handling and disposal. Thus, as new technology is developed and proven, we may be required to incorporate it into new facilities or make major modifications to existing facilities. This new technology may be more expensive than the technology we use currently.

Environmental Regulations – Recent Developments

Greenhouse Gas Reporting On September 22, 2009, the Environmental Protection Agency (EPA) issued its final rule on Mandatory Reporting of Greenhouse Gases (the GHG Reporting Rule), which requires all energy-from-waste facilities with GHG emissions greater than 25,000 tons carbon dioxide equivalents (CO₂e) per year to report their GHG emissions from stationary combustion beginning with the 2010 reporting year. All of our energy-from-waste facilities are expected to exceed this reporting threshold. Certain capital improvements to comply with the GHG Reporting Rule will be necessary at most of our energy-from-waste facilities, and we also expect to incur increased operating and maintenance costs, none of which are expected to be material. We have been voluntarily reporting our GHG emissions under various state and national programs, and do not expect the GHG Reporting Rule to materially affect our business.

MACT Rule In 2006, EPA issued revisions to the New Source Performance Standards (NSPS) and Emission Guidelines (EG) applicable to new and existing municipal waste combustion (MWC) units (the Revised MACT Rule). The Revised MACT Rule lowered the emission limits for most of the regulated air pollutants emitted by MWCs. Certain capital improvements to comply with revised EG were required and are being implemented at one of our existing energy-from-waste facilities, which we operate on behalf of a municipality. Most existing facilities also will incur increased operating and maintenance costs to meet the revised EG requirements, none of which are expected to be material.

In 2008, in response to a lawsuit, EPA was granted a voluntary remand of the Revised MACT Rule for the purpose of reconsidering the MWC emission limits. A new rulemaking is expected which may result in more stringent MWC emission limits than are currently included in the Revised MACT Rule; however, pending any such revisions, the requirements and compliance deadlines included in the Revised MACT Rule remain applicable to subject MWCs. We are not able to predict the timing and potential outcome of any such new rulemaking with respect to MWC emission limits at this time.

Revised PM2.5 Rule In 2006, EPA issued a final rule to implement the revised National Ambient Air Quality Standards for fine particulate matter, or PM2.5 (Revised PM2.5 Rule). Unlike the Revised MACT Rule discussed above, the Revised PM2.5 Rule is not specific to energy-from-waste facilities, but instead is a nationwide standard for ambient air quality. The primary impact of the Revised PM2.5 Rule will be on those areas in certain states that are designated by EPA as non-attainment with respect to those standards. EPA s Revised PM2.5 Rule will guide state implementation plan (SIP)

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revisions and could result in more stringent regulation of certain energy-from-waste facility emissions that already are regulated by the Revised MACT Rule. In October 2009, EPA issued non-attainment designations pursuant to the Revised PM2.5 Rule for 211 counties in 25 states, including 8 states in which we operate. SIP revisions to meet the Revised PM2.5 Rule presently are not due until April 2013. We are not able to predict the timing and potential outcome of any new PM2.5 emission control requirements for MWCs at this time.

The costs to meet new rules for existing facilities owned by municipal clients generally will be borne by the municipal clients. For projects we own or lease, some municipal clients have the obligation to fund such capital improvements, and at certain of our projects we may be required to fund a portion of the related costs. In certain cases, we are required to fund the full cost of capital improvements.

We believe that most costs incurred to meet the GHG Reporting Rule, the Revised MACT Rule and the Revised PM2.5 Rule at facilities we operate may be recovered from municipal clients and other users of our facilities through increased fees permitted to be charged under applicable contracts.

The Environmental Remediation Laws prohibit disposal of regulated hazardous waste at our municipal solid waste facilities. The service agreements recognize the potential for inadvertent and improper deliveries of hazardous waste and specify procedures for dealing with hazardous waste that is delivered to a facility. Under some service agreements, we are responsible for some costs related to hazardous waste deliveries. We have not incurred material hazardous waste disposal costs to date.

Energy Regulations

Our businesses are subject to the provisions of federal, state and local energy laws applicable to the development, ownership and operation of facilities located in the United States. The Federal Energy Regulatory Commission (FERC), among other things, regulates the transmission and the wholesale sale of electricity in interstate commerce under the authority of the Federal Power Act (FPA). In addition, under existing regulations, FERC determines whether an entity owning a generation facility is an Exempt Wholesale Generator (EWG), as defined in the Public Utility Holding Company Act of 2005 (PUHCA 2005). FERC also determines whether a generation facility meets the ownership and technical criteria of a Qualifying Facility (cogeneration facilities and other facilities making use of non-fossil fuel power sources such as waste, which meet certain size and other applicable requirements, referred to as QF), under the Public Utility Regulatory Policies Act of 1978 (PURPA). Each of our U.S. generating facilities has either been determined by FERC to qualify as a QF or is otherwise exempt, or the subsidiary owning the facility has been determined to be an EWG.

Federal Power Act The FPA gives FERC exclusive rate-making jurisdiction over the wholesale sale of electricity and transmission of electricity in interstate commerce. Under the FPA, FERC, with certain exceptions, regulates the owners of facilities used for the wholesale sale of electricity or transmission of electricity in interstate commerce as public utilities. The FPA also gives FERC jurisdiction to review certain transactions and numerous other activities of public utilities. Our QFs are currently exempt from FERC's rate regulation under Sections 205 and 206 of the FPA because (i) the QF is 20 MW or smaller, (ii) its sales are made pursuant to a state regulatory authority's implementation of PURPA or (iii) its sales are made pursuant to a contract executed on or before March 17, 2006.

Under Section 205 of the FPA, public utilities are required to obtain FERC's acceptance of their rate schedules for the wholesale sale of electricity. Certain of our generating companies in the United States have sales of electricity pursuant to market-based rates authorized by FERC. FERC's orders that grant our generating companies market-based rate authority reserve the right to revoke or revise that authority if FERC subsequently determines that we can exercise market power, create barriers to entry, or engage in abusive affiliate transactions. In addition, amongst other requirements, our market-based sales are subject to certain market behavior rules and, if any of our generating

companies were deemed to have violated any one of those rules, such generating company would be subject to potential disgorgement of profits associated with the violation and/or suspension or revocation of their market-based rate authority, as well as criminal and civil penalties.

In compliance with Section 215 of the Energy Policy Act of 2005 (EAct 2005), FERC has approved the North American Electric Reliability Corporation, or NERC, as the National Energy Reliability Organization, or ERO . As the ERO, NERC is responsible for the development and enforcement of mandatory reliability standards for the wholesale electric power system. We are responsible for complying with the standards in the regions in which we operate. NERC also has the ability to assess financial penalties for non-compliance. In addition to complying with NERC requirements, each of our entities must comply with the requirements of the regional reliability council for the region in which that entity is located.

Public Utility Holding Company Act of 2005 PUHCA 2005 provides FERC with certain authority over and access to books and records of public utility holding companies not otherwise exempt by virtue of their ownership of EWGs, QFs, and Foreign Utility Companies, as defined in PUHCA 2005. We are a public utility holding company, but because all of our generating facilities have QF status, are otherwise exempt, or are owned through EWGs, we are exempt from the accounting, record retention, and reporting requirements of PUHCA 2005.

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EPAct 2005 eliminated the limitation on utility ownership of QFs. Over time, this may result in greater utility ownership of QFs and serve to increase competition with our businesses. EPAct 2005 also extended or established certain renewable energy incentives and tax credits which might be helpful to expand our businesses or for new development.

Public Utility Regulatory Policies Act PURPA was passed in 1978 in large part to promote increased energy efficiency and development of independent power producers. PURPA created QFs to further both goals, and FERC is primarily charged with administering PURPA as it applies to QFs. FERC has promulgated regulations that exempt QFs from compliance with certain provisions of the FPA, PUHCA 2005, and certain state laws regulating the rates charged by, or the financial and organizational activities of, electric utilities. The exemptions afforded by PURPA to QFs from regulation under the FPA and most aspects of state electric utility regulation are of great importance to us and our competitors in the energy-from-waste and independent power industries.

PURPA also initially included a requirement that utilities must buy and sell power to QFs. Among other things, EPAct 2005 eliminated the obligation imposed on utilities to purchase power from QFs at an avoided cost rate where the QF has non-discriminatory access to wholesale energy markets having certain characteristics, including nondiscriminatory transmission and interconnection services. In addition, FERC has established a regulatory presumption that QFs with a capacity greater than 20 MW have non-discriminatory access to wholesale energy markets in most geographic regions in which we operate. As a result, many of our expansion, renewal and development projects must rely on competitive energy markets rather than PURPA's historic avoided cost rates in establishing and maintaining their viability. Existing contracts entered into under PURPA are not impacted, but as these contracts expire, a significant and increasing portion of our electricity output will be sold at rates determined through our participation in competitive energy markets.

Recent Policy Debate Regarding Climate Change and Renewable Energy

Increased public and political debate has occurred recently over the need for additional regulation of GHG emissions (principally carbon dioxide (CO₂) and methane) as a contributor to climate change. Such regulations could in the future affect our business. As is the case with all combustion, our facilities do emit CO₂, however we believe that energy-from-waste creates net reductions in GHG emissions and is otherwise environmentally beneficial, because it:

- Avoids CO₂ emissions from fossil fuel power plants,
- Avoids methane emissions from landfills,
- Avoids habitat destruction and contamination from landfilling, and
- Avoids GHG emissions from mining and processing metal because it recovers and recycles scrap metals from waste.

In addition, energy-from-waste facilities typically are located close to the source of the waste and thus typically reduce fossil fuel consumption and air emissions associated with long-haul transportation of waste to landfills.

For policy makers at the local level who make decisions on waste disposal alternatives, we believe that using energy-from-waste instead of landfilling will result in significantly lower net GHG emissions, while also introducing more control over the cost of waste disposal and supply of local electrical power. We are actively engaged in encouraging policy makers at state and federal levels to enact legislation that supports energy-from-waste as a superior choice for communities to avoid both the environmental harm caused by landfilling waste, and reduce local reliance on fossil fuels as a source of energy.

The United States Congress is currently debating proposals designed to encourage two broad policy objectives: increased renewable energy generation and the reduction of fossil fuel usage and related GHG emissions. The United

States House of Representatives passed a bill known as the American Clean Energy and Security Act of 2009 (ACES) which addresses both policy objectives, by means of a phased-in national renewable energy standard and a cap-and-trade system with a market-based emissions trading system aimed at reducing emissions of CO₂ below baseline levels. Energy-from-waste and biomass have generally been included in the ACES bill to be among technologies that help to achieve both of these policy objectives. Similar legislation has been introduced in the United States Senate. While legislation is far from final and a vigorous debate is expected when the House of Representatives and Senate bills are reconciled, we believe the direction of Congressional efforts could create additional growth opportunities for our business and increase energy revenue from existing facilities.

Congress is expected to continue to debate energy policy as a priority and ultimately enact some form of legislation regarding the need to encourage renewable electricity generation. Given the ongoing global economic slowdown and related unemployment, policy makers are also expected to focus on economic stimulus, job creation, and energy security. We believe that the construction and permanent jobs created by additional energy-from-waste development represents the type of green jobs that will be consistent with this focus.

Many of these same policy considerations apply equally to other renewable technologies, especially with respect to our biomass business. The extent to which such potential legislation and policy initiatives will affect our business will depend in

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part on whether energy-from-waste and our other renewable technologies are included within the range of renewable technologies that could benefit from such legislation.

Concurrent with the federal legislative activity noted above, the EPA is continuing to move forward with its regulation of GHGs under the Clean Air Act (CAA). During 2009, the EPA issued its finding that current and projected concentrations of GHGs threaten the public health and welfare of current and future generations. In addition, the EPA proposed the Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule, designed to limit regulation of GHGs under the CAA to large facilities. Both actions set the stage for the EPA to issue GHG emission requirements for light duty vehicles, expected in 2010. When finalized, this regulation will set in motion the addition of GHGs to new and revised facility Title V operating permits, including those applicable to our facilities. We cannot predict at this time the potential impact to our business of the EPA's regulatory initiatives under the CAA regarding, or whether the EPA's regulation will be impacted or superseded by any future climate change legislation. We continue to closely follow developments in this area.

While the political discussion in Congress, as well as at the state and regional levels, has not been aimed specifically at waste or energy-from-waste businesses, regulatory initiatives developed to date have been broad in scope and designed generally to promote renewable energy, develop a certified GHG inventory, and ultimately reduce GHG emissions. Many of these more developed initiatives have been at the state or regional levels, and some initiatives exist in regions where we have projects. For example, during 2006, a group of seven northeastern states, including Connecticut, New Jersey and New York, acting through the Regional Greenhouse Gas Initiative (RGGI), issued a model rule to implement reductions in GHG emissions. The RGGI model rule also featured a cap-and-trade program for regional CO₂ emissions, initially fixed at 1990 levels, followed by incremental reductions below those levels after 2014. To date, RGGI has been focused on fossil fuel-fired electric generators and does not directly affect energy-from-waste facilities; however, we continue to monitor developments with respect to state implementation of RGGI.

Efforts also are underway, through the Western Climate Initiative (WCI), to devise a model rule for GHG emission reductions, including mandatory reporting of GHG emissions and a regional cap-and-trade program. The WCI would operate in seven western states and four Canadian provinces, including California, Oregon and British Columbia, where we operate energy-from-waste facilities. Unlike RGGI, WCI is not limited in scope to fossil electric generation and may subject our energy-from-waste facilities in covered states to additional regulatory requirements, although we cannot predict the outcome of the rulemaking at this time. We continue to monitor developments with respect to the developing WCI and intend to participate in the rulemaking process.

We expect that initiatives intended to reduce GHG emissions, such as RGGI, WCI and any federal legislation that would impose similar cap-and-trade programs, may cause electricity prices to rise, thus potentially affecting the prices at which we sell electricity from our facilities which sell into the market.

Regulations Affecting Our International Segment

We have ownership and operating interests in energy generation facilities outside the Americas. Most countries have expansive systems for the regulation of the energy business. These generally include provisions relating to ownership, licensing, rate setting and financing of generation and transmission facilities.

We provide waste and energy services through environmentally-protective project designs, regardless of the location of a particular project. Compliance with environmental standards comparable to those of the United States are often conditions to credit agreements by multilateral banking agencies, as well as other lenders or credit providers. The laws of various countries include pervasive regulation of emissions into the environment and provide governmental entities with the authority to impose sanctions for violations, although these requirements are generally different from those

applicable in the United States. See *Item 1A. Risk Factors Exposure to international economic and political factors may materially and adversely affect our international businesses* and *Compliance with environmental laws could adversely affect our results of operations*.

Climate Change Policies

Certain international markets in which we compete have recently adopted regulatory or policy frameworks that encourage energy-from-waste projects as important components of GHG emission reduction strategies, as well as waste management planning and practice.

The European Union

The European Union has adopted regulations which require member states to reduce the utilization of and reliance upon landfill disposal. The legislation emanating from the European Union is primarily in the form of Directives, which are of direct effect within the member state but need enabling legislation to implement the practical implications of them, which

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can result in significant variance between the legislative schemes introduced by member states. Certain Directives notably affect the regulation of energy-from-waste facilities across the European Union. These include (1) Directive 96/61/EC concerning integrated pollution prevention and control (known as the IPPC Directive) which governs emissions to air, land and water from certain large industrial installations, (2) Directive 1999/31/EC concerning the landfill of waste (known as the Landfill Directive) which imposes operational and technical controls on landfills and restricts, on a reducing scale to the year 2020, the amount of biodegradable municipal waste which member countries may dispose of in a landfill, and (3) Directive 2000/76/EC concerning the incineration of waste (known as the Waste Incineration Directive or WID), which imposes limits on emissions to air from the incineration and co-incineration of waste. The United Kingdom and Ireland, the two primary European Union member states in which we currently compete, are both subject to the Directives above.

In response to these Directives and in furtherance of its policies to reduce GHG emissions, the United Kingdom now imposes taxes on landfilling of waste: £32/ton in the 2008/09 tax year, increasing annually by £8/ton to £72/ton in 2013/14. In addition, each waste disposal authority in the United Kingdom is limited in the amount of biodegradable waste it may landfill each year by the Landfill Directive. This has been implemented in England by the Landfill Allowance Trading Scheme (known as LATS). LATS is structured as a cap-and-trade program which reduces the capped amount of waste that can be landfilled each year through 2020 when capped amounts will be fixed at 35% of 1995 levels. LATS allowances are tradable with other waste disposal authorities and substantial penalties are levied against authorities not in compliance. Wales, Scotland and Northern Ireland have different implementation schemes that rely on the imposition of direct fines if landfill allowances are exceeded. Energy-from-waste facilities in the United Kingdom with combined heat and power may also be eligible for various green certificates which are designed to promote the contribution of renewable sources to electricity production. These include (1) Renewables Obligation Certificates, which are tradable certificates issued in respect of eligible renewable source electricity generated within the United Kingdom and supplied to customers in the United Kingdom by a licensed supplier, (2) tradable Levy Exemption Certificates, which exempt the holder from the United Kingdom Climate Change Levy, and (3) Renewable Energy Guarantees of Origin (REGOs), which constitute evidence that electricity was generated from a renewable source.

Similarly in Ireland, the obligation to divert biodegradable waste from landfill, in accordance with the Landfill Directive, has led to policies that promote energy-from-waste facilities over landfill, including a 20 per ton landfill levy that is soon expected to be increased and proposed conditions in the operating permits for landfilling that, when adopted, will restrict disposal to landfills of this source of GHG. In addition, the biodegradable fraction of waste treated in energy-from-waste facilities in Ireland is eligible for renewable support designed to enable Ireland to meet its targets under Directives 2009/28/EC of 16% of gross final consumption of energy from renewable sources in 2020 and government targets of 40% of electricity consumption from renewable sources by 2020. The Renewable Energy Feed-in-Tariff (REFIT) Scheme launched in 2006 and extended in 2009 also supports the construction of renewable generation from, amongst other things, biomass. Energy-from-waste facilities may also be eligible for REGOs in respect of the energy generated from the biodegradable fraction of the waste that is thermally treated in Ireland, although the extent to which REGOs will be tradable is not yet determined.

China

China currently has a favorable regulatory environment for the development of energy-from-waste projects. The Ministry of Housing and Urban-Rural Development of the People's Republic of China has set a goal to increase the volume of waste disposed of by energy-from-waste facilities from 1% (2005 estimate) to 30% by 2030. The Chinese central government has further called for an increase in energy-from-waste output generation from 200 MW (2005 estimate) to 500 MW by the end of 2010, and to three gigawatts by 2020. Energy-from-waste and municipal waste disposal services are designated by the Chinese central government as encouraged industries for foreign investment. China also has various promotional laws and policies in place to promote energy-from-waste and municipal waste

disposal projects including exemptions and reductions of corporate income tax, value added tax refunds, prioritized commercial bank loans, state subsidies for loan interest, and a guaranteed subsidized price for the sale of electricity.

EMPLOYEES

As of December 31, 2009, we employed approximately 4,100 full-time employees worldwide, the majority of which were employed in the United States.

Of our employees in the United States and Canada, approximately 12% are represented by organized labor. Currently, we are party to eight collective bargaining agreements: one expired in 2009 and is pending an extension, four expire in 2010, two expire in 2011 and one expires in 2012. In 2008, approximately 140 employees at a facility located in Rochester, Massachusetts elected to be represented by organized labor. We are engaged in good faith bargaining with the union representing these employees.

We consider relations with our employees to be good.

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EXECUTIVE OFFICERS OF THE REGISTRANT

A list of our executive officers and their business experience follows. Ages shown are as of February 17, 2010.

Anthony J. Orlando was named President and Chief Executive Officer in October 2004. Mr. Orlando was elected as one of our directors in September 2005 and is a member of the Technology Committee, Public Policy Committee and the Finance Committee. Previously, he had been President and Chief Executive Officer of Covanta Energy since November 2003. From March 2003 to November 2003, he served as Senior Vice President, Business and Financial Management of Covanta Energy. From January 2001 until March 2003, Mr. Orlando served as Covanta Energy's Senior Vice President, Waste-to-Energy. Mr. Orlando joined Covanta Energy in 1987. Age: 50.

Mark A. Pytosh was appointed as Executive Vice President and Chief Financial Officer in December 2007. Mr. Pytosh served as Senior Vice President and Chief Financial Officer from September 2006 to December 2007. Previously, Mr. Pytosh served as Executive Vice President from February 2004 to August 2006 and Chief Financial Officer from May 2005 to August 2006 of Waste Services, Inc., a publicly-traded integrated waste services company. Prior to his tenure with Waste Services, Inc., Mr. Pytosh served as a Managing Director in Investment Banking at Lehman Brothers where he led the firm's Global Industrial Group, from November 2000 to February 2004. Before joining Lehman Brothers in 2000, Mr. Pytosh had 15 years of investment banking experience at Donaldson, Lufkin & Jenrette and Kidder, Peabody. Age: 45.

John M. Klett was appointed as Executive Vice President and Chief Operating Officer in December 2007. Mr. Klett served as Senior Vice President and Chief Operating Officer of Covanta Energy from May 2006 to December 2007 and as Covanta Energy's Senior Vice President, Operations from March 2003 to December 2007. Prior thereto, he served as Executive Vice President of Covanta Waste to Energy, Inc. for more than five years. Mr. Klett joined Covanta Energy in 1986. Mr. Klett has been in the energy-from-waste business since 1977. He has been in the power business since 1965. Age: 63.

Seth Myones was appointed as Covanta Energy's President, Americas, in November 2007, which is comprised principally of Covanta Energy's domestic business. Mr. Myones served as Covanta Energy's Senior Vice President, Business Management, from January 2004 to November 2007. From September 2001 until January 2004, Mr. Myones served as Vice President, Waste-to-Energy Business Management for Covanta Projects, Inc., a wholly-owned subsidiary of Covanta Energy. Mr. Myones joined Covanta Energy in 1989. Age: 51.

Timothy J. Simpson was appointed as Executive Vice President, General Counsel and Secretary in December 2007. Mr. Simpson served as Senior Vice President, General Counsel and Secretary from October 2004 to December 2007. Previously, he served as Senior Vice President, General Counsel and Secretary of Covanta Energy since March 2004. From June 2001 to March 2004, Mr. Simpson served as Vice President, Associate General Counsel and Assistant Secretary of Covanta Energy. Mr. Simpson joined Covanta Energy in 1992. Age: 51.

Thomas E. Bucks has served as Vice President and Chief Accounting Officer since April 2005. Mr. Bucks served as Controller from February 2005 to April 2005. Previously, Mr. Bucks served as Senior Vice President - Controller of Centennial Communications Corp., a leading provider of regional wireless and integrated communications services in the United States and the Caribbean, from March 1995 through February 2005, where he was the principal accounting officer and was responsible for accounting operations and external financial reporting. Age: 53.

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Item 1A. RISK FACTORS

The following risk factors could have a material adverse effect on our business, financial condition and results of operations.

Changes in public policies and legislative initiatives could materially affect our business and prospects.

There has been substantial debate recently in the United States and abroad in the context of environmental and energy policies affecting climate change, the outcome of which could have a positive or negative influence on our existing business and our prospects for growing our business. The United States Congress has recently considered the enactment of laws that would encourage electricity generation from renewable technologies and discourage such generation from fossil fuels. Congress has considered proposed legislation which would have established new renewable portfolio standards which are designed to increase the proportion of the nation's electricity that is generated from renewable technologies. Congress has also considered enacting legislation which sets declining limits on greenhouse gas emissions, and requires generators to purchase rights to emit in excess of such limits, and allows such rights to be traded. This structure is sometimes referred to as cap-and-trade. In addition, Congress has periodically considered extending existing tax benefits to renewable energy technologies, which would expire without such an extension. Each of these policy initiatives, and potentially others that may be considered, could provide material financial and competitive benefits to those technologies which are included among those defined as renewable in any legislation that is enacted, or are otherwise favorably treated as greenhouse gas reducing technologies in cap-and-trade legislation. For those sources of greenhouse gas emissions that are unable to meet the required limitations, such legislation could impose substantial financial burdens. Our business could be adversely affected if renewable technologies we use were not included among those technologies identified in any final law as being renewable and/or greenhouse gas reducing, and therefore entitled to the benefits of such laws.

Weakness in the economy may have an adverse effect on our revenue and cash flow.

The ongoing global economic slowdown has reduced demand for goods and services generally, which tends to reduce overall volumes of waste requiring disposal, and the pricing at which we can attract waste to fill available capacity. At the same time, the recent decline in global oil and natural gas prices has pushed energy pricing lower generally, and may reduce the prices for the portion of the energy we sell under short-term arrangements. Lastly, the downturn in economic activity tends to reduce global demand for and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities. These factors could have a material adverse effect on our revenue and cash flow, and may not be successfully mitigated or reduced by the efforts of governments to stimulate economic activity.

Weakness in the economy may have an adverse effect on our ability to grow our business.

The same economic slowdown may reduce the demand for the waste disposal services and the energy that our facilities offer. Many of our customers are municipalities and public authorities, which are generally experiencing fiscal pressure as local and central governments seek to reduce expenses in order to address declining tax revenues, which may result from the ongoing global economic slowdown and increases in unemployment. These factors, particularly in the absence of energy policies which encourage renewable technologies such as energy-from-waste, may make it more difficult for us to sell waste disposal services or energy at prices sufficient to allow us to grow our business through developing and building new projects.

We may face increased risk of market influences on our revenues after our contracts expire.

The contracts pursuant to which we operate energy-from-waste projects and sell energy output expire on various dates between 2010 and 2034. Expiration of these contracts will subject us to greater market risk in entering into new or replacement contracts at pricing levels which will generate comparable or enhanced revenues. We cannot assure you that we will be able to enter into renewal or replacement contracts on favorable terms, or at all. The expiration of existing energy sales contracts, if not renewed, will require us to sell project energy output either into the electricity grid or pursuant to new contracts.

We may face risk of revenue and cash flow loss if we are not successful in extending or renewing our contracts to operate facilities which we do not own.

We operate facilities for municipal clients, under long-term contracts and we have historically been successful extending such contracts. If in the future when existing contracts expire, we are unable to reach agreement with our municipal clients on the terms under which they would extend our operating contracts, this may adversely affect our revenue, cash flow and profitability. We cannot assure you that we will be able to enter into such contracts or that the terms available in the market at the time will be favorable to us.

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Recent dislocations in credit and capital markets may make it more difficult for us to borrow money or raise capital needed to finance the construction of new projects, the expansion of our existing projects, and the acquisitions of certain businesses.

Our business is capital intensive, and we typically borrow money from project lenders to pay for a portion of the cost to construct facilities. Recent dislocations in the credit markets, including for project debt, have resulted in less credit being made available by banks and other lending institutions, and/or borrowing terms that are less favorable than has historically been the case. As a result, we may not be able to obtain financing for new facilities or expansions of our existing facilities, on terms, and/or for a cost, that we find acceptable, which may make it more difficult to grow our business through new and/or expanded facilities.

We also intend to grow our business through opportunistic acquisitions of projects or businesses. Some acquisitions may be large enough to require capital in excess of our cash on hand and availability under our revolving credit facility. Recent dislocations in the capital markets may adversely impact our access to debt or equity capital, and our ability to execute our strategy to grow our business through such acquisitions.

Recent dislocations in the credit and capital markets, if prolonged and severe, could make it more difficult or costly for us to refinance our corporate debt when it matures.

A substantial portion of our debt will need to be refinanced between 2012 and 2014. Prolonged instability or worsening of the credit or capital markets may adversely affect our ability to obtain refinancing of such debt on favorable terms, or at all. Such circumstances could adversely affect our business, financial condition, and/or the share price of our common stock.

Our reputation could be adversely affected if opposition to our efforts to grow our business results in adverse publicity.

With respect to our efforts to grow and maintain our business globally, we sometimes experience opposition from advocacy groups or others intended to halt development or on-going business. Such opposition is often intended to discourage third parties from doing business with us and may be based on misleading, inaccurate, incomplete or inflammatory assertions. Our reputation may be adversely affected as a result of adverse publicity resulting from such opposition. Such damage to our reputation could adversely affect our ability to grow and maintain our business.

Changes in technology may have a material adverse effect on our profitability.

Research and development activities are ongoing to provide alternative and more efficient technologies to dispose of waste, produce by-products from waste, or to produce power. We and many other companies are pursuing these technologies, and an increasing amount of capital is being invested to find new approaches to waste disposal, waste treatment, and renewable power generation. It is possible that this deployment of capital may lead to advances in these or other technologies which will reduce the cost of waste disposal or power production to a level below our costs and/or provide new or alternative methods of waste disposal or energy generation that become more accepted than those we currently utilize. Unless we are able to participate in these advances, any of these changes could have a material adverse effect on our revenues, profitability and the value of our existing facilities.

Operation of our facilities involves significant risks.

The operation of our facilities involves many risks, including:

the inaccuracy of our assumptions with respect to the timing and amount of anticipated revenues;

supply interruptions;
the breakdown or failure of equipment or processes;
difficulty or inability to find suitable replacement parts for equipment;
increases in the prices of commodities we need to continue operating our facilities;
the unavailability of sufficient quantities of waste or fuel;
fluctuations in the heating value of the waste we use for fuel at our energy-from-waste facilities;
decreases in the fees for solid waste disposal and electricity generated;
decreases in the demand or market prices for recovered ferrous or non-ferrous metal;
disruption in the transmission of electricity generated;
permitting and other regulatory issues, license revocation and changes in legal requirements;
labor disputes and work stoppages;
unforeseen engineering and environmental problems;
unanticipated cost overruns;

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weather interferences, catastrophic events including fires, explosions, earthquakes, droughts and acts of terrorism;
the exercise of the power of eminent domain; and
performance below expected levels of output or efficiency.

We cannot predict the impact of these risks on our business or operations. These risks, if they were to occur, could prevent us from meeting our obligations under our operating contracts and have an adverse affect on our results of operations.

Development and construction of new projects and expansions may not commence as anticipated, or at all.

The development and construction of new waste and energy facilities involves many risks including:

difficulties in identifying, obtaining and permitting suitable sites for new projects;
the inaccuracy of our assumptions with respect to the cost of and schedule for completing construction;
difficulty, delays or inability to obtain financing for a project on acceptable terms;
delays in deliveries of, or increases in the prices of, equipment sourced from other countries;
the unavailability of sufficient quantities of waste or other fuels for startup;
permitting and other regulatory issues, license revocation and changes in legal requirements;
labor disputes and work stoppages;
unforeseen engineering and environmental problems;
unanticipated cost overruns; and
weather interferences, catastrophic events including fires, explosions, earthquakes, droughts and acts of terrorism.

In addition, new facilities have no operating history and may employ recently developed technology and equipment. Our businesses maintain insurance to protect against risks relating to the construction of new projects; however, such insurance may not be adequate to cover lost revenues or increased expenses. As a result, a new facility may be unable to fund principal and interest payments under its debt service obligations or may operate at a loss. In certain situations, if a facility fails to achieve commercial operation, at certain levels or at all, termination rights in the agreements governing the facility's financing may be triggered, rendering all of the facility's debt immediately due and payable. As a result, the facility may be rendered insolvent and we may lose our interest in the facility.

Construction activities may cost more and take longer than we estimate.

The design and construction of new projects or expansions requires us to contract for services from engineering and construction firms, and make substantial purchases of equipment such as boilers, turbine generators and other components that require large quantities of steel to fabricate. World-wide demand for new infrastructure spending, including energy generating facilities and waste disposal facilities, continues to increase, and prices for building materials such as steel may also rise sharply. In addition, this increased demand affects not only the cost of obtaining the services necessary to design and construct these facilities, but also the availability of quality firms to perform the services. These conditions may adversely affect our ability to successfully compete for new projects, or construct and complete such projects on time and within budget.

Exposure to foreign currency fluctuations may affect our results from operations or construction costs of facilities we develop in international markets.

We have sought to participate in projects where the host country has allowed the convertibility of its currency into U.S. dollars and repatriation of earnings, capital and profits subject to compliance with local regulatory requirements.

As we grow our business in other countries and enter new international markets, we expect to invest substantial amounts in foreign currencies to pay for the construction costs of facilities we develop, or for the cost to acquire existing businesses or assets. Currency volatility in those markets, as well as the effectiveness of any currency hedging strategies we may implement, may impact the amount we are required to invest in new projects, as well as our reported results.

In some cases, components of project costs incurred or funded in U.S. dollars are recovered with limited exposure to currency fluctuations through negotiated contractual adjustments to the price charged for electricity or service provided. This contractual structure may cause the cost in local currency to the project's power purchaser or service recipient to rise from time to time in excess of local inflation. As a result, there is a risk in such situations that such power purchaser or service recipient will, at least in the near term, be less able or willing to pay for the project's power or service.

Changes in labor laws could adversely affect our relationship with our employees and cause disruptions to our business.

Legislation has been proposed in Congress which would materially change the labor laws in the United States. The proposed changes would, among other things, allow labor unions to organize employees without secret ballot employee

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protections; require arbitrator-imposed contracts in the event good faith bargaining was not successful within short time periods; and impose significant fines on employers under certain circumstances. Our business depends upon the professionalism, innovation, and hard work of our employees and our ability to maintain a safe workplace where employees are treated fairly, with respect, and where we have the flexibility to make operating decisions. We believe our success may be affected by the degree to which we are able to maintain a direct relationship with our employees without the imposition of third party representatives, such as labor unions. We cannot predict if such legislation will be enacted in its present form or whether and to what extent it may affect our relationship with our employees, the cost of operating our facilities and our operating discretion.

The rapid growth of our operations could strain our resources and cause our business to suffer.

We have experienced rapid growth and intend to further grow our business. This growth has placed, and potential future growth will continue to place, a strain on our management systems, infrastructure and resources. Our ability to successfully offer services and implement our business plan in a rapidly evolving market requires an effective planning and management process. We expect that we will need to continually evaluate and maintain our financial and managerial controls, reporting systems and procedures. We will also need to expand, train and manage our workforce worldwide. Furthermore, we expect that we will be required to manage an increasing number of relationships with various customers and other third parties. Failure to expand in any of the foregoing areas efficiently and effectively could interfere with the growth and current operation of our business as a whole.

Our efforts to grow our business will require us to incur significant costs in business development, often over extended periods of time, with no guarantee of success.

Our efforts to grow our waste and energy services business will depend in part on how successful we are in developing new projects and expanding existing projects. The development period for each project may occur over several years, during which we incur substantial expenses relating to siting, design, permitting, community relations, financing and professional fees associated with all of the foregoing. Not all of our development efforts will be successful, and we may decide to cease developing a project for a variety of reasons. If the cessation of our development efforts were to occur at an advanced stage of development, we may have incurred a material amount of expenses for which we will realize no return.

Our insurance and contractual protections may not always cover lost revenues, increased expenses or liquidated damages payments.

Although our businesses maintain insurance, obtain warranties from vendors, require contractors to meet certain performance levels and, in some cases, pass risks we cannot control to the service recipient or output purchaser, the proceeds of such insurance, warranties, performance guarantees or risk sharing arrangements may not be adequate to cover lost revenues, increased expenses or liquidated damages payments.

Performance reductions could materially and adversely affect us and our projects may operate at lower levels than expected.

Most service agreements for our energy-from-waste facilities provide for limitations on damages and cross-indemnities among the parties for damages that such parties may incur in connection with their performance under the service agreement. In most cases, such contractual provisions excuse our businesses from performance obligations to the extent affected by uncontrollable circumstances and provide for service fee adjustments if uncontrollable circumstances increase our costs. We cannot assure you that these provisions will prevent our businesses from incurring losses upon the occurrence of uncontrollable circumstances or that if our businesses were to incur such losses they would continue to be able to service their debt.

We have issued or are party to performance guarantees and related contractual obligations associated with our energy-from-waste facilities. With respect to our businesses, we have issued guarantees to our municipal clients and other parties that we will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. The obligations guaranteed will depend upon the contract involved. Many of our subsidiaries have contracts to operate and maintain energy-from-waste facilities. In these contracts, the subsidiary typically commits to operate and maintain the facility in compliance with legal requirements; to accept minimum amounts of solid waste; to generate a minimum amount of electricity per ton of waste; and to pay damages to contract counterparties under specified circumstances, including those where the operating subsidiary's contract has been terminated for default. Any contractual damages or other obligations incurred by us could be material, and in circumstances where one or more subsidiary's contract has been terminated for its default, such damages could include amounts sufficient to repay project debt. Additionally, damages payable under such guarantees on our owned energy-from-waste facilities could expose us to recourse liability on project debt. Certain of our operating subsidiaries which have issued these guarantees may not have sufficient sources of cash to pay

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such damages or other obligations. We cannot assure you that we will be able to continue to avoid incurring material payment obligations under such guarantees or that, if we did incur such obligations, that we would have the cash resources to pay them.

Our businesses generate their revenue primarily under long-term contracts and must avoid defaults under those contracts in order to service their debt and avoid material liability to contract counterparties.

We must satisfy performance and other obligations under contracts governing energy-from-waste facilities. These contracts typically require us to meet certain performance criteria relating to amounts of waste processed, energy generation rates per ton of waste processed, residue quantity and environmental standards. Our failure to satisfy these criteria may subject us to termination of operating contracts. If such a termination were to occur, we would lose the cash flow related to the projects and incur material termination damage liability, which may be guaranteed by us. In circumstances where the contract has been terminated due to our default, we may not have sufficient sources of cash to pay such damages. We cannot assure you that we will be able to continue to perform our respective obligations under such contracts in order to avoid such contract terminations, or damages related to any such contract termination, or that if we could not avoid such terminations that we would have the cash resources to pay amounts that may then become due.

We have provided guarantees and financial support in connection with our projects.

We are obligated to guarantee or provide financial support for our projects in one or more of the following forms:

- support agreements in connection with service or operating agreement-related obligations;
- direct guarantees of certain debt relating to our facilities;
- contingent obligations to pay lease payment installments in connection with certain of our facilities;
- agreements to arrange financing for projects under development;
- contingent credit support for damages arising from performance failures;
- environmental indemnities; and
- contingent capital and credit support to finance costs, in most cases in connection with a corresponding increase in service fees, relating to uncontrollable circumstances.

Many of these contingent obligations cannot readily be quantified, but, if we were required to provide this support, it may be material to our cash flow and financial condition.

Our businesses depend on performance by third parties under contractual arrangements.

Our waste and energy services businesses depend on a limited number of third parties to, among other things, purchase the electric and steam energy produced by our facilities, and supply and deliver the waste and other goods and services necessary for the operation of our energy facilities. The viability of our facilities depends significantly upon the performance by third parties in accordance with long-term contracts, and such performance depends on factors which may be beyond our control. If those third parties do not perform their obligations, or are excused from performing their obligations because of nonperformance by our waste and energy services businesses or other parties to the contracts, or due to force majeure events or changes in laws or regulations, our businesses may not be able to secure alternate arrangements on substantially the same terms, if at all, for the services provided under the contracts. In addition, the bankruptcy or insolvency of a participant or third party in our facilities could result in nonpayment or nonperformance of that party's obligations to us. Many of these third parties are municipalities and public authorities. The ongoing global economic slowdown and disruptions in credit markets have strained resources of these entities generally, and could make it difficult for these entities to honor their obligations to us.

We are subject to counterparty and market risk with respect to transactions with financial and other institutions.

Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions.

The option counterparties to our cash convertible note hedge transactions are financial institutions or affiliates of financial institutions, and we are subject to risks that these option counterparties default under these transactions. Our exposure to counterparty credit risk is not secured by any collateral. If one or more of the counterparties to one or more of our cash convertible note hedge transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under those transactions. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our stock price and in volatility of our stock. We may also suffer adverse tax consequences as a result of a default by one of the option counterparties. In addition, a default by an option counterparty may result in our inability to repay the 3.25% Cash Convertible Senior Notes as

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a result of the negative covenants in our credit agreement or otherwise. We can provide no assurances as to the financial stability or viability of any of our counterparties.

We also have a revolving credit facility, a funded letter of credit facility, and term loan with a diversified group of financial institutions. We can provide no assurances as to the financial stability or viability of these financial and other institutions and their ability to fund their obligation when required under our agreements.

We also expect that medium- and long-term contracts for sales of energy will be less available than in the past. As a result, following the expiration of our initial 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. Consequently, we may enter into futures, forward contracts, swaps or options with financial institutions to hedge our exposure to market risk in energy markets. We can provide no assurances as to the financial stability or viability of these financial and other institutions.

Concentration of suppliers and customers may expose us to heightened financial exposure.

Our waste and energy services businesses often rely on single suppliers and single customers at our facilities, exposing such facilities to financial risks if any supplier or customer should fail to perform its obligations.

For example, our businesses often rely on a single supplier to provide waste, fuel, water and other services required to operate a facility and on a single customer or a few customers to purchase all or a significant portion of a facility's output. In most cases our businesses have long-term agreements with such suppliers and customers in order to mitigate the risk of supply interruption. The financial performance of these facilities depends on such customers and suppliers continuing to perform their obligations under their long-term agreements. A facility's financial results could be materially and adversely affected if any one customer or supplier fails to fulfill its contractual obligations and we are unable to find other customers or suppliers to produce the same level of profitability. We cannot assure you that such performance failures by third parties will not occur, or that if they do occur, such failures will not adversely affect the cash flows or profitability of our businesses.

In addition, we rely on the municipal clients as a source not only of waste for fuel, but also of revenue from the fees for disposal services we provide. Because our contracts with municipal clients are generally long-term, we may be adversely affected if the credit quality of one or more of our municipal clients were to decline materially.

Our waste operations are concentrated in one region, and expose us to regional economic or market declines.

The majority of our waste disposal facilities are located in the northeastern United States, primarily along the Washington, D.C. to Boston, Massachusetts corridor. Adverse economic developments in this region could affect regional waste generation rates and demand for waste disposal services provided by us. Adverse market developments caused by additional waste disposal capacity in this region could adversely affect waste disposal pricing. Either of these developments could have a material adverse effect on our revenues and cash generation.

Some of our energy contracts involve greater risk of exposure to performance levels which could result in materially lower revenues.

Some of our energy-from-waste facilities receive 100% of the energy revenues they generate. As a result, if we are unable to operate these facilities at their historical performance levels for any reason, our revenues from energy sales could materially decrease.

Exposure to international economic and political factors may materially and adversely affect our international businesses.

Our international operations expose us to political, legal, tax, currency, inflation, convertibility and repatriation risks, as well as potential constraints on the development and operation of potential business, any of which can limit the benefits to us of an international project.

Our projected cash distributions from most of our existing international facilities come from facilities located in countries with sovereign ratings below investment grade. The financing, development and operation of projects outside the United States can entail significant political and financial risks, which vary by country, including:

- changes in law or regulations;
- changes in electricity pricing;
- changes in foreign tax laws and regulations;
- changes in United States federal, state and local laws, including tax laws, related to foreign operations;
- compliance with United States federal, state and local foreign corrupt practices laws;
- changes in government policies or personnel;

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changes in general economic conditions affecting each country, including conditions in financial markets; changes in labor relations in operations outside the United States; political, economic or military instability and civil unrest; expropriation and confiscation of assets and facilities; and credit quality of entities that purchase our power.

The legal and financial environment in foreign countries in which we currently own assets or projects could also make it more difficult for us to enforce our rights under agreements relating to such projects.

Any or all of the risks identified above with respect to our international projects could adversely affect our revenue and cash generation. As a result, these risks may have a material adverse effect on our business, consolidated financial condition and results of operations.

Our reputation could be adversely affected if our businesses, or third parties with whom we have a relationship, were to fail to comply with United States or foreign laws or regulations.

Some of our projects and new business may be conducted in countries where corruption has historically penetrated the economy to a greater extent than in the United States. It is our policy to comply, and to require our local partners and those with whom we do business to comply, with all applicable anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, and with applicable local laws of the foreign countries in which we operate. Our reputation may be adversely affected if we were reported to be associated with corrupt practices or if we or our local partners failed to comply with such laws. Such damage to our reputation could adversely affect our ability to grow our business.

Exposure to fuel supply prices may affect our costs and results of operations.

Changes in the market prices and availability of fuel supplies to generate electricity may increase our cost of producing power, which could adversely impact our energy businesses' profitability and financial performance.

The market prices and availability of fuel supplies fluctuate for some of our international facilities, and for our biomass facilities. Any price increase, delivery disruption or reduction in the availability of such supplies could affect our ability to operate the facilities and impair their cash flow and profitability. We may be subject to further exposure if any of our future international operations are concentrated in facilities using fuel types subject to fluctuating market prices and availability. We may not be successful in our efforts to mitigate our exposure to supply and price swings.

Our inability to obtain resources for operations may adversely affect our ability to effectively compete.

Our energy-from-waste facilities depend on solid waste for fuel, which provides a source of revenue. For most of our facilities, the prices we charge for disposal of solid waste are fixed under long-term contracts and the supply is guaranteed by sponsoring municipalities. However, for some of our energy-from-waste facilities, the availability of solid waste to us, as well as the tipping fee that we must charge to attract solid waste to our facilities, depends upon competition from a number of sources such as other energy-from-waste facilities, landfills and transfer stations competing for waste in the market area. In addition, we may need to obtain waste on a competitive basis as our long-term contracts expire at our owned facilities. There has been consolidation and there may be further consolidation in the solid waste industry which would reduce the number of solid waste collectors or haulers that are competing for disposal facilities or enable such collectors or haulers to use wholesale purchasing to negotiate favorable below-market disposal rates. The consolidation in the solid waste industry has resulted in companies with vertically integrated collection activities and disposal facilities. Such consolidation may result in economies of scale for those companies as well as the use of disposal capacity at facilities owned by such companies or by affiliated companies. Such activities can affect both the availability of waste to us for disposal at some of our

energy-from-waste facilities and market pricing.

Compliance with environmental laws could adversely affect our results of operations.

Costs of compliance with federal, state, local and foreign existing and future environmental regulations could adversely affect our cash flow and profitability. Our waste and energy services businesses are subject to extensive environmental regulation by federal, state and local authorities, primarily relating to air, waste (including residual ash from combustion) and water. We are required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in operating our facilities. Our businesses may incur significant additional costs to comply with these requirements. Environmental regulations may also limit our ability to operate our facilities at maximum capacity or at all. If our businesses fail to comply with these requirements, we could be subject to civil or criminal liability, damages and fines. Existing environmental regulations could be revised or reinterpreted and new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur. This may materially

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increase the amount we must invest to bring our facilities into compliance, impose additional expense on our operations, or otherwise impose structural changes to markets which would adversely affect our competitive positioning in those markets.

In addition, lawsuits or enforcement actions by federal, state and/or foreign regulatory agencies may materially increase our costs. Stricter environmental regulation of air emissions, solid waste handling or combustion, residual ash handling and disposal, and waste water discharge could materially affect our cash flow and profitability. Certain environmental laws make us potentially liable on a joint and several basis for the remediation of contamination at or emanating from properties or facilities we currently or formerly owned or operated or properties to which we arranged for the disposal of hazardous substances. Such liability is not limited to the cleanup of contamination we actually caused. Although we seek to obtain indemnities against liabilities relating to historical contamination at the facilities we own or operate, we cannot provide any assurance that we will not incur liability relating to the remediation of contamination, including contamination we did not cause.

Our businesses may not be able to obtain or maintain, from time to time, all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, the operation of our facilities could be jeopardized or become subject to additional costs.

Energy regulation could adversely affect our revenues and costs of operations.

Our waste and energy services businesses are subject to extensive energy regulations by federal, state and foreign authorities. We cannot predict whether the federal, state or foreign governments will modify or adopt new legislation or regulations relating to the solid waste or energy industries. The economics, including the costs, of operating our facilities may be adversely affected by any changes in these regulations or in their interpretation or implementation or any future inability to comply with existing or future regulations or requirements.

The Federal Power Act (FPA) regulates energy generating companies and their subsidiaries and places constraints on the conduct of their business. The FPA regulates wholesale sales of electricity and the transmission of electricity in interstate commerce by public utilities. Under the Public Utility Regulatory Policies Act of 1978, our facilities located in the United States are exempt from most provisions of the FPA and state rate regulation. Our foreign projects are also exempt from regulation under the FPA.

The Energy Policy Act of 2005 enacted comprehensive changes to the energy industry in the United States which may affect our businesses. The Energy Policy Act removed certain regulatory constraints that previously limited the ability of utilities and utility holding companies to invest in certain activities and businesses, which may have the effect over time of increasing competition in energy markets in which we participate. In addition, the Energy Policy Act includes provisions that may remove some of the benefits provided to non-utility electricity generators, like us, after our existing energy sale contracts expire. As a result, we may face increased competition after such expirations occur.

If our businesses lose existing exemptions under the FPA, the economics and operations of our energy projects could be adversely affected, including as a result of rate regulation by the Federal Energy Regulatory Commission with respect to our output of electricity, which could result in lower prices for sales of electricity. In addition, depending on the terms of the project's power purchase agreement, a loss of our exemptions could allow the power purchaser to cease taking and paying for electricity under existing contracts. Such results could cause the loss of some or all contract revenues or otherwise impair the value of a project and could trigger defaults under provisions of the applicable project contracts and financing agreements. Defaults under such financing agreements could render the underlying debt immediately due and payable. Under such circumstances, we cannot assure you that revenues received, the costs incurred, or both, in connection with the project could be recovered through sales to other purchasers.

Failure to obtain regulatory approvals could adversely affect our operations.

Our waste and energy services businesses are continually in the process of obtaining or renewing federal, state, local and foreign approvals required to operate our facilities. While we believe our businesses currently have all necessary operating approvals, we may not always be able to obtain all required regulatory approvals, and we may not be able to obtain any necessary modifications to existing regulatory approvals or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain and comply with any required regulatory approvals, the operation of our facilities or the sale of electricity to third parties could be prevented, made subject to additional regulation or subject our businesses to additional costs or a decrease in revenue.

The energy industry is becoming increasingly competitive, and we might not successfully respond to these changes.

We may not be able to respond in a timely or effective manner to the changes resulting in increased competition in the energy industry in global markets. These changes may include deregulation of the electric utility industry in some markets,

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privatization of the electric utility industry in other markets and increasing competition in all markets. To the extent competitive pressures increase and the pricing and sale of electricity assumes more characteristics of a commodity business, the economics of our business may be subject to greater volatility.

Our substantial indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under our indebtedness.

The level of our consolidated indebtedness could have significant consequences on our future operations, including:

- making it difficult for us to meet our payment and other obligations under our outstanding indebtedness;
- limiting our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on indebtedness under our credit facilities;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industries in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under our consolidated debt, and the price of our common stock.

We cannot assure you that our cash flow from operations will be sufficient to service our indebtedness.

Our ability to meet our obligations under our indebtedness depends on our ability to generate cash and our ability to receive dividends and distributions from our subsidiaries in the future. This, in turn, is subject to many factors, some of which are beyond our control, including the following:

- the continued operation and maintenance of our facilities, consistent with historical performance levels;
- maintenance or enhancement of revenue from renewals or replacement of existing contracts and from new contracts to expand existing facilities or operate additional facilities;
- market conditions affecting waste disposal and energy pricing, as well as competition from other companies for contract renewals, expansions and additional contracts, particularly after our existing contracts expire; and
- general economic, financial, competitive, legislative, regulatory and other factors.

We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under our outstanding indebtedness and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under our outstanding indebtedness, which could have a material and adverse affect on our financial condition.

Our credit facilities contain covenant restrictions that may limit our ability to operate our business.

Our credit facilities contain operating and financial restrictions and covenants that impose operating and financial restrictions on us and require us to meet certain financial tests. Complying with these covenant restrictions may have a negative impact on our business, results of operations and financial condition by limiting our ability to engage in certain transactions or activities, including:

incurring additional indebtedness or issuing guarantees, in excess of specified amounts;
creating liens, in excess of specified amounts;
making certain investments, in excess of specified amounts;
entering into transactions with our affiliates;
selling certain assets, in excess of specified amounts;
making cash distributions or paying dividends to us, in excess of specified amounts;
redeeming capital stock or making other restricted payments to us, in excess of specified amounts; and
merging or consolidating with any person.

Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us, or in declaring and paying dividends to our stockholders. In addition, the failure to comply with these covenants in our credit facilities could result in a default thereunder and a default under the 1.00% Senior Convertible Debentures due 2027 (the Debentures). Upon the occurrence of such an event of default, the lenders under our credit facilities could elect to declare all amounts

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outstanding under such agreement, together with accrued interest, to be immediately due and payable. If the lenders accelerate the payment of the indebtedness under our credit facilities, we cannot assure you that the assets securing such indebtedness would be sufficient to repay in full that indebtedness and our other indebtedness, including the Debentures which could have a material and adverse affect on our financial condition.

We cannot be certain that our NOLs will continue to be available to offset tax liability.

Our net operating loss carryforwards (NOLs), which offset our consolidated taxable income, will expire in various amounts, if not used, between 2011 and 2028. The Internal Revenue Service (IRS) has not audited any of our tax returns for any of the years during the carryforward period including those returns for the years in which the losses giving rise to the NOLs were reported. We cannot assure you that we would prevail if the IRS were to challenge the availability of the NOLs. If the IRS were successful in challenging our NOLs, it is possible that some portion of the NOLs would not be available to offset our future consolidated taxable income.

As of December 31, 2009, we estimated that we had approximately \$545 million of NOLs. In order to utilize the NOLs, we must generate consolidated taxable income which can offset such carryforwards. The NOLs are also used to offset income from certain grantor trusts that were established as part of the reorganization in 1990 of certain of our subsidiaries engaged in the insurance business and are administered by state regulatory agencies. As the administration of these grantor trusts is concluded, taxable income could result, which could utilize a portion of our NOLs and, in turn, could accelerate the date on which we may be otherwise obligated to pay incremental cash taxes.

In addition, if our existing insurance business were to require capital infusions from us in order to meet certain regulatory capital requirements, and we were to fail to provide such capital, some or all of our subsidiaries comprising our insurance business could enter insurance insolvency or bankruptcy proceedings. In such event, such subsidiaries may no longer be included in our consolidated tax return, and a portion, which could constitute a significant portion, of our remaining NOLs may no longer be available to us. In such event, there may be a significant inclusion of taxable income in our federal consolidated income tax return.

Our controls and procedures may not prevent or detect all errors or acts of fraud.

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 an unauthorized override of the controls. 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.

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the Securities and Exchange Commission to implement Section 404, we are required to furnish a report by our management to include in our annual report on Form 10-K regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control

over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

We have in the past discovered, and may potentially in the future discover, areas of internal control over financial reporting which may require improvement. If we are unable to assert that our internal control over financial reporting is effective now or in any future period, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

Provisions of our certificate of incorporation, Debentures and Notes could discourage an acquisition by a third party.

Provisions of our restated certificate of incorporation could make it more difficult for a third party to acquire control of us. For example, our restated certificate of incorporation authorizes our Board of Directors to issue preferred stock without

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requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders.

Certain provisions of the Debentures and Notes could make it more difficult or more expensive for a third party to acquire control of us. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders. Upon the occurrence of certain transactions constituting a fundamental change, the holders of the Debentures and Notes will have the right to require us to repurchase their Debentures or Notes. We may also be required to issue additional shares upon conversion or provide for conversion based on the acquirer's capital stock in the event of certain fundamental changes. These possibilities could discourage an acquisition of us.

The market price of our common stock may fluctuate significantly, and this may make it difficult for holders to resell our common stock when they want or at prices that they find attractive.

The price of our common stock on the New York Stock Exchange constantly changes. We expect that the market price of our common stock will continue to fluctuate. In addition, because the Debentures are convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the Debentures. Consequently, there can be no assurance as to the liquidity of an investment in our common stock.

The market price of our common stock may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- changes in the waste and energy market conditions;
- quarterly variations in our operating results;
- our operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in the economy and the financial markets;
- purchases or sales of large blocks of our stock by existing or new holders of our common stock;
- departures of key personnel;
- changes in governmental regulations; and
- geopolitical conditions, such as acts or threats of terrorism or military conflicts.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Future issuances of our common stock will dilute the ownership interests of stockholders and may adversely affect the trading price of our common stock.

We are not restricted from issuing additional shares of our common stock, or securities convertible into or exchangeable for our common stock. Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could materially and adversely affect prevailing trading prices of our common stock. In addition, the conversion of some or all of the Debentures will dilute

the ownership interests of our existing stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Debentures may encourage short selling by market participants because the conversion of the Debentures could depress the trading price of our common stock.

Item 1B. *UNRESOLVED STAFF COMMENTS*

None.

Item 2. *PROPERTIES*

We own 5.4 acres in Fairfield, New Jersey where our corporate offices reside. We lease approximately 104,000 square feet of office space in Morristown, New Jersey, to which we intend to relocate our corporate offices in late 2010. In addition, we lease various office facilities in California aggregating approximately 25,539 square feet and we own undeveloped land in Massachusetts and California aggregating approximately 95 acres. As of December 31, 2009, we owned, had equity

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investments in and/or operated 73 projects in the Americas segment consisting of 41 energy-from-waste operations, two ashfills and two landfills, 13 transfer stations, eight wood waste (biomass) energy projects, four water (hydroelectric) energy projects, and three landfill gas energy projects. Principal projects are described above under *Item 1. Business - Americas Segment*. Projects in the Americas segment which we own or lease are conducted at properties, which we also own or lease, aggregating approximately 1,717 acres, of which approximately 1,373 acres are owned and approximately 341 acres are leased.

We operate our International segment projects through a network of offices located in Shanghai, China; Chennai, India; Dublin, Ireland; and Birmingham, England, where we lease office space aggregating approximately 24,973 square feet. We hold a long-term lease for 23 acres of undeveloped land in Cheshire, England. As of December 31, 2009, we are the part owner/operator of eight international projects, of which three are owned or controlled by subsidiaries, with businesses conducted at properties which are leased aggregating approximately 66 acres. Principal projects are described above under *Item 1. Business - International Segment*.

Item 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, see *Item 8. Financial Statements And Supplementary Data - Note 21. Commitments and Contingencies*, which information is incorporated herein by reference.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2009.

Table of Contents**PART II****Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the New York Stock Exchange under the symbol CVA. On February 17, 2010, there were approximately 1,442 holders of record of our common stock. On February 17, 2010, the closing price of our common stock on the New York Stock Exchange was \$17.55 per share. The following table sets forth the high and low stock prices of our common stock for the last two years.

	2009		2008	
	High	Low	High	Low
First Quarter	\$ 22.92	\$ 12.47	\$ 29.50	\$ 22.89
Second Quarter	\$ 17.63	\$ 12.61	\$ 30.37	\$ 26.03
Third Quarter	\$ 19.22	\$ 16.12	\$ 29.86	\$ 20.40
Fourth Quarter	\$ 18.58	\$ 16.50	\$ 23.78	\$ 15.46

We have not paid dividends on our common stock and do not expect to declare or pay any dividends in the foreseeable future. We currently intend to retain all earnings to fund operations and expansion of our business. Under current financing arrangements, there are restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances that would likely limit the future payment of dividends on our common stock. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* and *Item 8. Financial Statements And Supplementary Data - Note 11. Long-Term Debt*.

See *Item 8. Financial Statements And Supplementary Data - Note 4. Earnings Per Share and Equity* regarding repurchased shares of our common stock in connection with tax withholdings for vested stock awards and *Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* regarding securities authorized for issuance under equity compensation plans.

Item 6. SELECTED FINANCIAL DATA

	2009	For the Years Ended December 31,			2005(1)
		2008	2007	2006	
		(In thousands, except per share amounts)			
Statements of Operations Data					
Operating revenues	\$ 1,550,467	\$ 1,664,253	\$ 1,433,087	\$ 1,268,536	\$ 978,763
Equity in net income from unconsolidated investments	\$ 23,036	\$ 23,583	\$ 22,196	\$ 28,636	\$ 25,609
Net income attributable to Covanta Holding Corporation	\$ 101,645	\$ 128,960	\$ 121,693	\$ 105,789	\$ 59,326
Income per share:					
Basic	\$ 0.66	\$ 0.84	\$ 0.80	\$ 0.73	\$ 0.49

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Diluted	\$	0.66	\$	0.83	\$	0.79	\$	0.72	\$	0.46
Weighted average common shares outstanding:										
Basic		153,694		153,345		152,653		145,663		122,209
Diluted		154,994		154,732		153,997		147,030		127,910

	As of December 31,									
	2009	2008	2007	2006	2005(1)					
	(In thousands, except per share amounts)									
Balance Sheet Data										
Cash and cash equivalents	\$	433,683	\$	192,393	\$	149,406	\$	233,442	\$	128,556
Restricted funds held in trust	\$	277,752	\$	324,911	\$	379,864	\$	407,921	\$	447,432
Property, plant and equipment, net	\$	2,582,841	\$	2,530,035	\$	2,620,507	\$	2,637,923	\$	2,724,843
Total assets	\$	4,934,282	\$	4,279,989	\$	4,368,499	\$	4,437,820	\$	4,702,165
Long-term debt	\$	1,437,706	\$	948,518	\$	937,084	\$	1,260,123	\$	1,308,119
Project debt	\$	959,364	\$	1,078,370	\$	1,280,275	\$	1,435,947	\$	1,598,284
Total Covanta Holding Corporation stockholders equity	\$	1,383,006	\$	1,189,037	\$	1,073,293	\$	739,152	\$	599,241
Book value per share of common stock(2)	\$	8.93	\$	7.71	\$	6.97	\$	5.01	\$	4.24
Shares of common stock outstanding		154,936		154,280		153,922		147,500		141,166

(1) For the year ended December 31, 2005, Covanta ARC Holdings, Inc.'s results of operations were included in our consolidated results subsequent to June 24, 2005.

(2) Book value per share of common stock is calculated by dividing total Covanta Holding Corporation stockholders equity by the number of shares of common stock outstanding.

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Item 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The terms we, our, ours, us and Company refer to Covanta Holding Corporation and its subsidiaries; the term Energy refers to our subsidiary Covanta Energy Corporation and its subsidiaries.

OVERVIEW

We are a leading developer, owner and operator 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 in the Americas, Europe and Asia. Our reportable segments are Americas (formerly referred to as Domestic) and International. We are organized as a holding company and conduct all of our operations through subsidiaries which are engaged predominantly in the businesses of waste and energy services. We also engage in the independent power production business outside the Americas. We have investments in subsidiaries engaged in insurance operations in California, primarily in property and casualty insurance.

As of December 31, 2009, we owned, had equity investments in, and/or operate 64 energy generation facilities, 56 of which were in the Americas and eight of which were located outside the Americas. Our energy generation facilities use a variety of fuels, including municipal solid waste, wood waste (biomass), landfill gas, water (hydroelectric), natural gas, coal, and heavy fuel-oil. We also own or operate several businesses that are associated with our energy-from-waste business, including a waste procurement business, two ash fills and two landfills, which we use primarily for ash disposal, and 13 waste transfer stations.

We have extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We intend to continue to focus our efforts on pursuing development and acquisition-based growth. We anticipate that a part of our future growth will come from acquiring or investing in additional energy-from-waste, waste disposal and renewable energy production businesses in the Americas, Europe and Asia. 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.

For several years, we have expanded our network of waste and energy services businesses through acquisitions, equity investments and additional operating and development contracts. In our Americas segment, from 2007 through 2009, we have added ten energy-from-waste facilities, two ashfills, eight transfer stations and four biomass projects to the network of projects that we own, have equity investments in, and/or operate. In addition, we have completed the expansion of the energy-from-waste facilities located in Lee County, Florida and Hillsborough County, Florida and extended the related service contracts for these facilities. We recently entered into agreements to expand the Honolulu, Hawaii energy-from-waste facility, and to extend our operating agreement for that facility. We also entered into various contract extensions or new service agreements with existing energy-from-waste facilities, such as in Detroit, Michigan; Stanislaus County, California; Wallingford, Connecticut; Pasco County, Florida; Indianapolis, Indiana; Kent County, Michigan; and Hempstead, New York. During this period, we have added approximately 17% in waste disposal capacity and 17% in gross electric capacity in our Americas segment. We have also acquired a 3,000 tons per day (tpd) energy-from-waste business in Miami-Dade, Florida in February 2010.

In our International segment, we have commenced construction of a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. We also have equity interests in two companies located in China, one through which we hold minority interests in two existing energy-from-waste facilities and the other through which we are constructing an 1,800 tpd energy-from-waste facility in Sichuan Province in China. We

also hold a controlling interest in a company constructing a 350 tpd energy-from-waste facility in Jiangsu Province in China. Additional information related to our acquisitions and business development is provided below under *Growth and Development*.

The Energy-From-Waste Solution

Our mission is to be the world's leading energy-from-waste company, with a complementary network of renewable energy generation and waste disposal assets. We expect to build value for our stockholders by satisfying our clients waste disposal and energy generation needs with safe, reliable and environmentally sustainable solutions. In order to accomplish this mission and create additional value for our stockholders, we are focused on:

- providing customers with superior service and effectively managing our existing business;
- generating sufficient cash to meet our liquidity needs and invest in our business;
- advancing our Clean World Initiative in order to enhance the value of our existing business and create new opportunities; and
- developing new projects and making acquisitions to grow our business in the Americas, Europe and Asia.

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We believe that our business offers solutions to public sector leaders around the world in two related elements of critical infrastructure: waste disposal and renewable energy generation. We believe that the environmental benefits of energy-from-waste, as an alternative to landfilling, are clear and compelling: by processing municipal solid waste in energy-from-waste facilities we reduce greenhouse gas (GHG) emissions, lower the risk of groundwater contamination, and conserve land. At the same time, energy-from-waste generates clean, reliable energy from a renewable fuel source, thus reducing dependence on fossil fuels, the combustion of which is itself a major contributor to GHG emissions. As public planners in the Americas, Europe and Asia address their needs for more environmentally sustainable waste disposal and energy generation in the years ahead, we believe that energy-from-waste will be an increasingly attractive alternative. We will also consider, for application in the Americas and International segments, acquiring or developing new technologies that complement our existing renewable energy and waste services businesses.

Our business offers sustainable solutions to energy and environmental problems, and our corporate culture is increasingly focused on themes of sustainability in all of its forms. We aspire to continuous improvement in environmental performance, beyond mere compliance with legally required standards. This ethos is embodied in our Clean World Initiative, an umbrella program under which we are:

- investing in research and development of new technologies to enhance existing operations and create new business opportunities in renewable energy and waste management;
- exploring and implementing processes and technologies at our facilities to improve energy efficiency and lessen environmental impacts; and
- partnering with governments and non-governmental organizations to pursue sustainable programs, reduce the use of environmentally harmful materials in commerce and communicate the benefits of energy-from-waste.

Our Clean World Initiative is designed to be consistent with our mission to be the world's leading energy-from-waste company by providing environmentally superior solutions, advancing our technical expertise and creating new business opportunities. It represents an investment in our future that we believe will enhance stockholder value.

In order to create new business opportunities and benefits and enhance stockholder value, we are actively engaged in the current discussion among policy makers in the United States regarding the benefits of energy-from-waste and the reduction of our dependence on landfilling for waste disposal and fossil fuels for energy. Given the ongoing global economic slowdown and related unemployment, policy makers are also expected to focus on economic stimulus, job creation, and energy security. We believe that the construction and permanent jobs created by additional energy-from-waste development represent the type of green jobs that are consistent with this focus. The extent to which we are successful in growing our business will depend in part on our ability to effectively communicate the benefits of energy-from-waste to public planners seeking waste disposal solutions and to policy makers seeking to encourage renewable energy technologies (and the associated green jobs) as viable alternatives to reliance on fossil fuels as a source of energy.

The United States Congress is currently debating proposals designed to encourage two broad policy objectives: increased renewable energy generation, and reduction of fossil fuel usage and related GHG emissions. The United States House of Representatives passed a bill known as the America Clean Energy and Security Act of 2009 (ACES) which addresses both policy objectives, by means of a phased-in national renewable energy standard and a cap-and-trade system to reduce GHG emissions. Energy-from-waste and biomass have generally been included in the ACES bill to be among the technologies that help to achieve both policy objectives. Similar legislation has been introduced in the United States Senate. While legislation is far from final and a vigorous debate is expected when the House of Representatives and Senate bills are reconciled, we believe the direction of Congressional efforts could create additional growth opportunities for our business and increase energy revenue from existing facilities.

2009 Financial Summary

Our financial results for the year ended December 31, 2009 included total revenues of \$1,550 million compared to \$1,664 million for the year ended December 31, 2008. Net income attributable to Covanta Holding Corporation was \$101.6 million and diluted earnings per share was \$0.66 for the year ended December 31, 2009. In the same prior year period, net income attributable to Covanta Holding Corporation was \$129.0 million and diluted earnings per share was \$0.83.

A more detailed discussion of our financial results and liquidity can be found in the *Results of Operations* discussion below. The highlights of the components of operating income between the two periods are as follows:

Americas segment revenue declined \$25.2 million or 1.8% to \$1,346 million. New business revenue was \$72.5 million, related primarily to the Veolia EfW Acquisition. Existing business revenues declined by \$97.7 million, of which \$55.7 million was largely due to the impact of the slow economy which caused lower recycled metal, energy and waste prices. In addition, lower debt service revenue, a decline in construction activity, and net contract changes at various facilities contributed approximately \$32.3 million to the decline.

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Americas segment operating expenses during the year increased by \$35.0 million. New business operating expenses were \$77.8 million and we also incurred acquisition-related transaction costs of \$6.8 million, both of which were primarily associated with the Veolia EfW Acquisition. Existing business operating expenses decreased by \$49.6 million primarily attributable to a \$12.7 million decline in energy related expenses and greater internalization of waste disposal. In addition, lower levels of construction activity and the contract changes at various facilities contributed \$36.8 million to the expense reduction. Reductions in existing business expenses were also attributable to lower depreciation expense, lower interest expense and reduced plant operating expense for renewable energy credits sold totaling \$13.3 million. In 2008, operating expenses were lower by \$13.5 million due to insurance recoveries recorded for the settlement of property damages and business interruption losses related to the SEMASS energy-from-waste facility.

International segment revenue decreased \$95.2 million during the year while operating expenses declined by \$97.4 million, resulting in operating income that was essentially flat with the prior year comparable period. The decreases in revenues and operating expenses resulted primarily from lower fuel costs at our Indian facilities.

The components of diluted earnings per share are as follows:

	For the Years Ended December 31, 2009 2008	
Net tax impact from Grantor Trust activity(A)	\$ (0.01)	\$ (0.10)
Veolia EfW acquisition-related costs, net of tax(B)	(0.02)	
Impact of SEMASS fire and insurance recoveries, net of write-down of assets and tax(C)		0.05
All other	0.69	0.88
Diluted Earnings Per Share	\$ 0.66	\$ 0.83

(A) During 2009 and 2008, we recognized additional tax liabilities associated with the activity from the wind-down of the grantor trusts that arose from our predecessor insurance entities.

(B) This amount relates primarily to acquisition-related costs incurred associated with the acquisition of six energy-from-waste businesses and one transfer station business from Veolia Environmental Services North America Corp. (the Veolia EfW Acquisition) in 2009. Acquisition-related costs are no longer capitalized as a cost of the business acquired. Instead, these costs are expensed as they are incurred as a result of a recent accounting pronouncement which was effective January 1, 2009.

(C) This amount primarily includes insurance recoveries for business interruption losses related to the SEMASS energy-from-waste facility fire on March 31, 2007.

In 2009, we issued \$460 million aggregate principal amount of 3.25% Cash Convertible Senior Notes (the Notes) due 2014. A more detailed discussion of this offering can be found in the *Liquidity and Capital Resources* discussion below.

As of December 31, 2009, in addition to our ongoing cash flow, we have access to several sources of liquidity, including our existing cash on hand of \$434 million and the undrawn and available capacity of \$300 million of our revolving credit facility (the Revolving Loan Facility). In addition, we had restricted cash of \$278 million, of which \$166 million was designated for future payment of project debt principal. See *Liquidity and Capital Resources Available Sources of Liquidity* below.

Factors Affecting Business Conditions and Financial Results

Economic The ongoing global economic slowdown has reduced demand for goods and services generally, which tends to reduce overall volumes of waste requiring disposal, and the pricing at which we can attract waste to fill available capacity. At the same time, the declines in global natural gas and other fossil fuel prices have pushed electricity and steam pricing lower generally which causes lower revenue for the portion of the energy we sell which is not under fixed-price contracts. Lastly, the downturn in economic activity has reduced global demand for and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities. The combined effects of these conditions reduced our revenue and cash flow in 2009.

Many of our customers are municipalities and public authorities, which are generally experiencing fiscal pressure as local and central governments seek to reduce expenses in order to address declining tax revenues which may result from the slowdown and increases in unemployment. At the same time, continued dislocations in the financial sector may make it more difficult, and more costly, to finance new projects. These factors, particularly in the absence of energy policies which encourage renewable technologies such as energy-from-waste, may make it more difficult for us to sell waste disposal services or energy at prices sufficient to allow us to grow our business through developing and building new projects, or through the acquisition of additional businesses.

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Seasonal Our quarterly operating income for the Americas and International segments, within the same fiscal year, typically differ substantially due to seasonal factors, primarily as a result of the timing of scheduled plant maintenance. We typically conduct scheduled maintenance periodically each year, which requires that individual boiler units temporarily cease operations. During these scheduled maintenance periods, we incur material repair and maintenance expenses and receive less revenue until the boiler units resume operations. This scheduled maintenance typically occurs during periods of off-peak electric demand in the spring and fall. The spring scheduled maintenance period is typically more extensive than scheduled maintenance conducted during the fall. As a result, we typically incur the highest maintenance expense in the first half of the year. Given these factors, we typically experience lower operating income from our projects during the first six months of each year and higher operating income during the second six months of each year.

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

Other Factors Affecting Performance We 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*. 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 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 while ensuring that adequate facility maintenance is conducted so that historic levels of operating performance can be sustained;
- 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 following:

- Changes in fuel price for projects in which such costs are not completely passed through to the electricity purchaser through revenue adjustments, or delays in the effectiveness of revenue adjustments;
- The amounts of electricity actually requested by purchasers of electricity, and whether or when such requests are made, our facilities are then available to deliver such electricity;
- The financial condition and creditworthiness of purchasers of power and services provided by us;

Fluctuations in the value of the domestic currency against the value of the U.S. dollar for projects in which we are paid in whole or in part in the domestic currency of the host country; and
Political risks inherent to the international business which could affect both the ability to operate the project in conformance with existing agreements and the repatriation of dividends from the host country.

Business Segments

Our reportable segments are Americas and International. The Americas segment is comprised of waste and energy services operations primarily in the United States and Canada. The International segment is comprised of waste and energy services operations in other countries, currently those of the United Kingdom, Ireland, Italy, China, The Philippines, India and Bangladesh.

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Segment	Description
Americas	For all energy-from-waste projects, we receive revenue from two primary sources: fees charged for operating projects or processing waste received and payments for electricity and steam sales. We also operate, and in some cases have ownership interests in, transfer stations and landfills which generate revenue from waste and ash disposal fees or operating fees. In addition, we own and in some cases operate, other renewable energy projects primarily in the United States which generate electricity from wood waste (biomass), landfill gas, and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities. For these projects, we receive revenue from electricity sales, and in some cases cash from equity distributions. We may receive additional revenue from construction activity during periods when we are constructing new facilities or expanding existing facilities.
International	We have ownership interests in and/or operate facilities internationally, including independent power production facilities in the Philippines, Bangladesh, China and India where we generate electricity by combusting coal, natural gas and heavy fuel-oil, and energy-from-waste facilities in China and Italy. We are constructing energy-from-waste facilities in Ireland and China. We receive revenue from operating fees, waste processing fees, electricity and steam sales, construction activities, and in some cases receive cash from equity distributions.

Contract Structures

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. Often, we design the facility, help to arrange for financing and then we either construct and equip the facility on a fixed price and schedule basis, or we undertake an alternative role, such as construction management, if that better meets the goals of our municipal client. Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating projects or for processing waste received, and payments we receive for electricity and/or steam we sell. Typical features of these agreements are as follows:

Contract types	Current number of projects	Fees for operating projects or for processing waste received	Payments for electricity and/or steam we sell
Service Fee	28	We charge a fixed fee (which escalates over time pursuant to contractual indices that we believe are appropriate to reflect price inflation) for operation and	At most of our Service Fee projects, the operating subsidiary retains only a fraction of the energy revenues generated, with the balance (generally

maintenance services provided to these energy-from-waste projects. At projects that we own and where project debt is in place, a portion of our fee is dedicated to project debt service. Our contracts at Service Fee projects provide revenue that does not materially vary based on the amount of waste processed or energy generated and as such is relatively stable for the contract term. (28 Americas segment Service Fee projects).

90%) used to provide a credit to the municipal client against its disposal costs. Therefore, in these projects, the municipal client derives most of the benefit and risk of energy production and changing energy prices.

Tip Fee

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We receive a per-ton fee under contracts for processing waste at Tip Fee projects. We generally enter into long-term waste disposal contracts for a substantial portion of the project's disposal capacity. These Tip Fee service agreements include stated fixed fees earned by us for processing waste up to certain base contractual amounts during specified periods. These Tip Fee service agreements also set forth the per-ton fees that are payable if we accept waste in excess of the base contractual amounts. The waste disposal and energy revenue from these projects is more dependent upon operating performance and, as such, is subject to greater revenue fluctuation to the extent performance levels fluctuate. (13 Americas segment Tip Fee projects and 3 International segment Tip Fee projects).

Where Tip Fee structures exist, we generally retain 100% of the energy revenues as well as risk associated with energy production and changing energy pricing. The majority of Tip Fee structures are under long-term fixed-price energy contracts.

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Under both structures, our returns are expected to be stable if we do not incur material unexpected operation and maintenance costs or other expenses. In addition, most of our energy-from-waste project contracts are structured so that contract counterparties generally bear, or share in, the costs associated with events or circumstances not within our control, such as uninsured force majeure events and changes in legal requirements. The stability of our revenues and returns could be affected by our ability to continue to enforce these obligations. Also, at some of our energy-from-waste facilities, commodity price risk is mitigated by passing through commodity costs to contract counterparties. With respect to our other renewable energy projects and international independent power 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 sales of energy and metals. During the second and third quarters of 2008, pricing for energy and recycled metals reached historically high levels and has subsequently declined materially.

At some of our renewable energy and international independent power projects, our operating subsidiaries purchase fuel in the open markets which exposes us to fuel price risk. At other projects, fuel costs are contractually included in our electricity revenues, or fuel is provided by our customers. In some of our international projects, the project entity (which in some cases is not our subsidiary) has entered into long-term fuel purchase contracts that protect the project from fuel shortages, provided counterparties to such contracts perform their commitments.

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.

Contracted and Merchant Capacity

We operate energy-from-waste projects under long-term agreements. For those projects we own, our contract to sell the project's energy output (either electricity or steam) generally expires on or after the date when the initial term of our contract to operate or receive waste also expires. Expiration of these contracts will subject us to greater market risk in maintaining and enhancing revenues as we enter into new contracts. Following the expiration of the initial contracts, we intend to enter into replacement or additional contracts for waste supplies and will sell our energy output either into the regional electricity grid or pursuant to new contracts. Because project debt on these facilities will be paid off at such time, we believe that we will be able to offer disposal services at rates that will attract sufficient quantities of waste and provide acceptable revenues. For those projects we operate but do not own, prior to the expiration of the initial term of our operating contract, we will seek to enter into renewal or replacement contracts to continue operating such projects. We will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire.

Growth and Development

In our Americas segment, we are pursuing additional growth opportunities through project expansions, new energy-from-waste and other renewable energy projects, contract extensions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing and disposal businesses. We also intend to maintain a focus on research and development of technologies that we believe will enhance our competitive position, and offer new technical solutions to waste and energy problems that augment and complement our business.

We are also pursuing international waste and/or renewable energy business opportunities, particularly in locations where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce GHG emissions. Outside of the Americas, we are focusing on the United Kingdom, Ireland, and China.

We have invested approximately \$298.3 million, \$91.9 million and \$121.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, for businesses acquired, the acquisition of non-controlling interests in subsidiaries and purchases of equity interests. The following is a discussion of acquisitions and business development for 2009, 2008 and 2007. See *Item 8. Financial Statements And Supplementary Data Note 3. Acquisitions, Business Development and Dispositions* for additional information.

Table of Contents**ACQUISITIONS AND BUSINESS DEVELOPMENT**

Facility/Operating Contract	Location	Year	Transaction	Type	Summary
Long Beach	CA	2009	Acquisition	EfW	We acquired six energy-from-waste businesses and one transfer station business from Veolia Environmental Services North America Corp. (the Veolia EfW Acquisition). The acquired businesses have a combined capacity of 6,600 tpd. Each of the operations acquired includes a long-term operating contract with the respective municipal client. Five of the energy-from-waste facilities and the transfer station are publicly-owned facilities. We acquired a majority ownership stake in one of the energy-from-waste facilities and subsequently purchased the remaining ownership stake in this facility. We completed the Veolia EfW Acquisition by acquiring a 3,000 tpd energy-from-waste business in Miami-Dade, Florida in February 2010. See <i>Item 8. Financial Statements And Supplementary Data Note 23. Subsequent Events.</i>
Hudson Valley	NY			EfW	
MacArthur	NY			EfW	
Plymouth	PA			EfW	
York	PA			EfW	
Burnaby	Canada			EfW	
Abington	PA			Trans.St.	
Detroit	MI	2009	Contract	EfW	We entered into an operating and maintenance agreement with owners of the Detroit energy-from-waste facility (2,832 tpd, 952 pounds of steam generated per day), pursuant to which we will operate, maintain and provide certain other services for a term of one year. Under this agreement, we will earn a fixed fee and pass through to the owners of the Detroit facility (or pay from the project revenues) all expenses associated with operations and maintenance of the facility. After paying all expenses, excess net revenues flow to the owners (see discussion below regarding our acquisition of an ownership interest in the facility). We entered into a waste disposal agreement with the Greater Detroit Resource Recovery Authority (GDRRA) pursuant to which we will dispose of the waste of the City of Detroit for a term of at least one year. The

term of the waste disposal agreement will automatically renew for successive one year terms unless and until either party provides advance written notice of termination in accordance with the provisions of the agreement. We entered into a new short-term steam agreement for the Detroit energy-from-waste facility which expires in February 2010 while negotiations continue regarding a long-term steam agreement. Securing a long-term steam agreement with appropriate pricing is important for the long-term economic viability of the Detroit energy-from-waste facility.

Detroit	MI	2009	Acquisition	EfW	A newly-formed Covanta subsidiary purchased an undivided 30% owner-participant interest in the Detroit energy-from-waste facility. In addition, as an owner-participant, we have the right, on one or more occasions, to call upon GDRRA to deliver the waste of the City of Detroit to the Detroit energy-from-waste facility at market-based rates. The call right continues for the duration of the agreements expiring in 2035, and is supported by the undertaking of the City of Detroit until 2021.
Stanislaus County	CA	2009	Contract	EfW	We extended our service fee contract with Stanislaus County from 2010 to 2016.
Philadelphia Transfer Stations	PA	2009	Acquisition	Transfer Stations	We acquired two waste transfer stations with combined capacity of 4,500 tpd in Philadelphia, Pennsylvania.
Maine Biomass Energy Facilities	ME	2008	Acquisition	Biomass	We acquired Indeck Maine Energy, LLC which owned and operated two biomass energy facilities. The two nearly identical facilities, located in West Enfield and Jonesboro, Maine, added a total of 49 megawatts (MW) to our renewable energy portfolio. We sell the electric output and renewable energy credits from these facilities into the New England electricity market.

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Facility/Operating Contract	Location	Year	Transaction	Type	Summary
Tulsa	OK	2008	Acquisition/ Contract	EfW	The design capacity of the facility is 1,125 tpd of waste and gross electric capacity of 16.5 MW (231 pounds of steam generated per day). This facility was shut down by the prior owner in the summer of 2007 and we returned two of the facility's three boilers to service in 2008. In 2009, we entered into a new tip fee agreement with the City of Tulsa which expires in 2012 and a new steam contract for a term of 10 years expiring in 2019.
Peabody	MA	2008	Acquisition	Ash Landfill	We acquired a landfill for the disposal of ash.
Harrisburg	PA	2008	Contract	EfW	We entered into a ten year agreement to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania and obtained a right of first refusal to purchase the facility. See <i>Energy-From-Waste Under Advanced Development or Construction</i> discussion below related to this facility.
Indianapolis	IN	2008	Contract	EfW	We entered into a new tip fee contract for a term of 10 years which commenced upon expiration of the existing service fee contract in December 2008. This contract represents approximately 50% of the facility's capacity. (91 pounds of steam generated per day).
Kent County	MI	2008	Contract	EfW	We entered into a new tip fee contract which commenced on January 1, 2009 and extended the existing operating contract from 2010 to 2023. This contract is expected to supply waste utilizing most or all of the facility's capacity. Previously this was a service fee contract.
Pasco County	FL	2008	Contract	EfW	

We entered into a new service fee contract which commenced on January 1, 2009 and extended the existing contract from 2011 to 2016.

Wallingford	CT	2008	Contract	EfW	We entered into new tip fee contracts to supply waste to the facility upon expiration of the existing service fee contract in 2010. These contracts in total are expected to supply waste utilizing most or all of the facility's capacity through 2020.
Holliston	MA	2007	Acquisition	Transfer Station	We acquired a waste transfer station with total waste capacity of 700 tpd. In addition, we invested a total of \$5.2 million in 2007 and 2008 in capital improvements to enhance the environmental and operational performance of the transfer station.
Massachusetts EfW Facilities and Transfer Stations	MA NY	2007	Acquisition	EfW / Ash Landfill / Transfer Stations	We acquired the operating businesses of EnergyAnswers Corporation. These businesses include a 400 tpd energy-from-waste facility in Springfield, Massachusetts and a 240 tpd energy-from-waste facility in Pittsfield, Massachusetts. Both energy-from-waste projects have tip fee type contracts. Approximately 75% of waste revenues are contracted for at these facilities. In addition, we acquired businesses that include a landfill operation for ash disposal in Springfield, Massachusetts and two transfer stations, one in Canaan, New York, permitted to transfer 600 tpd of waste, and the other located at the Springfield energy-from-waste facility, permitted to transfer 500 tpd of waste.
California Biomass Energy Facilities	CA	2007	Acquisition	Biomass	We acquired Central Valley Biomass Holdings, LLC which owned two biomass energy facilities and a biomass energy fuel management business, all located in California's Central Valley. These facilities added 75 MW to our portfolio of renewable energy projects. In addition, we invested a total of \$19 million in 2007 and 2008 in capital improvements to increase the facilities' productivity and improve environmental performance.

Westchester Transfer Stations	NY	2007	Acquisition	Transfer Stations	We acquired two waste transfer stations with combined capacity of 1,150 tpd in Westchester County, New York.
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Facility/Operating Contract	Location	Year	Transaction	Type	Summary
Hempstead	NY	2007	Contract	EfW	We entered into a new tip fee contract for a term of 25 years which commenced upon expiration of the previous contract in August 2009. This contract provides approximately 50% of the facility's capacity. We also entered into new tip fee contracts with other customers that expire between February 2011 and December 2014. These contracts provide an additional 40% of the facility's capacity.

***ENERGY-FROM-WASTE
PROJECTS UNDER ADVANCED DEVELOPMENT OR CONSTRUCTION***

Project/Facility	Location	Summary
Technology Development		We 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. Licensing fees and demonstration unit cumulative purchases totaled approximately \$11.2 million in 2008 and 2009.

AMERICAS

Honolulu	HI	We operate and maintain the energy-from-waste facility located in and owned by the City and County of Honolulu, Hawaii. In December 2009, we entered into agreements with the City and County of Honolulu to expand the facility's waste processing capacity from 2,160 tpd to 3,060 tpd and to increase the gross electricity capacity from 57 MW to 90 MW. The agreements also extend the service contract term by 20 years. The \$302 million expansion project is a fixed-price construction project which will be funded and owned by the City and County of Honolulu. Environmental and other project related permits have been received and expansion construction has commenced.
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Harrisburg	PA
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See operating contract discussion above. We have an agreement to provide construction management services and advance up to \$25.5 million (of which \$20.7 million has been advanced and \$19.4 million is outstanding as of December 31, 2009) in funding for certain facility improvements required to enhance facility performance, which are expected to be completed during 2010. The repayment of this funding is guaranteed by the City of Harrisburg, but is otherwise unsecured, and is junior to project bondholders' rights. Current installment repayments of the advance have been received. However, due to the precarious financial condition of the City of Harrisburg, its substantial obligations, and its reported consideration of various future options (including seeking bankruptcy protection), we intend to closely monitor this situation and work with the City of Harrisburg and other stakeholders, to maintain our position in the project and recover our advance.

Hillsborough	FL	During the third quarter of 2009, we completed the expansion and commenced the operations of the expanded energy-from-waste located in Hillsborough County, Florida. We expanded waste processing capacity from 1,200 tpd to 1,800 tpd and increased gross electricity capacity from 29.0 MW to 46.5 MW. As part of the agreement to implement this expansion, we received a long-term operating contract extension to 2027.
Lee	FL	In December 2007, we completed the expansion and commenced the operation of the expanded energy-from-waste facility located in and owned by Lee County, Florida. We expanded waste processing capacity from 1,200 tpd to 1,836 tpd and increased gross electricity capacity from 36.9 MW to 57.3 MW. As part of the agreement to implement this expansion, we received a long-term operating contract extension expiring in 2024.

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Project/Facility	Location	Summary
INTERNATIONAL		
Dublin	Ireland	We are developing a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities at an estimated cost of approximately 350 million. The Dublin project is being developed and will be owned by Dublin Waste to Energy Limited, which we control and co-own with DONG Energy Generation A/S. We are responsible for the design and construction of the project. We will operate and maintain the project for Dublin Waste to Energy Limited, which has a 25 year tip fee type contract with Dublin to provide disposal service for approximately 320,000 metric tons of waste annually. The project is structured on a build-own-operate-transfer model, where ownership will transfer to Dublin after the 25 year term, unless extended. The project is expected to sell electricity into the local grid. A portion of the electricity is expected to be eligible for a preferential renewable tariff. We and DONG Energy Generation A/S have committed to provide financing for all phases of the project. We expect to fund construction through existing sources of liquidity and effect project financing as the project progresses. The primary approvals and licenses for the project have been obtained and construction commenced in December 2009.
Taixing	China	Taixing Covanta Yanjiang Cogeneration Co., Ltd., of which we own 85%, entered into a 25 year concession agreement and waste supply agreements to build, own and operate a 350 metric tpd energy-from-waste facility for Taixing Municipality, in Jiangsu Province, People's Republic of China. The project, which will be built on the site of our existing coal-fired facility in Taixing, will supply steam to an adjacent industrial park under short-term arrangements. We will continue to operate our existing coal-fired facility. The project company has obtained Rmb 165 million in project financing which, together with available cash from existing operations will fund construction costs. The Taixing project commenced construction in late 2009.
Chengdu	China	We and Chongqing Iron & Steel Company (Group) Limited have entered into a 25 year contract to build, own, and operate an 1,800 metric tpd energy-from-waste facility for Chengdu Municipality in Sichuan Province, People's Republic of China. In connection with this award, we acquired a 49% equity interest in the project company. Construction of the facility has commenced and operation is expected to begin in 2011. The project company has obtained Rmb 480 million in project financing, of which 49% is guaranteed by us and 51% is guaranteed by Chongqing Iron & Steel Company (Group) Limited until the project has been constructed and for one year after operations commence.

Sanfeng	China	We purchased a 40% equity interest in Chongqing Sanfeng Covanta Environmental Industry Co., Ltd. (Sanfeng), a company located in Chongqing Municipality, People s Republic of China. Sanfeng is engaged in the business of owning and operating energy-from-waste projects and providing design and engineering, procurement and construction services for energy-from-waste facilities in China. Sanfeng currently owns minority equity interests in two 1,200 metric tpd 24 MW mass-burn energy-from-waste projects. Chongqing Iron & Steel Company (Group) Limited holds the remaining 60% equity interest in Sanfeng.
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RESULTS OF OPERATIONS

The comparability of the information provided below with respect to our revenues, expenses and certain other items for periods during each of the years presented was affected by several factors. As outlined above under *Overview*

Growth and Development, our acquisition and business development initiatives in 2009, 2008 and 2007 resulted in various additional projects which increased comparative revenues and expenses. These factors must be taken into account in developing meaningful comparisons between the periods compared below.

Table of Contents**RESULTS OF OPERATIONS Year Ended December 31, 2009 vs. Year Ended December 31, 2008**

Our consolidated results of operations are presented in the table below (in thousands, except per share amounts):

	For the Years Ended December 31,		Increase (Decrease)
	2009	2008	2009 vs 2008
CONSOLIDATED RESULTS OF OPERATIONS:			
Total operating revenues	\$ 1,550,467	\$ 1,664,253	\$ (113,786)
Total operating expenses	1,354,632	1,408,288	(53,656)
Operating income	195,835	255,965	(60,130)
Other income (expense):			
Investment income	4,007	5,717	(1,710)
Interest expense	(38,116)	(46,804)	(8,688)
Non-cash convertible debt related expense	(24,290)	(17,979)	6,311
Total other expenses	(58,399)	(59,066)	(667)
Income before income tax expense and equity in net income from unconsolidated investments	137,436	196,899	(59,463)
Income tax expense	(50,044)	(84,561)	(34,517)
Equity in net income from unconsolidated investments	23,036	23,583	(547)
NET INCOME	110,428	135,921	(25,493)
Less: Net income attributable to noncontrolling interests in subsidiaries	(8,783)	(6,961)	1,822
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	\$ 101,645	\$ 128,960	(27,315)
Weighted Average Common Shares Outstanding:			
Basic	153,694	153,345	349
Diluted	154,994	154,732	262
Earnings Per Share:			
Basic	\$ 0.66	\$ 0.84	\$ (0.18)
Diluted	\$ 0.66	\$ 0.83	\$ (0.17)

The following general discussions should be read in conjunction with the above table, the consolidated financial statements and the Notes thereto 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 Americas and International segment discussions below.

Consolidated Results of Operations Comparison of Results for the Year Ended December 31, 2009 vs. Results for the Year Ended December 31, 2008

Operating revenues decreased by \$113.8 million primarily due to the following:

- decreased electricity and steam sales revenue due to lower fuel pass through costs at our Indian facilities and foreign exchange impacts in 2009, and
- decreased waste and service revenues and decreased recycled metal revenues at our existing energy-from-waste facilities in our Americas segment, offset by
- increased waste and services revenues at our new businesses in our Americas segment, primarily due to the Veolia EfW Acquisition, and
- increased electricity and steam sales in our Americas segment due to the Veolia EfW Acquisition, other acquired businesses and new contracts at our Indianapolis and Kent facilities.

Operating expenses decreased by \$53.7 million primarily due to the following:

- decreased plant operating expenses at our Indian facilities resulting primarily from lower fuel costs and foreign exchange impacts in 2009, and
- decreased plant operating expenses at our existing energy-from-waste facilities resulting primarily from lower energy costs, greater internalization of waste disposal and reduced maintenance expense due to less unscheduled down time, offset by
- increased plant operating expenses at our existing energy-from-waste facilities resulting from cost escalations, and
- increased operating costs resulting from the Veolia EfW Acquisition, and
- \$6.3 million of acquisition-related transaction costs primarily related to the Veolia EfW Acquisition, and

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\$13.5 million of insurance recoveries recorded in 2008 for the settlement of property damages and business interruption losses related to the SEMASS energy-from-waste facility, and higher costs resulting from the transition of the Indianapolis and Kent facilities from Service Fee to Tip Fee contracts, and additional operating costs, net of contra expenses recorded related to the generation of renewable energy credits, from new businesses acquired in the Americas segment.

Investment income decreased by \$1.7 million primarily due to lower interest rates on invested funds. Interest expense decreased by \$8.7 million primarily due to lower floating interest rates on the Term Loan Facility (as defined in the *Liquidity* section below), offset by increased interest expense due to the issuance of the 3.25% Cash Convertible Senior Notes (Notes) which were issued in 2009. Non-cash convertible debt related expense increased by \$6.3 million primarily due to the net changes to the valuation of the derivatives associated with the Notes and the amortization of the debt discount for the Notes which issued in 2009.

Income tax expense decreased by \$34.5 million primarily due to lower pre-tax income resulting from decreased waste and service revenues and recycled metal revenue at our energy-from-waste facilities, an increase in production tax credits, and changes in the valuation allowance on net operating loss carryforwards (NOLs), and certain deferred tax assets. See *Item 8. Financial Statements And Supplementary Data Note 16. Income Taxes* for additional information.

Americas Segment Results of Operations Comparison of Results for the Year Ended December 31, 2009 vs. Results for the Year Ended December 31, 2008

The Americas segment results of operations are presented in the table below (in thousands):

	For the Years Ended December 31,		Increase (Decrease)
	2009	2008	2009 vs 2008
Waste and service revenues	\$ 915,364	\$ 930,537	\$ (15,173)
Electricity and steam sales	399,715	384,640	15,075
Other operating revenues	31,138	56,254	(25,116)
Total operating revenues	1,346,217	1,371,431	(25,214)
Plant operating expenses	802,638	753,848	48,790
Depreciation and amortization expense	194,925	190,659	4,266
Net interest expense on project debt	44,536	47,816	(3,280)
General and administrative expenses	82,580	76,090	6,490
Insurance recoveries, net of write-down of assets		(8,325)	8,325
Other operating expenses	26,785	56,336	(29,551)
Total operating expenses	1,151,464	1,116,424	35,040
Operating income	\$ 194,753	\$ 255,007	(60,254)

Operating Revenues

Operating revenues for the Americas segment decreased by \$25.2 million as reflected in the comparison of existing business and new business in the table below (in millions) and the discussion of key variance drivers which follows:

	Americas Segment		
	Operating Revenue Variances		
	Existing Business	New Business(A)	Total
Waste and service revenues			
Service fee	\$ (60.5)	\$ 38.9	\$ (21.6)
Tip fee	17.7	13.1	30.8
Recycled metal	(25.0)	0.6	(24.4)
Total waste and service revenues	(67.8)	52.6	(15.2)
Electricity and steam sales	(4.0)	19.1	15.1
Other operating revenues	(25.9)	0.8	(25.1)
Total operating revenues	\$ (97.7)	\$ 72.5	\$ (25.2)

(A) The results of acquisitions are included in the new business variance through four quarters after acquisition or commencement of operation.

Revenues from Service Fee arrangements for existing business decreased primarily due to the cessation of contracts at our Indianapolis, Kent, and Detroit facilities and lower revenues earned explicitly to service project debt of

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\$22.5 million, of which \$9.7 million was related to our Stanislaus client's decision to repay project debt ahead of schedule in 2008, partially offset by contractual escalations.

Revenues from Tip Fee arrangements for existing business increased primarily due to the new contracts at our Indianapolis and Kent facilities, offset by lower waste prices and increased levels of waste disposal internalization.

Recycled metal revenues were \$29.2 million which decreased compared to the same prior year period due to lower pricing, partially offset by increased recovered metal volume. During the second and third quarters of 2008, we experienced historically high prices for recycled metal which declined significantly during the fourth quarter of 2008. The impact these changes had on revenue is reflected in the table below (in millions):

Total Recycled Metal Revenues	For the Quarters Ended		
	2009	2008	2007
March 31,	\$ 5.2	\$ 11.4	\$ 7.0
June 30,	5.8	19.0	7.5
September 30,	9.1	17.3	7.9
December 31,	9.1	5.9	9.1
Total for the Year Ended December 31,	\$ 29.2	\$ 53.6	\$ 31.5

Electricity and steam sales for existing business decreased by \$4.0 million due to lower energy pricing, lower production and the contract change at the Detroit facility, offset by increased revenues of \$20.4 million related to contract changes at our Indianapolis and Kent facilities.

Other operating revenues for existing business decreased primarily due to the timing of construction activity.

Operating Expenses

Variances in plant operating expenses for the Americas segment are as follows (in millions):

	Americas Segment		
	Plant Operating Expense Variances		
	Existing Business	New Business(A)	Total
Total plant operating expenses	\$ (17.7)	\$ 66.5	\$ 48.8

(A) The results of acquisitions are included in the new business variance through four quarters after acquisition or commencement of operation.

Existing business plant operating expenses decreased by \$17.7 million primarily due to the new contract at the Detroit facility, the impact of lower energy related costs, greater internalization of waste disposal, and reduced maintenance expense primarily due to less unscheduled downtime, partially offset by cost escalations and higher costs resulting from the new contracts at our Indianapolis and Kent facilities. The decrease in existing business plant operating

expense was partially offset by \$5.2 million of business interruption insurance recoveries at our SEMASS energy-from-waste facility which was recorded in the second quarter of 2008.

Depreciation and amortization expense increased by \$4.3 million primarily due to new business.

General and administrative expenses increased by \$6.5 million due to the recognition of approximately \$6.8 million in acquisition-related costs, primarily related to the Veolia EfW Acquisition.

Insurance recoveries, net of write-down of assets of \$8.3 million were recorded in 2008 for recoveries related to the repair and reconstructions costs resulting from the SEMASS energy-from-waste facility fire in 2007. For additional information, see the *Americas Segment Results of Operations – Comparison of Results for the Year Ended December 31, 2008 vs. Results for the Year Ended December 31, 2007* below.

Other operating expenses decreased by \$29.6 million primarily due to timing of construction activity and lower losses on retirement of assets. See *Item 8. Financial Statements And Supplementary Data – Note 15. Supplementary Financial Information* for additional information.

Table of Contents***International Segment Results of Operations Comparison of Results for the Year Ended December 31, 2009 vs. Results for the Year Ended December 31, 2008***

The international segment results of operations are presented in the table below (in thousands):

	For the Years Ended December 31,		Increase (Decrease)
	2009	2008	2009 vs 2008
Waste and service revenues	\$ 4,240	\$ 3,990	\$ 250
Electricity and steam sales	180,533	275,976	(95,443)
Total operating revenues	184,773	279,966	(95,193)
Plant operating expenses	143,528	245,826	(102,298)
Depreciation and amortization expense	7,834	8,751	(917)
Net interest expense on project debt	3,855	5,918	(2,063)
General and administrative expenses	24,325	18,684	5,641
Other operating income	(74)	(2,274)	(2,200)
Total operating expenses	179,468	276,905	(97,437)
Operating income	\$ 5,305	\$ 3,061	2,244

The decreases in revenues and plant operating expenses resulted primarily from lower fuel costs at our Indian facilities, which are a pass through at both facilities, and decreased demand from the electricity offtaker and resulting lower electricity generation.

General and administrative expenses increased by \$5.6 million primarily due to additional business development spending, and normal wage and benefit escalations.

Other operating income decreased by \$2.2 million primarily due to insurance recoveries received in 2008, offset by unfavorable foreign exchange impacts in 2008.

In addition to the items discussed above, total operating income increased by approximately \$2.2 million due to the effects of foreign currency translation adjustments of \$3.1 million.

RESULTS OF OPERATIONS Year Ended December 31, 2008 vs. Year Ended December 31, 2007

Our consolidated results of operations are presented in the table below (in thousands, except per share amounts):

	For the Years Ended December 31,		Increase (Decrease)
	2008	2007	2008 vs 2007

CONSOLIDATED RESULTS OF OPERATIONS:

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Total operating revenues	\$ 1,664,253	\$ 1,433,087	\$ 231,166
Total operating expenses	1,408,288	1,196,477	211,811
Operating income	255,965	236,610	19,355
Other income (expense):			
Investment income	5,717	10,578	(4,861)
Interest expense	(46,804)	(67,104)	(20,300)
Non-cash convertible debt related expense	(17,979)	(15,377)	2,602
Loss on extinguishment of debt		(32,071)	(32,071)
Total other expenses	(59,066)	(103,974)	(44,908)
Income before income tax expense and equity in net income from unconsolidated investments	196,899	132,636	64,263
Income tax expense	(84,561)	(24,483)	60,078
Equity in net income from unconsolidated investments	23,583	22,196	1,387
NET INCOME	135,921	130,349	5,572
Less: Net income attributable to noncontrolling interests in subsidiaries	(6,961)	(8,656)	(1,695)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	\$ 128,960	\$ 121,693	7,267
Weighted Average Common Shares Outstanding:			
Basic	153,345	152,653	692
Diluted	154,732	153,997	735
Earnings Per Share:			
Basic	\$ 0.84	\$ 0.80	\$ 0.04
Diluted	\$ 0.83	\$ 0.79	\$ 0.04

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The following general discussions should be read in conjunction with the above table, the consolidated financial statements and the Notes thereto 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 Americas and International segment discussions below.

Consolidated Results of Operations Comparison of Results for the Year Ended December 31, 2008 vs. Results for the Year Ended December 31, 2007

Operating revenues increased by \$231.2 million primarily due to the following:

increased waste and energy revenues at our existing energy-from-waste facilities, and additional revenues from new businesses acquired in the Americas segment, and increased demand from the electricity offtaker and resulting higher electricity generation at our Indian facilities in the International segment.

Operating expenses increased by \$211.8 million primarily due to the following:

increased plant operating expenses at our existing energy-from-waste facilities resulting from increased plant maintenance and cost escalations in the Americas segment, and increased plant operating expenses resulting from additional operating and maintenance costs from new businesses acquired in the Americas segment, and higher fuel costs, resulting from increased demand from the electricity offtaker and resulting higher electricity generation, at our Indian facilities in the International segment, and higher general and administrative expenses primarily due to increased efforts to grow the business and normal wage and benefit escalations.

Investment income decreased by \$4.9 million primarily due to lower interest rates on invested funds. Interest expense decreased by \$20.3 million primarily due to lower floating interest rates on the Term Loan Facility (as defined in the *Liquidity and Capital Resources* section below) and lower debt balances and interest rates resulting from the 2007 recapitalization. As a result of the recapitalization in the first quarter of 2007, we recognized a loss on extinguishment of debt charge of approximately \$32.1 million, pre-tax. See *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt* for additional information.

Income tax expense increased by \$60.1 million primarily due to increased pre-tax income resulting from increased waste and service revenues at our energy-from-waste facilities and additional revenues from new businesses acquired, taxes associated with the wind down of the grantor trusts and additional reserves for uncertain tax positions. See *Item 8. Financial Statements And Supplementary Data Note 16. Income Taxes* for additional information.

Equity in net income from unconsolidated investments increased by \$1.4 million primarily due to increased earnings from Quezon Power, Inc. (Quezon), our 26% investment in the Philippines, comprised primarily of \$4.3 million resulting from the strengthening of the U.S. Dollar against the Philippine Peso, partially offset by lower dividend income from the Trezzo facility and foreign exchange losses at our China facilities. See *Item 8. Financial Statements And Supplementary Data Note 8. Equity Method Investments* for additional information.

Americas Segment Results of Operations Comparison of Results for the Year Ended December 31, 2008 vs. Results for the Year Ended December 31, 2007

The Americas segment results of operations are presented in the table below (in thousands):

	For the Years Ended December 31,		Increase (Decrease)
	2008	2007	2008 vs 2007
Waste and service revenues	\$ 930,537	\$ 860,252	\$ 70,285
Electricity and steam sales	384,640	325,804	58,836
Other operating revenues	56,254	59,561	(3,307)
Total operating revenues	1,371,431	1,245,617	125,814
Plant operating expenses	753,848	664,641	89,207
Depreciation and amortization expense	190,659	187,875	2,784
Net interest expense on project debt	47,816	48,198	(382)
General and administrative expenses	76,090	71,022	5,068
Insurance recoveries, net of write-down of assets	(8,325)		(8,325)
Other operating expenses	56,336	53,789	2,547
Total operating expenses	1,116,424	1,025,525	90,899
Operating income	\$ 255,007	\$ 220,092	34,915

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Operating revenues for the Americas segment increased by \$125.8 million for the twelve month comparative period as reflected in the comparison of existing business and new business in the table below (in millions) and the discussion of key variance drivers which follows:

	Americas Segment		
	Operating Revenue Variances		
	Existing Business	New Business(A)	Total
Waste and service revenues			
Service fee	\$ 13.3	\$ 0.6	\$ 13.9
Tip fee	3.9	30.4	34.3
Recycled metal	21.1	1.0	22.1
Total waste and service revenues	38.3	32.0	70.3
Electricity and steam sales	36.7	22.1	58.8
Other operating revenues	(3.3)		(3.3)
Total operating revenues	\$ 71.7	\$ 54.1	\$ 125.8

(A) The results of acquisitions are included in the new business variance through four quarters after acquisition or commencement of operation.

Revenues from Service Fee arrangements for existing business increased primarily due to contractual escalations, partially offset by lower revenues earned explicitly to service project debt of \$1.4 million. Revenues from Tip Fee arrangements for existing business increased due to increased waste volume handled in part due to the impact of a fire in 2007 at our SEMASS energy-from-waste facility, partially offset by slightly lower pricing.

Recycled metal revenues for existing business increased primarily due to higher pricing on average for the year. In addition, recovered metal volume increased due to the installation of new metal recovery systems, as well as due to enhancements made to existing systems.

Electricity and steam sales for existing business increased primarily due to higher energy rates, and increased production primarily resulting from capital improvements to increase productivity and improve environmental performance at the biomass facilities.

During the second and third quarters of 2008, we experienced historically high prices for recycled metal which has declined significantly during the fourth quarter of 2008. The impact these changes had on revenue is reflected in the table below (in millions):

Total Recycled Metal Revenues	For the	
	Quarters Ended	2007
	2008	2007

March 31,	\$ 11.4	\$ 7.0
June 30,	19.0	7.5
September 30,	17.3	7.9
December 31,	5.9	9.1
Total for the Year Ended December 31,	\$ 53.6	\$ 31.5

Other operating revenues for existing business decreased primarily due to the timing of construction activity.

Operating Expenses

Variances in plant operating expenses for the Americas segment are as follows (in millions):

	Americas Segment		
	Existing Business	New Business(A)	Variances Total
Total plant operating expenses	\$ 36.8	\$ 52.4	\$ 89.2

(A) The results of acquisitions are included in the new business variance through four quarters after acquisition or commencement of operation.

Existing business plant operating expenses increased by \$36.8 million primarily due to cost escalations, including the impact of higher energy related costs. In addition, the cost for fuel at our biomass facilities increased due to higher

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production. Cost increases were partially offset by \$5.2 million of business interruption insurance recoveries at our SEMASS facility as discussed below.

Depreciation and amortization expense increased by \$2.8 million primarily due to capital expenditures and new business.

General and administrative expenses increased by \$5.1 million primarily due to increased efforts to grow the business and normal wage and benefit escalations.

On March 31, 2007, our SEMASS energy-from-waste facility located in Rochester, Massachusetts experienced a fire in the front-end receiving portion of the facility. Damage was extensive to this portion of the facility and operations at the facility were suspended completely for approximately 20 days. As a result of this loss, we recorded an asset impairment of \$17.3 million, pre-tax, which represented the net book value of the assets destroyed.

The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. Insurance recoveries were recorded as insurance recoveries, net of write-down of assets where such recoveries relate to repair and reconstruction costs, or as a reduction to plant operating expenses where such recoveries relate to other costs or business interruption losses. We recorded insurance recoveries in our consolidated statements of income and received cash proceeds in settlement of these claims as follows (in millions):

	Insurance Recoveries Recorded For the Years Ended December 31,		Cash Proceeds Received	
	2008	2007	2008	2007
Repair and reconstruction costs (Insurance recoveries, net of write-down of assets)	\$ 8.3	\$ 17.3	\$ 16.2	\$ 9.4
Clean-up costs (reduction to plant operating expenses)	\$	\$ 2.7	\$	\$ 2.7
Business interruption losses (reduction to plant operating expenses)	\$ 5.2	\$ 2.0	\$ 7.2	\$

Other operating expenses increased by \$2.5 million primarily due to losses on the retirement of fixed assets offset by reduced construction activity. See *Item 8. Financial Statements And Supplementary Data Note 15. Supplementary Financial Information* for additional information.

International Segment Results of Operations Comparison of Results for the Year Ended December 31, 2008 vs. Results for the Year Ended December 31, 2007

The international segment results of operations are presented in the table below (in thousands):

	For the Years Ended December 31,		Increase (Decrease)
	2008	2007	2008 vs 2007
Waste and service revenues	\$ 3,990	\$ 4,144	\$ (154)
Electricity and steam sales	275,976	173,073	102,903

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Total operating revenues	279,966	177,217	102,749
Plant operating expenses	245,826	136,919	108,907
Depreciation and amortization expense	8,751	8,998	(247)
Net interest expense on project debt	5,918	6,381	(463)
General and administrative expenses	18,684	8,584	10,100
Other operating income	(2,274)	(3,848)	(1,574)
Total operating expenses	276,905	157,034	119,871
Operating income	\$ 3,061	\$ 20,183	(17,122)

The increases in revenues and plant operating expenses under energy contracts at both Indian facilities resulted primarily from increased demand from the electricity offtaker and resulting higher electricity generation. Higher fuel costs under these energy contracts are typically passed through to the electricity offtaker in the electricity tariff.

General and administrative expenses increased by \$10.1 million primarily due to additional business development spending, increased litigation expense associated with an insurance claim associated with a coal facility in China which was sold in 2006, and normal wage and benefit escalations.

Other operating income decreased by \$1.6 million primarily due the absence of the gain on sale of the Linan coal facility in 2007 and increased foreign currency exchange losses, partially offset by insurance recoveries associated with a coal facility in China which was sold in 2006.

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

We use Adjusted EBITDA to provide further information that is useful to an understanding of the financial covenants contained in the credit facilities of our most significant subsidiary, Covanta Energy, 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 business. The calculation of Adjusted EBITDA is based on the definition in Covanta Energy's credit facilities as described below under *Liquidity and Capital Resources*, which we have guaranteed. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, as adjusted for additional items subtracted from or added to net income. Because our business is substantially comprised of that of Covanta Energy, our financial performance is substantially similar to that of Covanta Energy. For this reason, and in order to avoid use of multiple financial measures which are not all from the same entity, the calculation of Adjusted EBITDA and other financial measures presented herein are ours, measured on a consolidated basis. Under these credit facilities, Covanta Energy is required to satisfy certain financial covenants, including certain ratios of which Adjusted EBITDA is an important component. Compliance with such financial covenants is expected to be the principal limiting factor which will affect our ability to engage in a broad range of activities in furtherance of our business, including making certain investments, acquiring businesses and incurring additional debt. Covanta Energy was in compliance with these covenants as of December 31, 2009. Failure to comply with such financial covenants could result in a default under these credit facilities, which default would have a material adverse affect on our financial condition and liquidity.

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 year ended December 31, 2009 and 2008, reconciled for each such period to net income and cash flow provided by operating activities, which are believed to be the most directly comparable measures under GAAP.

The following is a reconciliation of net income to Adjusted EBITDA (in thousands):

	For the Years Ended December 31,	
	2009	2008
Net Income Attributable to Covanta Holding Corporation	\$ 101,645	\$ 128,960
Depreciation and amortization expense	202,872	199,488
Debt service:		
Net interest expense on project debt	48,391	53,734

Interest expense	38,116	46,804
Non-cash convertible debt related expense	24,290	17,979
Investment income	(4,007)	(5,717)
Subtotal debt service	106,790	112,800
Income tax expense	50,044	84,561
Acquisition-related costs(A)	6,289	
Other adjustments:		
Change in unbilled service receivables	18,620	14,020
Non-cash compensation expense	14,220	14,750
Other(B)	5,835	12,249
Subtotal other adjustments	38,675	41,019
Net income attributable to noncontrolling interests in subsidiaries	8,783	6,961
Total adjustments	413,453	444,829
Adjusted EBITDA(C)	\$ 515,098	\$ 573,789

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- (A) This amount relates primarily to acquisition-related costs associated with the Veolia EfW Acquisition in 2009. Acquisition-related costs are no longer capitalized as a cost of the business acquired. Instead, these costs are expensed as they are incurred as a result of a recent accounting pronouncement which was effective January 1, 2009.
- (B) These items represent amounts that are non-cash in nature.
- (C) Adjusted EBITDA for 2008 includes the impact of \$13.5 million related to insurance recoveries for repair, reconstruction and business interruption losses related to the SEMASS energy-from-waste facility fire on March 31, 2007.

The decrease in Adjusted EBITDA of \$58.7 million from the prior year period was primarily due to \$25.0 million revenue reduction due to lower recycled metal prices; \$20.2 million in revenue reduction due to lower energy price and production; lower revenues earned explicitly to service project debt of \$22.5 million, of which \$9.7 million was related to accelerated repayment of project debt for one of our energy-from-waste facilities in 2008; and \$13.9 million lower waste disposal revenue due to price and lower deliveries; partially offset by lower operating expenses.

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

	For the Years Ended December 31,	
	2009	2008
Cash flow provided by operating activities	\$ 397,238	\$ 402,607
Acquisition-related costs	4,619	
Debt service	106,790	112,800
Amortization of debt premium and deferred financing costs	3,265	7,023
Other	3,186	51,359
Adjusted EBITDA	\$ 515,098	\$ 573,789

LIQUIDITY AND CAPITAL RESOURCES

We generate substantial cash flow from our ongoing business, which we believe will allow us to meet our liquidity needs, invest in our business, pay down debt, and pursue strategic growth opportunities. As of December 31, 2009, in addition to our ongoing cash flow, we had access to several sources of liquidity, as discussed in *Available Sources of Liquidity* below, including our existing cash on hand of \$434 million and the undrawn and available capacity of \$300 million of our revolving credit facility. In addition, we had restricted cash of \$278 million, of which \$166 million was designated for future payment of project debt principal.

We derive our cash flows principally from our operations from the projects in our Americas and International segments, 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, whereas a material portion of cash from our international projects is received semi-annually, during the second and fourth quarters. 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 and grow our business through acquisitions and business development. We will also seek to enhance our cash flow from renewals or replacement of existing contracts, from new contracts to expand existing facilities or operate additional facilities and by investing in new projects. See *Management's Discussion and Analysis of Financial Condition Overview Growth and Development* above.

Sources and Uses of Cash Flow

	For the Years Ended December 31,			Increase (Decrease)	
	2009	2008	2007	2009 vs 2008	2008 vs 2007
	(In thousands)				
Net cash provided by operating activities	\$ 397,238	\$ 402,607	\$ 363,591	\$ (5,369)	\$ 39,016
Net cash used in investing activities	(387,240)	(189,308)	(179,910)	197,932	9,398
Net cash provided by (used in) financing activities	230,950	(170,242)	(268,335)	401,192	(98,093)
Effect of exchange rate changes on cash and cash equivalents	342	(70)	618	412	(688)
Net increase (decrease) in cash and cash equivalents	\$ 241,290	\$ 42,987	\$ (84,036)	198,303	127,023

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Year Ended December 31, 2009 vs. Year Ended December 31, 2008

Net cash provided by operating activities for the year ended December 31, 2009 was \$397.2 million, a decrease of \$5.4 million from the prior year period. The decrease was primarily due to lower results of operations, including \$10.9 million of lower insurance recoveries and \$4.6 million of cash acquisition costs relating to the Veolia EfW Acquisition, offset by reduced interest expense, \$10.6 million received for an income tax refund and the timing of working capital.

Net cash used in investing activities for the year ended December 31, 2009 was \$387.2 million, an increase of \$197.9 million from the prior year period. The increase was primarily comprised of higher cash outflows of:

\$192.3 million related to higher acquisition of businesses in 2009, primarily the Veolia EfW Acquisition; \$23.7 million to acquire the non-controlling interests of one of the subsidiaries acquired in the Veolia EfW Acquisition; \$16.2 million of property insurance proceeds received in 2008; \$3.0 million related to a loan issued for the Harrisburg energy-from-waste facility; and net \$2.9 million of outflows relating to investing activity at our insurance subsidiary, comprising of \$13.5 million lower proceeds from sales of investments in fixed maturities offset by \$10.6 million lower outflows for purchase of investments in fixed maturities.

Offset by lower cash outflows of:

\$14.3 million in capital expenditures primarily due to lower maintenance capital expenditures; \$16.7 million in purchases to acquire land use rights in the United Kingdom and United States in connection with development activities in 2008; and \$9.6 million related to lower purchases of equity interests in 2009.

Net cash provided by financing activities for the year ended December 31, 2009 was \$231.0 million, an increase of \$401.2 million from the prior year period principally comprised of \$387.3 million related to the proceeds received from the issuance of the Notes more fully described below:

The Notes and related transactions resulted in net proceeds of \$387.3 million, consisting of:

proceeds of \$460.0 million from the sale of the Notes; proceeds of \$54.0 million from the sale of Warrants; use of cash of \$112.4 million to purchase the Note Hedge; and use of cash of \$14.3 million for transaction related costs.

The remaining net increase in sources of cash of \$13.9 million was primarily driven by:

release of \$33.0 million from restricted funds; offset by a payment of \$9.8 million of interest rate swap termination costs; net increase in project debt payments of \$3.6 million; and payment of \$3.9 million in higher distributions to partners of noncontrolling interests in subsidiaries.

Year Ended December 31, 2008 vs. Year Ended December 31, 2007

Net cash provided by operating activities for the year ended December 31, 2008 was \$402.6 million, an increase of \$39.0 million from the prior year period. The increase was primarily comprised of:

\$29.8 million from a combination of improved operating performance and lower net interest expense; and an increase in non-property insurance proceeds of \$9.2 million (including \$7.2 million of business interruption recoveries related to the SEMASS energy-from-waste facility).

Net cash used in investing activities for the year ended December 31, 2008 was \$189.3 million, an increase of \$9.4 million from the prior year period. The increase was primarily related to lower cash outflows for acquisitions of businesses of approximately \$37.1 million, and increased property insurance proceeds of \$6.8 million, offset by higher cash outflows principally comprised of:

- \$16.7 million to acquire land use rights in the United Kingdom and United States in connection with development activities;
- an increase of \$18.0 million related to investments in fixed maturities at our insurance subsidiary, partially offset by an increase of \$5.2 million in proceeds from the sale of investments in fixed maturities at our insurance subsidiary;
- \$7.3 million of equity investments, of which \$17.1 million related to the Chengdu project, offset by the \$10.3 million equity investment in Sanfeng during the comparative period;
- an increase in capital expenditures of \$2.2 million;

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\$8.2 million related to a loan issued for the Harrisburg energy-from-waste facility; and \$6.1 million of cash outflows comprised primarily of business development activities.

Net cash used in financing activities for the year ended December 31, 2008 was \$170.2 million, a decrease of \$98.1 million from the prior year period due primarily to refinancing of long-term debt in 2007. The net proceeds from refinancing the previously existing credit facilities was \$5.6 million, net of transaction fees. Proceeds of approximately \$364.4 million and \$136.6 million, each net of underwriting discounts and commissions, were received in 2007 related to underwritten public offerings of 1.00% Senior Convertible Debentures due 2027 (the Debentures) and common stock, respectively. The combination of the proceeds from the public offerings of Debentures and common stock and approximately \$130.0 million in cash and restricted cash (available for use as a result of the recapitalization) were utilized for the repayment, by means of a tender offer, of approximately \$611.9 million in principal amount of outstanding notes previously issued by certain intermediate subsidiaries.

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 December 31, 2009, we had unrestricted cash and cash equivalents of \$434 million.

Short-Term Liquidity

We have credit facilities which are comprised of a \$300 million revolving credit facility (the Revolving Loan Facility), a \$320 million funded letter of credit facility (the Funded L/C Facility), and a \$650 million term loan (the Term Loan Facility) (collectively referred to as the Credit Facilities). As of December 31, 2009, we had available credit for liquidity as follows (in thousands):

	Total Available Under Facility	Maturing	Outstanding Letters of Credit as of December 31, 2009	Available as of December 31, 2009
Revolving Loan Facility(1)	\$ 300,000	2013	\$	\$ 300,000
Funded L/C Facility	\$ 320,000	2014	\$ 272,469	\$ 47,531

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

2009 Supplementary Financial Information Free Cash Flow (Non-GAAP Discussion)

To supplement our results prepared in accordance with United States generally accepted accounting principles (GAAP), we use the measure of Free Cash Flow, which is a non-GAAP measure as defined by the Securities and Exchange Commission. This non-GAAP financial measure is not intended as a substitute and should not be considered in isolation from measures of liquidity prepared in accordance with GAAP. In addition, our use of Free Cash Flow may be different from similarly identified non-GAAP measures used by other companies, limiting their usefulness for comparison purposes. The presentation of Free Cash Flow is intended to enhance the usefulness of our financial information by providing measures which management internally uses to assess and evaluate the overall

performance of its business and those of possible acquisition candidates, and highlight trends in the overall business.

We use the non-GAAP measure of Free Cash Flow as a criterion of liquidity and performance-based components of employee compensation. Free Cash Flow is defined as cash flow provided by operating activities 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 businesses, such as amounts available to make acquisitions, invest in construction of new projects or make principal payments on debt. For additional discussion related to management's use of non-GAAP measures, see *Results of Operations - 2009 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 for the year ended December 31, 2009 and 2008, reconciled for each such period to cash flow provided by operating activities.

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

	For the Years Ended December 31,	
	2009	2008
Cash flow provided by operating activities(A)	\$ 397,238	\$ 402,607
Less: Maintenance capital expenditures(B)	(51,937)	(60,639)
Free cash flow	\$ 345,301	\$ 341,968
 <u>Selected Uses of Free Cash Flow:</u>		
Principal payments on long-term debt	\$ (6,591)	\$ (6,877)
Principal payments on project debt, net of restricted funds used(C)	\$ (129,183)	\$ (166,225)
Distributions to partners of noncontrolling interests in subsidiaries	\$ (11,004)	\$ (7,061)
Non-maintenance capital expenditures(D)	\$ (21,682)	\$ (27,281)
Acquisition of businesses, net of cash acquired	\$ (265,644)	\$ (73,393)
Acquisition of noncontrolling interests in subsidiary	\$ (23,700)	\$
Purchase of equity interests	\$ (8,938)	\$ (18,503)
Other investment activities, net	\$ (15,339)	\$ (9,492)
 <u>Purchases of Property, Plant and Equipment:</u>		
Maintenance capital expenditures(B)	\$ (51,937)	\$ (60,639)
Pre-construction development projects(E)	(13,233)	(1,208)
Capital expenditures associated with technology development(F)	(5,008)	(5,882)
Capital expenditures associated with certain acquisitions(G)	(1,353)	(17,126)
Capital expenditures associated with SEMASS fire(H)	(2,088)	(3,065)
Total purchases of property, plant and equipment	\$ (73,619)	\$ (87,920)

- (A) Cash flow provided by operating activities was negatively affected by \$4.6 million of payments made for acquisition-related costs related to acquisitions, primarily the Veolia EfW Acquisition, for the year ended December 31, 2009.
- (B) Capital Expenditures primarily to maintain existing facilities. Purchase of property, plant and equipment is also referred to as Capital Expenditures.
- (C) Principal payments on project debt are net of restricted funds held in trust used to pay debt principal of \$54.6 million and \$21.6 million for the years ended December 31, 2009 and 2008, respectively. Principal payments on project debt excludes a project debt refinancing transaction related to a domestic energy-from-waste facility in 2009 (63.7 million) and excludes principal repayments on working capital borrowings relating to the operations of our Indian facilities (\$9.8 million).
- (D) Non-maintenance capital expenditures include certain capital expenditures made at our facilities described in notes E through H below.
- (E) Covanta has entered into definitive agreements for the development of a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. Construction commenced in the fourth quarter of 2009. Covanta incurred capital expenditures related to pre-construction activities, such as site preparation costs, for this project.

- (F) Capital Expenditures related to internal development efforts and/or agreements with multiple partners for the development, testing or licensing of new technologies related to the transformation of waste materials into renewable fuels, methods for the generation of alternative energy, and other development activity.
- (G) Capital Expenditures were incurred at four facilities that we acquired in 2008 and 2007 primarily to improve the productivity or environmental performance of those facilities.
- (H) Capital Expenditures were incurred that related to the repair and replacement of assets at the SEMASS energy-from-waste facility that were damaged by a fire on March 31, 2007. The cost of repair or replacement was insured under the terms of the applicable insurance policy, subject to deductibles. Settlement of the property damage insurance claim occurred in December 2008.

Credit Agreement Financial Covenants

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants as discussed in *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*. As of December 31, 2009, 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:

maximum Covanta Energy leverage ratio of 3.75 to 1.00 for the four quarter period ended December 31, 2009, which measures Covanta Energy's principal amount of consolidated debt less certain restricted funds dedicated to

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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, and for purposes of calculating the leverage ratio and interest coverage ratios is adjusted on a pro forma basis for acquisitions and dispositions made during the relevant period. The maximum Covanta Energy leverage ratio allowed under the Credit Facilities adjusts in future periods as follows:

3.75 to 1.00 for each of the four quarter periods ended March 31, June 30 and September 30, 2010;

3.50 to 1.00 for each four quarter period thereafter;

maximum Covanta Energy capital expenditures incurred to maintain existing operating businesses of \$100 million per fiscal year, subject to adjustment due to an acquisition by Covanta Energy; and

minimum Covanta Energy 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 2009 Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion)* above.

Long-Term Debt

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

	As of December 31,	
	2009	2008
3.25% Cash Convertible Senior Notes due 2014	\$ 460,000	\$
Debt discount related to Cash Convertible Senior Notes	(112,475)	
Cash conversion option derivative at fair value	128,603	
3.25% Cash Convertible Senior Notes, net	476,128	
1.00% Senior Convertible Debentures due 2027	373,750	373,750
Debt discount related to Convertible Debentures	(45,042)	(64,369)
1.00% Senior Convertible Debentures, net	328,708	309,381
Term Loan Facility due 2014	632,125	638,625
Other long-term debt	745	512
Total	1,437,706	948,518
Less: current portion	(7,027)	(6,922)
Total long-term debt	\$ 1,430,679	\$ 941,596

3.25% Cash Convertible Senior Notes due 2014

During the three months ended June 30, 2009, we issued \$460 million aggregate principal amount of 3.25% Cash Convertible Senior Notes (the Notes) due 2014 in a private transaction exempt from registration under the Securities

Act of 1933, as amended. The Notes are convertible by the holders into cash only (the Cash Conversion Option), based on an initial conversion rate of 53.9185 shares of our common stock per \$1,000 principal amount of Notes (which represents an initial conversion price of approximately \$18.55 per share) and only in certain limited circumstances. This Cash Conversion Option is an embedded derivative and is recorded at fair value quarterly in our consolidated balance sheets as a component of our long-term debt.

In order to reduce our exposure to potential cash payments in excess of the principal amount of the Notes resulting from the Cash Conversion Option, we entered into two separate privately negotiated transactions with affiliates of certain of the initial purchasers of the Notes (the Option Counterparties) for a net cash outflow of \$58.4 million.

We purchased, for \$112.4 million, cash-settled call options on our common stock (the Note Hedge) initially correlating to the same number of shares as those initially underlying the Notes subject to generally similar customary adjustments, which have economic characteristics similar to those of the Cash Conversion Option embedded in the Notes. The Note Hedge is a derivative which is recorded at fair value quarterly and is recorded in other noncurrent assets in our consolidated balance sheets.

We sold, for \$54.0 million, warrants (the Warrants) correlating to the same number of shares as those initially underlying the Notes, which are net share settled and could have a dilutive effect to the extent that the market price of our common stock exceeds the then effective strike price of the Warrants. The strike price of the Warrants is approximately \$25.74 per share and is subject to customary adjustments. The Warrants are recorded at the amounts received net of expenses within additional paid-in capital in our consolidated balance sheets.

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When combined with the Note Hedge and the Warrants, we believe that the net financial impact upon maturity of the Notes will consist of cash payments of the face value of \$460 million Notes and net share settlement of the Warrants to the extent that the stock price exceeds \$25.74 at that time.

Net proceeds from the above transactions were \$387.3 million, consisting of gross proceeds of \$460.0 million from the Notes and \$54.0 million of proceeds from the Warrants, less the \$112.4 million purchase price for the Note Hedge and \$14.3 million of purchase discounts and other offering expenses.

We have used and will use the net proceeds from the offering for general corporate purposes, which may include capital expenditures, potential permitted investments or permitted acquisitions.

The Notes constitute general unsecured senior obligations and rank equally in right of payment with our existing and future senior unsecured indebtedness. The Notes are effectively junior to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The Notes are not guaranteed by any of our subsidiaries and are effectively subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries.

For a detailed description of the terms of the Notes, the Note Hedge, the Cash Conversion Option, and the Warrants, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt, Note 13. Financial Instruments and Note 14. Derivative Instruments*.

1.00% Senior Convertible Debentures due 2027

On January 31, 2007, we completed an underwritten public offering of \$373.8 million aggregate principal amount of 1.00% Senior Convertible Debentures due 2027 (the Debentures), from which we received proceeds of approximately \$364.4 million, net of underwriting discounts and commissions.

For specific criteria related to contingent interest, conversion or redemption features of the Debentures see *Capital Requirements* below and *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt, Note 13. Financial Instruments and Note 14. Derivative Instruments*.

Project Debt

Americas Project Debt

Financing for the energy-from-waste projects is 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 consolidated financial statements. Generally, such project debt is secured by the revenues generated by the project and other project assets including the related facility. The only potential recourse to us with respect to project debt arises under the operating performance guarantees described below under *Other Commitments*.

Certain subsidiaries had recourse liability for project debt which is recourse to certain Covanta ARC Holdings, Inc. subsidiaries, but is non-recourse to us and as of December 31, 2009 was as follows (in thousands):

Covanta Niagara, L.P. Series 2001 Bonds	\$ 165,010
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Covanta Southeastern Connecticut Company Corporate Credit Bonds	43,500
Covanta Hempstead Company Corporate Credit Bonds	42,670
Total	\$ 251,180

On August 20, 2009, one of our client communities refinanced project debt (\$63.7 million outstanding) and we terminated a related interest rate swap (\$9.8 million liability) with the proceeds from new bonds and cash on hand. As a result of the refinancing, the client community issued \$53.7 million tax exempt bonds bearing interest from 3% to 5% due 2019 in order to pay down the existing project debt and \$12.7 million 4.67% taxable bonds due 2012 issued primarily to terminate the swap. See *Item 8. Financial Statements And Supplementary Data Note 14. Derivative Instruments* for additional information related to the termination of the interest rate swap. Consistent with other private, non-tip fee structures, the client community will pay us debt service revenue equivalent to the principal and interest on the bonds.

International Project Debt

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. Project debt relating to two international

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projects in India is included as Project debt (short- and long-term) in our consolidated financial statements. In most projects, the instruments defining the rights of debt holders generally provide that the project subsidiary may not make distributions to its parent until periodic debt service obligations are satisfied and other financial covenants are complied with.

Restricted Funds Held in Trust

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

	As of December 31,			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Debt service funds	\$ 73,406	\$ 101,376	\$ 103,371	\$ 97,761
Revenue funds	13,061		25,105	
Other funds	44,756	45,153	46,617	52,057
Total	\$ 131,223	\$ 146,529	\$ 175,093	\$ 149,818

Of the \$277.8 million in total restricted funds as of December 31, 2009, approximately \$165.9 million was designated for future payment of project debt principal.

Investments

Our insurance business requires both readily liquid assets and adequate capital to meet ongoing obligations to policyholders and claimants, as well as to pay ordinary operating expenses. Our insurance business meets both its short-term and long-term liquidity requirements through operating cash flows that include premium receipts, investment income and reinsurance recoveries. To the extent operating cash flows do not provide sufficient cash flow, the insurance business relies on the sale of invested assets and/or contributions from us, as required. The investment policy guidelines for the insurance business require that all loss and loss adjustment expense (LAE) liabilities be matched by a comparable amount of investment grade assets. We believe that the resources of the insurance business are adequate to meet its current operating requirements.

The insurance subsidiaries' fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Investment securities that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation. *See Item 8. Financial Statements And Supplementary Data Note 13. Financial Instruments.*

The investment portfolio for our insurance business was as follows as of December 31, 2009 (in thousands):

Amortized Cost Fair Value

Investments by grade:			
Fixed maturities:			
U.S. government obligations and agencies	\$	13,472	\$ 13,726
Residential mortgage-backed		5,150	5,203
Corporate (AAA to A)		8,878	9,213
Total fixed maturities		27,500	28,142
Equity securities		732	871
Total	\$	28,232	\$ 29,013

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The following table summarizes our gross contractual obligations including project debt, leases and other obligations as of December 31, 2009 (in thousands; references to Notes in the table are references to the Notes in *Item 8. Financial Statements And Supplementary Data*):

	Total	2010	Payments Due by Period		
			2011 and 2012	2013 and 2014	2015 and Beyond
Americas project debt	\$ 909,477	\$ 157,143	\$ 260,805	\$ 236,614	\$ 254,915
International project debt	31,150	27,827	3,323		
Total project debt (Note 12)	940,627	184,970	264,128	236,614	254,915
Term Loan Facility (Note 11)	632,125	6,500	13,000	612,625	
3.25% Cash Convertible Senior Notes (Note 11)(1)	460,000			460,000	
1.00% Senior Convertible Debentures (Note 11)(2)	373,750		373,750		
Other long-term debt	745	527	196	22	
Total debt obligations(3)	2,407,247	191,997	651,074	1,309,261	254,915
Less: Non-recourse debt(4)	(941,372)	(185,497)	(264,324)	(236,636)	(254,915)
Total recourse debt	\$ 1,465,875	\$ 6,500	\$ 386,750	\$ 1,072,625	\$
Operating leases	350,365	42,640	82,757	59,618	165,350
Less: Non-recourse rental payments	(190,657)	(23,362)	(47,182)	(30,429)	(89,684)
Total recourse rental payments	\$ 159,708	\$ 19,278	\$ 35,575	\$ 29,189	\$ 75,666
Interest payments(5)	443,522	87,775	171,685	113,302	70,760
Less: Non-recourse interest payments	(223,843)	(50,348)	(73,437)	(47,622)	(52,436)
Total recourse interest payments	\$ 219,679	\$ 37,427	\$ 98,248	\$ 65,680	\$ 18,324
Retirement plan obligations(6)	\$ 22,360	\$ 6,110	\$ 9,070	\$ 2,060	\$ 5,120
Uncertainty in income tax obligations(7)	\$ 139,552	\$ 21,769	\$ 7,002	\$ 3,513	\$ 107,268
Total obligations	\$ 2,007,174	\$ 91,084	\$ 536,645	\$ 1,173,067	\$ 206,378

(1) The Notes bear interest at a rate of 3.25% per year, payable semi-annually in arrears, on June 1 and December 1 of each year, commencing on December 1, 2009, and will mature on June 1, 2014. Under limited circumstances, the Notes are convertible by the holders thereof, at any time prior to March 1, 2014, into cash only, based on an initial conversion rate of 53.9185 shares of our common stock per \$1,000 principal amount of Notes (which represents an initial conversion price of approximately \$18.55 per share). See *Item 8. Financial Statements And*

Supplementary Data Note 11. Long-Term Debt.

- (2) The Debentures bear interest at a rate of 1.00% per year, payable semi-annually in arrears, on February 1 and August 1 of each year, commencing on August 1, 2007 and will mature on February 1, 2027. At our option, the Debentures are subject to redemption at any time on or after February 1, 2012, in whole or in part, at a redemption price equal to 100% of the principal amount of the Debentures being redeemed, plus accrued and unpaid interest. In addition, holders may require us to repurchase their Debentures on February 1, 2012, February 1, 2017, and February 1, 2022, in whole or in part, for cash at a repurchase price equal to 100% of the principal amount of the Debentures being repurchased, plus accrued and unpaid interest. For purposes of this Capital Requirements chart, we have assumed that the Debentures will be repurchased pursuant to the holders option on February 1, 2012. For information detailing the contingent interest, conversion or redemption features of the Debentures, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt.*
- (3) Excludes \$18.7 million of unamortized debt premium.
- (4) Payment obligations for the project debt associated with owned energy-from-waste facilities are limited recourse to operating subsidiaries and non-recourse to us, subject to operating performance guarantees and commitments.
- (5) Interest payments on the Term Loan Facility and letter of credit fees are estimated based on current LIBOR rates and are estimated assuming contractual principal repayments. Interest payments represent accruals for cash interest payments.
- (6) Retirement plan obligations are based on actuarial estimates for the pension plan obligations and post-retirement plan obligations as of December 31, 2009.
- (7) Accounting for uncertainty in income tax obligations are based upon the expected date of settlement taking into account all of our administrative rights including possible litigation.

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Other commitments as of December 31, 2009 were as follows (in thousands):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	\$ 278,191	\$ 6,550	\$ 271,641
Surety bonds	111,032		111,032
Total other commitments net	\$ 389,223	\$ 6,550	\$ 382,673

The letters of credit were issued under various credit facilities (primarily the Funded L/C Facility) to secure our performance under various contractual undertakings related to the projects in our Americas and International segments, or to secure obligations under our insurance program. Each letter of credit relating to a project is required to be maintained in effect for the period specified in related project contracts, and generally may be drawn if it is not renewed prior to expiration of that period.

We believe that we will be able to fully perform under our contracts to which these existing letters of credit relate and that it is unlikely that letters of credit would be drawn because of a default of our performance obligations. If any of these letters of credit were to be drawn by the beneficiary, the amount drawn would be immediately repayable by us to the issuing bank. If we do not immediately repay such amounts drawn under these letters of credit, unreimbursed amounts would be treated under the Credit Facilities as additional term loans in the case of letters of credit issued under the Funded L/C Facility, or as revolving loans in the case of letters of credit issued under the Revolving Loan Facility.

The surety bonds listed on the table above relate primarily to performance obligations (\$100.2 million) and support for closure obligations of various energy projects when such projects cease operating (\$10.8 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 Debentures. These arise as follows:

- holders may require us to repurchase their Debentures on February 1, 2012, February 1, 2017 and February 1, 2022;
- holders may require us to repurchase their Debentures if a fundamental change occurs; and
- holders may exercise their conversion rights upon the occurrence of certain events, which would require us to pay the conversion settlement amount in cash and/or our common stock.

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

- holders may require us to repurchase their 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 Debentures or Notes, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*.

As discussed in the *Overview Growth and Development* discussion above, we are focused on developing new projects and making acquisitions to grow our business in the Americas, Europe and Asia. 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 certain Americas and International segment energy and waste 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 Americas and International segment 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 on 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 material. To date, we have not incurred material liabilities under such performance guarantees. See *Item 1A. Risk Factors We have provided guarantees and financial support in connection with our projects*.

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Insurance Coverage

We periodically review our insurance programs to ensure that our coverage is appropriate for the risks attendant to our business. As part of this review, we assess whether we have adequate coverage for risk to our physical assets from extreme weather events. We have obtained insurance for our assets and operations that provides coverage for what we believe are probable maximum losses, subject to self-insured retentions, policy limits and premium costs which we believe to be appropriate. However, the insurance obtained does not cover us for all possible losses.

Off-Balance Sheet Arrangements

We are party to lease arrangements at our Union County, New Jersey, Alexandria, Virginia and Delaware Valley, Pennsylvania energy-from-waste facilities. At our Union County facility, we lease the facility from the Union County Utilities Authority, referred to as the UCUA, under a lease that expires in 2023, which we may extend for an additional five years. We guarantee a portion of the rent due under the lease. Rent under the lease is sufficient to allow UCUA to repay tax exempt bonds issued by it to finance the facility and which mature in 2023.

At our Alexandria facility, we are a party to a lease which expires in 2025 related to certain pollution control equipment that was required in connection with the Clean Air Act amendments of 1990, and which was financed by the City of Alexandria and by Arlington County, Virginia. We own this facility, and the rent under this lease is sufficient to pay debt service on tax exempt bonds issued to finance such equipment and which mature in 2013.

Our Delaware Valley facility is a party to a lease for the facility that expires in 2019. We are obligated to pay a portion of lease rent, designated as Basic Rent B, and could be liable to pay certain related contractually-specified amounts, referred to as Stipulated Loss, in the event of a default in the payment of rent under the Delaware Valley lease beyond the applicable grace period. The Stipulated Loss is similar to lease termination liability and is generally intended to provide the lessor with the economic value of the lease, for the remaining lease term, had the default in rent payment not occurred. The balance of rental and Stipulated Loss obligations are payable by a trust formed and collateralized by the project's former operator in connection with the disposition of its interest in the Delaware Valley facility. Pursuant to the terms of various guarantee agreements, we have guaranteed the payments of Basic Rent B and Stipulated Loss to the extent such payments are not made by our subsidiary. We do not believe, however, that such payments constitute a material obligation of our subsidiary since our subsidiary expects to continue to operate the Delaware Valley facility in the ordinary course for the entire term of the lease and will continue to pay rent throughout the term of the lease. As of December 31, 2009, the estimated Stipulated Loss would have been \$107.9 million.

We are also a party to various lease arrangements pursuant to which we lease rolling stock in connection with our operating activities, as well as lease certain office space and equipment. Rent payable under these arrangements is not material to our financial condition. We generally use operating lease treatment for all of the foregoing arrangements. A summary of the operating lease obligations is contained in *Item 8. Financial Statements And Supplementary Data Note 10. Leases*.

As described above under *Other Commitments*, we have issued or are party to performance guarantees and related contractual obligations undertaken mainly pursuant to agreements to construct and operate certain energy and waste facilities. To date, we have not incurred material liabilities under our guarantees.

We have investments in several investees and joint ventures which are accounted for under the equity and cost methods and therefore we do not consolidate the financial information of those companies. See *Item 8. Financial Statements And Supplementary Data Note 8. Equity Method Investments* for additional information regarding these investments.

Discussion of Critical Accounting Policies

In preparing our consolidated financial statements in accordance with GAAP, we are required to use judgment in making estimates and assumptions that affect the amounts reported in our consolidated 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.

Stock-Based Compensation

We calculate the fair value of our share-based option awards using the Black-Scholes option pricing model which requires estimates of the expected life of the award and stock price volatility. The expected life for the options issued in 2007 and 2008 was determined using the simplified method and as such, the expected lives of the options issued in 2007 range

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from 6.5 years to 6.04 years and 2008 range from 6.54 years to 6.48 years. In 2009, we did not grant options to purchase shares of common stock to employees or directors.

In addition, we also estimate expected forfeitures for our options and share-based awards and the probability of achieving specific performance factors affecting the vesting of our share-based awards. For our current share-based awards, our estimate of a forfeiture rate and determination of achieving stated performance vesting factors will have the most significant impact on the compensation cost we must recognize. We recognize compensation costs using the graded vesting attribution method over the requisite service period of the award, which is generally three to five years.

We review the forfeiture rates at least annually and revise compensation expense, if necessary. Prior to the fourth quarter of 2009, the range for forfeiture rates was 8% to 15%. During the fourth quarter of 2009, we reviewed the forfeiture rates and modified the rate to 10%. The cumulative effect of the change in the forfeiture rate to compensation expense did not have a material effect on our financial results of operations.

Purchase Accounting

We allocate acquisition purchase prices to identified intangible assets and tangible assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition, with any residual amounts allocated to goodwill. The fair value estimates used reflect our best estimates for the highest and best use by market participants based on our work and the work of independent valuation consultants using relevant information available to us. These estimates, and the assumptions used by us and by our valuation consultants, are subject to inherent uncertainties and contingencies beyond our control. For example, we used the discounted cash flow method to estimate the value of many of our assets. This entailed developing projections about future cash flows and adopting an appropriate market participant discount rate. We cannot predict with certainty actual cash flows and the selection of a discount rate is heavily dependent on judgment. If different cash flow projections or discount rates were used, the fair values of our assets and liabilities could be materially increased or decreased. Accordingly, there can be no assurance that such estimates and assumptions reflected in the valuations will be realized, or that further adjustments will not occur. The assumptions and estimates used by us substantially affect our consolidated balance sheets. In addition, the valuations impact depreciation and amortization expense and changes in such assumptions and estimates may affect earnings in the future.

Depreciation and Amortization

We have estimated the useful lives over which we depreciate our long-lived assets. Additionally, in accordance with accounting standards related to asset retirement obligations, we have capitalized the estimate of our legal liabilities which includes closure and post-closure costs for landfill cells and site restoration for certain energy-from-waste and power producing sites.

Goodwill and Intangible Assets

In accordance with accounting standards related to goodwill and other intangible assets, we evaluate our goodwill and indefinite lived intangible assets for impairment at least annually or when indications of impairment exist. Our judgments regarding the existence of impairment indicators are based on regulatory factors, market conditions, anticipated cash flows and operational performance of our acquired assets. There was no impairment recognized in 2009, 2008 or 2007, however the impact of impairment in the future could have a material impact on our financial position and results of operations.

In accordance with accounting standards related to accounting for the impairment or disposal of long-lived assets, we evaluate our long-term assets and amortizable intangible assets for recoverability whenever events or changes in

circumstances indicate that its carrying amount may not be recoverable. No events or change in circumstances occurred in 2009, 2008 or 2007 to warrant impairment testing. However, had an event or change in circumstances occurred that resulted in recognizing an impairment, the impact of such impairment could have a material impact on our financial position and results of operations.

Net Operating Loss Carryforwards Deferred Tax Assets

As described in *Item 8. Financial Statements And Supplementary Data Note 16. Income Taxes*, we have recorded a deferred tax asset related to our NOLs. The amount recorded was calculated based upon future taxable income arising from (a) the reversal of temporary differences during the period the NOLs are available and (b) future operating income expected from our Americas and International segment businesses, to the extent it is reasonably predictable.

We estimated that we have NOLs of approximately \$545 million for federal income tax purposes as of the end of 2009. The NOLs will expire in various amounts beginning on December 31, 2011 through December 31, 2028, if not used. The amount of NOLs available to us will be reduced by any taxable income generated by current members of our tax consolidated

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group including certain grantor trusts relating to the Mission Insurance Entities or increased to the extent of any new losses recorded.

The Internal Revenue Service (IRS) has not audited any of our tax returns for the years in which the losses giving rise to the NOLs were reported, and the IRS could challenge any past and future use of the NOLs.

Loss Contingencies

As described in *Item 8. Financial Statements And Supplementary Data Note 21. Commitments and Contingencies*, 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 with respect to these matters on an ongoing basis and when losses are considered probable and reasonably estimable, we record as a loss an estimate of the ultimate 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 and disclosure is made regarding the possibility of additional losses. We review such estimates on an ongoing basis as developments occur with respect to such matters and may in the future increase or decrease such estimates. There can be no assurance that our initial or adjusted estimates of losses will reflect the ultimate loss we may experience regarding such matters. Any inaccuracies could potentially have a material adverse effect on our consolidated financial condition.

Financial Instruments

As described in *Item 8. Financial Statements And Supplementary Data Note 13. Financial Instruments*, 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 are not necessarily indicative of the amounts that we would realize in a current market exchange.

For cash and cash equivalents, restricted cash, 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. The insurance subsidiaries' fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Investment securities that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation.

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 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 Notes are valued quarterly using the present value of expected cash flow models incorporating the probabilities of the contingent events occurring.

Debentures

Effective January 1, 2009, we adopted a recent accounting standard related to accounting for convertible debt instruments. We are required to separately account for the liability and equity components of our convertible debt instruments with cash settlement features. The debt component was recognized at the present value of its cash flows discounted using a 7.25% discount rate, our estimated borrowing rate at the date of the issuance of the Debentures for a similar debt instrument without the conversion feature.

Revenue Recognition

We earn fees to service project debt (principal and interest) where such fees are expressly included as a component of the service fee paid by the client community pursuant to applicable energy-from-waste service agreements. Regardless of the timing of amounts paid by client communities relating to project debt principal, we record service revenue with respect to this principal component on a levelized basis over the term of the applicable agreement. Unbilled service receivables related to energy-from-waste operations are discounted in recognizing the present value for services performed currently in order to service the principal component of the project debt. Fees for waste disposal are recognized in the period received. Revenue from electricity and steam sales are recorded when delivered at rates specified in the contracts. We also earn fees under fixed-price construction contracts, in which case revenue is accounted for using the percentage-of-completion of services rendered. These contracts are typically signed in conjunction with agreements to operate the project constructed and are therefore multiple element arrangements. The contractual price of the undelivered service element has been determined to be its fair value.

Table of Contents***Pensions***

Costs and the related obligations and assets arising from the pension and other postretirement benefit plans are accounted for based on actuarially-determined estimates. On an annual basis, we evaluate the assumed discount rate and expected return on assets used to determine pension benefit and other postretirement benefit obligations. The discount rate is determined based on the timing of future benefit payments and expected rates of return currently available on high quality fixed income securities whose cash flows match the timing and amount of future benefit payments of the plan. We record a pension plan liability equal to the amount by which the present value of the projected benefit obligations (using the discount rate) exceeded the fair value of pension assets.

The discount rate and net gain (loss) recognized are as follows:

		Net Gain (Loss) Recognized in AOCI (dollars in millions)	Net Gain (Loss), Net of Tax, Recognized in AOCI
	Discount Rate		
Year Ended December 31, 2009	6.00%	\$ 14.6	\$ 8.8
Year Ended December 31, 2008	6.25%	\$ (20.0)	\$ (13.2)
Year Ended December 31, 2007	6.50%	\$ 14.5	\$ 9.4

Effective January 1, 2010, the defined benefit pension plan was amended to exclude future compensation increases received by eligible participants after December 31, 2009. See *Item 8. Financial Statements And Supplementary Data Note 17. Employee Benefit Plans* for additional information related to our pension and other postretirement benefit plans.

Unpaid Losses and Loss Adjustment Expenses

Our insurance subsidiaries establish loss and loss adjustment expense (LAE) reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

Reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as incurred but not reported (IBNR) reserves, which include a provision for expected future development on case reserves. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and LAE. Actuaries estimate ultimate loss and LAE using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made.

Our insurance subsidiaries use independent actuaries on whom we significantly rely to form a conclusion on reserve estimates. Those independent actuaries use several generally accepted actuarial methods to evaluate the insurance business loss reserves, each of which has its own strengths and weaknesses. The independent actuaries place more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made and through discussions with our insurance subsidiaries management.

Recent Accounting Pronouncements

See *Item 8. Financial Statements And Supplementary Data Note 1. Organization and Summary of Significant Accounting Policies* and *Note 2. Recent Accounting Pronouncements* for a summary of additional accounting policies and new accounting pronouncements.

Related-Party Transactions

Affiliate Agreements

We hold a 26% investment in Quezon Power, Inc. (Quezon). We are party to an agreement with Quezon in which we assumed responsibility for the operation and maintenance of Quezon s coal-fired electricity generation facility. Accordingly, 26% of the net income of Quezon is reflected in our consolidated statements of income and, as such 26% of the revenue earned under the terms of the operation and maintenance agreement is eliminated against equity in net income from unconsolidated investments. For the fiscal years ended December 31, 2009, 2008, and 2007, we collected \$40.6 million, \$34.0 million, and \$35.4 million, respectively, for the operation and maintenance of the facility. As of December 31, 2009 and 2008, the net amount due to Quezon was \$5.0 million and \$3.2 million, respectively, which represents advance payments received from Quezon for operation and maintenance costs.

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On June 30, 2009, we acquired a 30% owner-participant interest in the Detroit energy-from-waste facility. We are party to an operating and maintenance agreement with the owners of the Detroit facility, pursuant to which we operate, maintain and provide certain other services for the owners of the Detroit energy-from-waste facility for a term of one year. Accordingly, 30% of the net income of the Detroit energy-from-waste facility is reflected in our consolidated statements of income and as such, 30% of the revenue earned under the terms of the operation and maintenance agreement is eliminated against equity in net income from unconsolidated investments. See *Item 8. Financial Statements And Supplementary Data Note 3. Acquisitions, Business Development and Dispositions.*

Clayton Yeutter, a current director, is senior advisor to the law firm of Hogan & Hartson LLP. Hogan & Hartson has provided Covanta Energy with certain legal services for many years including 2009. This relationship preceded our acquisition of Covanta Energy. Mr. Yeutter did not direct or have any direct or indirect involvement in the procurement, provision, oversight or billing of such legal services and does not directly or indirectly benefit from those fees. The Board of Directors has determined that such relationship does not interfere with Mr. Yeutter's exercise of independent judgment as a director.

Item 7A. 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. The following analysis provides quantitative information regarding our exposure to financial instruments with market risks. We use a sensitivity model to evaluate the fair value or cash flows of financial instruments with exposure to market risk that assumes instantaneous, parallel shifts in exchange rates and interest rate yield curves. There are certain limitations inherent in the sensitivity analysis presented, primarily due to the assumption that exchange rates change in a parallel manner and that interest rates change instantaneously. In addition, the fair value estimates presented herein are based on pertinent information available to us as of December 31, 2009. Further information is included in *Item 8. Financial Statements And Supplementary Data Note 13. Financial Instruments and Note 14. Derivative Instruments.*

Commodity Price Risk and Contract Revenue Risk**Fuel Price Risk**

Generally, we are protected against fluctuations in fuel (municipal waste) price risk in our Americas segment energy-from-waste business because most of our municipal waste is provided under long-term contracts where we are paid for our fuel at fixed rates. At our tip fee energy-from-waste facilities, differing amounts of waste disposal capacity are not subject to long-term contracts and, therefore, we are partially exposed to the risk of market fluctuations in the waste disposal fees we may charge for fuel. Waste disposal fees declined slightly in 2009 primarily due to the ongoing global economic slowdown. The decline in waste disposal fees at our energy-from-waste facilities is offset by lower costs incurred by internalizing waste disposal by utilizing our network of transfer stations located throughout the northeast United States, where we have over one million tons of available capacity.

At our biomass projects, we pay for our fuel (wood waste), and have exposure to fuel price risk because wood waste most often may be purchased only under short-term arrangements.

In addition, we sell, recover and recycle materials, principally ferrous metals, under short-term arrangements from most of our energy-from-waste projects in the Americas segment, and have exposure to market fluctuations with respect to such sales. During the second and third quarters of 2008, we experienced historically high recycled metal prices, which declined materially during the fourth quarter of 2008. Revenue from these materials is included within

our waste services revenues in our consolidated statements of income.

Expiration of our contracts at energy-from-waste projects we own and at projects we operate will subject us to greater market risk in maintaining and enhancing our revenues. As the original waste disposal and operating contracts have approached the expiration dates of their initial term, we have renewed, extended or replaced these contracts on acceptable terms. We have risk in obtaining acceptable arrangements and associated revenue for such projects thereafter. As our remaining agreements at facilities we own near their expiration dates, we intend to seek replacement or additional contracts for waste supplies, and because project debt on these facilities will be paid off at such time, we expect to be able to offer disposal services at rates that will attract sufficient quantities of waste and provide acceptable revenues. As we seek to enter into extended or new contracts following these expiration dates, we expect that medium- and long-term contracts for waste supply, for a substantial portion of facility capacity, will be available on acceptable terms in the marketplace.

At our International segment independent power projects, we do not have material fuel cost risk because generally fuel costs are contractually included in our electricity revenues or fuel is provided by our customers. In some of our international

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projects, the project entity (which in some cases is not our subsidiary) has entered into long-term fuel purchase contracts that protect the project from changes in fuel prices, provided counterparties to such contracts perform their commitments.

Energy Price Risk

We are protected against energy market fluctuations at most of our projects, which have long-term contracts for the sale of energy output. At some of our projects, we enter into short-term arrangements for energy sales, or have market-based pricing and therefore, we have some exposure to energy market fluctuations.

We also expect that medium- and long-term contracts for sales of energy will be less available than in the past. As a result, following the expiration of these initial long-term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets. In the future, we may enter into futures, forward contracts, swaps or options to hedge our exposure to market risk in energy markets. At some of our facilities, where our long-term fixed price power contracts expire, we have an alternative to the current low market prices, by selling our electrical output at avoided cost. The avoided cost rate is established periodically by local power authorities and is used by power authorities both for purchasing power from companies like ours and also used to establish billing rates for end users of energy. The current avoided cost rate is generally lower than our previously established contract rate but is higher than spot market prices. We expect our use of avoided cost sales will reduce our market exposure and mitigate the revenue decline related to the expiration of these initial long-term contracts.

At our biomass projects, we plan to maximize profitability by curtailing operations of these facilities when the spread between wood fuel prices and electricity output prices is not favorable.

Interest Rate Risk

Outstanding loan balances under the Credit Facilities bear interest at floating rates, which are calculated as either interest at a reserve adjusted British Bankers Association Interest Settlement Rate, commonly referred to as LIBOR, the prime rate or the Federal Funds rate plus 0.5% per annum, plus a borrowing margin. For details as to the various election options under the Credit Facility, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*. As of December 31, 2009, the outstanding balance of the Term Loan was \$632.1 million. We have not entered into any interest rate hedging arrangements against this balance. A hypothetical increase of 1.00% in the underlying December 31, 2009 market interest rates would result in a potential reduction to twelve month future earnings of \$6.3 million, pre-tax.

We have project debt outstanding at our International segment projects bearing interest at floating rates that could subject us to the risk of increased interest expense due to rising market interest rates, or an adverse change in fair value due to declining interest rates on fixed rate debt. Of our project debt, approximately \$29.9 million was floating rate debt as of December 31, 2009. However, interest rate risk relating to the floating rate project debt is borne by the client communities because debt service is passed through to those clients under the contractual structure of their agreements.

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

During the three months ended June 30, 2009, we issued \$460 million aggregate principal amount of 3.25% Cash Convertible Senior Notes (the Notes) due 2014. The Notes are convertible by the holders into cash only (the Cash Conversion Option), based on an initial conversion rate of 53.9185 shares of our common stock per \$1,000 principal amount of Notes (which represents an initial conversion price of approximately \$18.55 per share) and only in certain

limited circumstances.

In order to reduce our exposure to potential cash payments in excess of the principal amount of the Notes resulting from the Cash Conversion Option, we entered into two separate privately negotiated transactions with affiliates of certain of the initial purchasers of the Notes (the Option Counterparties). We purchased, for \$112.4 million, cash settled call options on our common stock (the Note Hedge) initially correlating to the same number of shares as those initially underlying the Notes subject to generally similar customary adjustments, which have economic characteristics similar to those of the Cash Conversion Option embedded in the Notes. We sold, for \$54.0 million, warrants (the Warrants) correlating to the same number of shares as those initially underlying the Notes, which are net share settled and could have a dilutive effect to the extent that the market price of our common stock exceeds the then effective strike price of the Warrants. The strike price of the Warrants is approximately \$25.74 per share and is subject to customary adjustments.

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 consolidated statements of income as non-cash convertible debt related expense. The fair value of the Cash Conversion Option was \$128.6 million as of December 31, 2009. 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 consolidated statements of income as non-cash convertible debt related expense. The fair value of the Note Hedge was \$123.5 million as of

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December 31, 2009. The contingent interest features of the Notes are embedded derivative instruments. The fair value of the contingent interest features of the Notes was zero as of December 31, 2009.

We expect the gain or loss associated with changes to the valuation of the Note Hedge transactions to 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 spreads of the Option Counterparties. 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.

The Option Counterparties to our cash convertible note hedge transactions are financial institutions or affiliates of financial institutions, and we are subject to risks that these Option Counterparties default under these transactions. Our exposure to counterparty credit risk is not secured by any collateral.

For additional information related to the Notes, Cash Conversion Option, and Note Hedge, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt* and *Note 14. Derivative Instruments*.

Contingent Interest related to the 1.00% Debentures

On January 31, 2007, we completed an underwritten public offering of \$373.8 million aggregate principal amount of 1.00% Senior Convertible Debentures due 2027 (the "Debentures"). The Debentures bear interest at a rate of 1.00% per year, payable semi-annually in arrears, on February 1 and August 1 of each year, commencing on August 1, 2007 and will mature on February 1, 2027. Beginning with the six-month interest period commencing February 1, 2012, we will pay contingent interest on the Debentures during any six-month interest period in which the trading price of the Debentures measured over a specified number of trading days is 120% or more of the principal amount of the Debentures. When applicable, the contingent interest payable per \$1,000 principal amount of Debentures will equal 0.25% of the average trading price of \$1,000 principal amount of Debentures during the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period. The contingent interest feature in the Debentures is an embedded derivative instrument. The first contingent cash interest payment period does not commence until February 1, 2012 and the fair market value for the embedded derivative was zero as of December 31, 2009. For additional information related to the Credit Facilities, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt* and *Note 14. Derivative Instruments*.

Foreign Currency Exchange Rate Risk

We have investments in energy projects in various foreign markets, including the Philippines, China, India and Bangladesh, and to a much lesser degree, Canada, United Kingdom, Ireland, Italy and Costa Rica. As we grow our business in other countries and enter new international markets, we expect to invest substantial amounts in foreign currencies to pay for the construction costs of facilities we develop, or for the cost to acquire existing businesses or assets. Currency volatility in those markets, as well as the effectiveness of any currency hedging strategies we may implement, may impact the amount we are required to invest in new projects and the financial returns on these projects, as well our reported results. At some projects, we have mitigated our currency risks by structuring our project contracts so that our revenues are adjusted in line with corresponding changes in currency rates. Therefore, only working capital and project debt denominated in other than a project entity's functional currency are exposed to currency risks. At other projects, particularly at long-term construction projects, such as in Dublin, we have exposure to fluctuations in currency exchange rates, such as the Euro.

As of December 31, 2009, we had \$31.1 million of project debt related to two heavy fuel-oil projects in India. For \$27.9 million of the debt (related to project entities whose functional currency is the Indian rupee), exchange rate fluctuations were recorded as translation adjustments in other comprehensive income in equity in our consolidated

balance sheets. The remaining \$3.2 million of debt was denominated in U.S. dollars.

The potential loss in fair value for such financial instruments from a 10% adverse change in December 31, 2009 quoted foreign currency exchange rates would be approximately \$2.8 million, pre-tax.

As of December 31, 2009, we also had net investments in foreign subsidiaries and projects. See *Item 8. Financial Statements And Supplementary Data Note 8. Equity Method Investments* for further discussion.

Risk Related to the Investment Portfolio

With respect to our insurance business, the objectives in managing the investment portfolio held by our insurance subsidiary are to maintain necessary liquidity and maximize investment income and investment returns while minimizing overall market risk. Investment strategies are developed based on many factors including duration of liabilities, underwriting results, overall tax position, regulatory requirements, and fluctuations in interest rates. Investment decisions are made by management, in consultation with an independent investment advisor, and approved by our insurance subsidiary's board of

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directors. Market risk represents the potential for loss due to adverse changes in the fair value of securities. The market risks related to the fixed maturity portfolio are primarily credit risk, interest rate risk, reinvestment risk and prepayment risk. The market risk related to the equity portfolio is price risk.

Fixed Maturities

With respect to our insurance business, interest rate risk is the price sensitivity of fixed maturities to changes in interest rates. We view these potential changes in price within the overall context of asset and liability matching. We estimate the payout patterns of the liabilities, primarily loss reserves, of our insurance subsidiary to determine their duration. Duration targets are set for the fixed income portfolio after consideration of the duration of the liabilities that we believe mitigate the overall interest rate risk. Our exposure to interest rate risk is mitigated by the relative short-term nature of our insurance and other liabilities. The effective duration of the portfolio was 2.3 years and 1.6 years as of December 31, 2009 and 2008. We believe that the portfolio duration is appropriate given the relative short-tail nature of the auto programs and projected run-off of all other lines of business. A hypothetical 100 basis point increase in market interest rates would cause an approximate 2.2% decrease in the fair value of the portfolio while a hypothetical 100 basis point decrease would cause an approximate 1.0% increase in fair value. Credit risk is the price sensitivity of fixed maturities to changes in the credit quality of such investment. Our exposure to credit risk is mitigated by our investment in high quality fixed income alternatives.

Fixed maturities held by our insurance subsidiary include \$5.2 million and \$4.2 million of residential mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) as of December 31, 2009 and 2008, respectively. All MBS held by our insurance subsidiary were issued by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Government National Mortgage Association (GNMA) all of which are rated AAA by Moody's Investors Services.

One of the risks associated with MBS is the timing of principal payments on the mortgages underlying the securities. We attempt to limit repayment risk by purchasing MBS whose cost is below or does not significantly exceed par, and by primarily purchasing structured securities with repayment protection which provides more certain cash flow to the investor such as MBS with sinking fund schedules known as Planned Amortization Classes (PAC) and Targeted Amortization Classes (TAC). The structures of PACs and TACs attempt to increase the certainty of the timing of prepayment and thereby minimize the prepayment and interest rate risk.

Equity Securities

Our insurance subsidiary's investments in equity securities are generally limited to Fortune 500 companies with strong balance sheets, along with a history of dividend growth and price appreciation. As of December 31, 2009, equity securities represented 3% of our insurance company's total investment portfolio. During 2009, the insurance subsidiary permanently impaired 3 equity securities for a total of \$0.03 million. The impaired equity securities were primarily in the financial services sector.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Covanta Holding Corporation

We have audited the accompanying consolidated balance sheets of Covanta Holding Corporation (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covanta Holding Corporation at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2, the Company retroactively adopted an accounting standard relating to noncontrolling interests in consolidated financial statements and an accounting standard related to convertible debt instruments that may be settled in cash upon conversion. On January 1, 2009, the Company adopted the revised accounting standard for business combinations which is discussed in Note 1 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Covanta Holding Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey
February 22, 2010

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COVANTA HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
OPERATING REVENUES:			
Waste and service revenues	\$ 919,604	\$ 934,527	\$ 864,396
Electricity and steam sales	580,248	660,616	498,877
Other operating revenues	50,615	69,110	69,814
Total operating revenues	1,550,467	1,664,253	1,433,087
OPERATING EXPENSES:			
Plant operating expenses	946,166	999,674	801,560
Depreciation and amortization expense	202,872	199,488	196,970
Net interest expense on project debt	48,391	53,734	54,579
General and administrative expenses	109,235	97,016	82,729
Insurance recoveries, net of write-down of assets		(8,325)	
Other operating expenses	47,968	66,701	60,639
Total operating expenses	1,354,632	1,408,288	1,196,477
Operating income	195,835	255,965	236,610
Other income (expense):			
Investment income	4,007	5,717	10,578
Interest expense	(38,116)	(46,804)	(67,104)
Non-cash convertible debt related expense	(24,290)	(17,979)	(15,377)
Loss on extinguishment of debt			(32,071)
Total other expenses	(58,399)	(59,066)	(103,974)
Income before income tax expense and equity in net income from unconsolidated investments	137,436	196,899	132,636
Income tax expense	(50,044)	(84,561)	(24,483)
Equity in net income from unconsolidated investments	23,036	23,583	22,196
NET INCOME	110,428	135,921	130,349
Less: Net income attributable to noncontrolling interests in subsidiaries	(8,783)	(6,961)	(8,656)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	\$ 101,645	\$ 128,960	\$ 121,693

Weighted Average Common Shares Outstanding:

Basic	153,694	153,345	152,653
Diluted	154,994	154,732	153,997

Earnings Per Share:

Basic	\$ 0.66	\$ 0.84	\$ 0.80
Diluted	\$ 0.66	\$ 0.83	\$ 0.79

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

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COVANTA HOLDING CORPORATION
CONSOLIDATED BALANCE SHEETS

	As of December 31, 2009 2008 (In thousands, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	\$ 433,683	\$ 192,393
Restricted funds held in trust	131,223	175,093
Receivables (less allowances of \$2,978 and \$3,437)	306,631	243,791
Unbilled service receivables	37,692	49,468
Deferred income taxes	9,509	
Prepaid expenses and other current assets	126,139	123,514
Total Current Assets	1,044,877	784,259
Property, plant and equipment, net	2,582,841	2,530,035
Investments in fixed maturities at market (cost: \$27,500 and \$26,620, respectively)	28,142	26,737
Restricted funds held in trust	146,529	149,818
Unbilled service receivables	37,389	44,298
Waste, service and energy contracts, net	380,359	223,397
Other intangible assets, net	84,610	83,331
Goodwill	202,996	195,617
Investments in investees and joint ventures	120,173	102,953
Other assets	306,366	139,544
Total Assets	\$ 4,934,282	\$ 4,279,989
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	\$ 7,027	\$ 6,922
Current portion of project debt	191,993	198,034
Accounts payable	27,831	24,470
Deferred revenue	60,256	15,202
Accrued expenses and other current liabilities	217,721	215,046
Total Current Liabilities	504,828	459,674
Long-term debt	1,430,679	941,596
Project debt	767,371	880,336
Deferred income taxes	571,122	493,919
Waste and service contracts	101,353	114,532
Other liabilities	141,760	165,881

Total Liabilities	3,517,113	3,055,938
Commitments and Contingencies (Note 21)		
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 155,615 and 154,797 shares; outstanding 154,936 and 154,280 shares)	15,562	15,480
Additional paid-in capital	909,205	832,595
Accumulated other comprehensive income (loss)	7,443	(8,205)
Accumulated earnings	450,864	349,219
Treasury stock, at par	(68)	(52)
Total Covanta Holding Corporation stockholders' equity	1,383,006	1,189,037
Noncontrolling interests in subsidiaries	34,163	35,014
Total Equity	1,417,169	1,224,051
Total Liabilities and Equity	\$ 4,934,282	\$ 4,279,989

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

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COVANTA HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
OPERATING ACTIVITIES:			
Net income	\$ 110,428	\$ 135,921	\$ 130,349
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	202,872	199,488	196,970
Revenue contract levelization	(664)	(586)	(555)
Amortization of long-term debt deferred financing costs	5,272	3,684	3,841
Amortization of debt premium	(8,537)	(10,707)	(14,857)
Non-cash convertible debt related expense	24,290	17,979	15,377
Loss on extinguishment of debt			32,071
Provision for doubtful accounts	2,249	1,839	1,184
Stock-based compensation expense	14,220	14,750	13,448
Equity in net income from unconsolidated investments	(23,036)	(23,583)	(22,196)
Dividends from unconsolidated investments	11,310	19,459	24,250
Deferred income taxes	32,126	63,160	(688)
Other, net	6,859	3,809	(1,801)
Change in operating assets and liabilities, net of effects of acquisitions:			
Change in restricted funds held in trust	17,823	29,481	5,493
Receivables	(2,922)	4,138	(36,084)
Unbilled service receivables	18,620	14,020	19,403
Accounts payable and accrued expenses	3,974	(38,450)	22,880
Other, net	(17,646)	(31,795)	(25,494)
Net cash provided by operating activities	397,238	402,607	363,591
INVESTING ACTIVITIES:			
Acquisition of businesses, net of cash acquired	(265,644)	(73,393)	(110,465)
Proceeds from the sale of investment securities	6,838	20,295	15,057
Purchase of investment securities	(8,008)	(18,577)	(622)
Acquisition of noncontrolling interest in subsidiary	(23,700)		
Purchase of equity interests	(8,938)	(18,503)	(11,199)
Purchase of property, plant and equipment	(73,619)	(87,920)	(85,748)
Property insurance proceeds		16,215	9,441
Acquisition of land use rights		(16,727)	
Loans issued to client community to fund certain facility improvements, net of repayments	(11,191)	(8,233)	
Other, net	(2,978)	(2,465)	3,626

Net cash used in investing activities	(387,240)	(189,308)	(179,910)
FINANCING ACTIVITIES:			
Proceeds from borrowings on long-term debt	460,000		949,907
Proceeds from issuance of warrants	53,958		
Proceeds from borrowings on project debt	74,194	8,278	3,506
Proceeds from borrowings on revolving credit facility			30,000
Proceeds from the issuance of common stock, net			135,757
Principal payments on long-term debt	(6,591)	(6,877)	(1,181,130)
Principal payments on project debt	(257,331)	(187,800)	(164,167)
Payments of borrowings on revolving credit facility			(30,000)
Payments of long-term debt deferred financing costs	(14,275)		(18,324)
Purchase of convertible note hedge	(112,378)		
Payment of interest rate swap termination costs	(11,144)		
Payments of tender premiums on debt extinguishment			(33,016)
Increase in holding company restricted funds			6,660
Decrease in restricted funds held in trust	54,616	21,575	31,432
Proceeds from the exercise of options for common stock, net	560	262	812
Financings of insurance premiums, net	345	1,381	7,927
Distributions to partners of noncontrolling interests in subsidiaries	(11,004)	(7,061)	(7,699)
Net cash provided by (used in) financing activities	230,950	(170,242)	(268,335)
Effect of exchange rate changes on cash and cash equivalents	342	(70)	618
Net increase (decrease) in cash and cash equivalents	241,290	42,987	(84,036)
Cash and cash equivalents at beginning of period	192,393	149,406	233,442
Cash and cash equivalents at end of period	\$ 433,683	\$ 192,393	\$ 149,406
Cash Paid for Interest and Income Taxes:			
Interest	\$ 90,559	\$ 114,207	\$ 146,677
Income taxes, net of refunds	\$ 8,737	\$ 20,934	\$ 19,856

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

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COVANTA HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock		Additional	Accumulated	Accumulated	Treasury		Noncontrolling	Total
	Shares	Amount	Paid-In	Other		Shares	Amount	Interests	
			Capital	Comprehensiv	Earnings		Subsidiaries		
				Income	(In			in	
				(Loss)	thousands)				
Balance as of December 31, 2006	147,657	\$ 14,766	\$ 619,685	\$ 3,942	\$ 100,775	157	\$ (16)	\$ 42,681	\$ 781,833
Shares issued in equity offering, net of costs	6,118	612	135,143						135,755
Stock-based compensation expense			13,448						13,448
Effect of adoption of accounting standard related to tax liabilities for uncertain tax positions					(2,209)				(2,209)
Effect of adoption of accounting standard related to convertible debt instruments that may be settled in cash upon conversion			56,051						56,051
Tax benefit related to exercise of stock options and vesting of restricted stock			200						200
Shares forfeited for terminated employees			3			27	(3)		

Shares repurchased for tax withholdings for vested stock awards			(3,954)	175	(17)	(3,971)
Exercise of options to purchase common stock	113	11	801			812
Shares issued in non-vested stock award	393	39	(39)			
Sale of noncontrolling interests in subsidiaries						(5,656)
Distributions to partners of noncontrolling interests in subsidiaries						(7,704)
Comprehensive income, net of income taxes:						
Net income				121,693		8,656
Foreign currency translation				4,388		2,796
Pension and other postretirement plan unrecognized net gain, net of income tax expense of \$5,100				9,446		9,446
Minimum pension liability adjustment, net of income tax benefit of \$32				(59)		(59)
Net unrealized gain on available-for-sale securities, net of income tax expense of \$383				712		712
Net unrealized loss on derivative instruments, net				(2,125)		(2,125)

of income tax
benefit of \$1,144

Total
comprehensive
income

Balance as of
December 31,
2007

Stock-based
compensation
expense

Shares forfeited
for terminated
employees

Shares
repurchased for
tax withholdings
for vested stock
awards

Exercise of
options to
purchase
common stock

Shares issued in
non-vested stock
award

Deferred tax for
noncontrolling
interests in
subsidiaries

Distributions to
partners of
noncontrolling
interests in
subsidiaries

Comprehensive
income, net of
income taxes:

Net income

Foreign currency
translation

Pension and
other
postretirement
plan

unrecognized net
loss, net of
income tax
benefit of \$6,800

154,281

15,428

821,338

16,304

220,259

359

(36)

40,773

1,114,066

14,750

14,750

2

21

(2)

(3,705)

137

(14)

(3,719)

22

2

260

262

494

50

(50)

374

374

(7,062)

(7,062)

128,960

6,961

135,921

(10,481)

(6,032)

(16,513)

(13,218)

(13,218)

Minimum pension liability adjustment, net of income tax benefit of \$217				(403)					(403)
Net unrealized loss on available-for-sale securities, net of income tax benefit of \$219				(407)					(407)
Total comprehensive (loss) income				(24,509)	128,960			929	105,380
Balance as of December 31, 2008	154,797	15,480	832,595	(8,205)	349,219	517	(52)	35,014	1,224,051
Stock-based compensation expense			14,220						14,220
Issuance of Warrants			53,846						53,846
Shares forfeited for terminated employees			2			22	(2)		
Shares repurchased for tax withholdings for vested stock awards			(1,909)			140	(14)		(1,923)
Exercise of options to purchase common stock	76	8	552						560
Shares issued in non-vested stock award	742	74	(74)						
Purchase price allocation for noncontrolling interests								33,428	33,428
Acquisition of noncontrolling interests in subsidiaries			9,973					(33,492)	(23,519)
Distributions to partners of noncontrolling interests in								(11,004)	(11,004)

subsidiaries			
Comprehensive			
income, net of			
income taxes:			
Net income		101,645	8,783
			110,428
Foreign currency			
translation	5,892		1,434
			7,326
Pension and			
other			
postretirement			
plan			
unrecognized net			
gain, net of			
income tax			
expense of			
\$5,800	8,754		8,754