COVANTA HOLDING CORP
Form 10-Q
April 21, 2010

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

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

For the quarterly period ended March 31, 2010

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	**95-6021257**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
40 Lane Road, Fairfield, NJ	**07004**
(Address of Principal Executive Office)	*(Zip Code)*

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

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

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 o No o

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

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

company)

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

Applicable Only to Corporate Issuers:

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

Class	Outstanding at April 15, 2010
Common Stock, $0.10 par value	155,651,325 shares

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended March 31, 2010

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Covanta Holding Corporation and its subsidiaries (Covanta) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, will, would, could, should, seeks, similar words, or the negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws. Covanta cautions investors that any forward-looking statements made by Covanta are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to Covanta include, but are not limited to, the risks and uncertainties affecting their businesses described in Item 1A. Risk Factors of Covanta s Annual Report on Form 10-K for the year ended December 31, 2009 and in other filings by Covanta with the SEC.

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

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PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2010	2009
	(Unaudited) (In thousands, except per share amounts)	
OPERATING REVENUES:		
Waste and service revenues	$ 242,000	$ 206,269
Electricity and steam sales	149,246	141,869
Other operating revenues	25,549	10,622
Total operating revenues	416,795	358,760
OPERATING EXPENSES:		
Plant operating expenses	304,226	256,042
Depreciation and amortization expense	49,922	51,498
Net interest expense on project debt	10,977	12,769
General and administrative expenses	26,189	25,515
Other operating expenses	23,510	9,744
Total operating expenses	414,824	355,568
Operating income	1,971	3,192
Other income (expense):		
Investment income	586	1,028
Interest expense	(10,588)	(7,916)
Non-cash convertible debt related expense	(8,247)	(4,702)
Total other expenses	(18,249)	(11,590)
Loss before income tax benefit and equity in net income from unconsolidated investments	(16,278)	(8,398)
Income tax benefit	7,875	3,318
Equity in net income from unconsolidated investments	3,670	5,809
NET (LOSS) INCOME	(4,733)	729
Less: Net income attributable to noncontrolling interests in subsidiaries	(2,500)	(1,380)

NET LOSS ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$	(7,233)	$	(651)
Weighted Average Common Shares Outstanding:				
Basic		153,894		153,467
Diluted		153,894		153,467
Loss Per Share:				
Basic	$	(0.05)	$	
Diluted	$	(0.05)	$	

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2010 (Unaudited)	As of December 31, 2009
	(In thousands, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$ 329,363	$ 433,683
Restricted funds held in trust	154,956	131,223
Receivables (less allowances of $3,060 and $2,978)	261,140	306,631
Unbilled service receivables	30,996	37,692
Deferred income taxes	6,126	9,509
Prepaid expenses and other current assets	134,467	126,139
Total Current Assets	917,048	1,044,877
Property, plant and equipment, net	2,587,143	2,582,841
Investments in fixed maturities at market (cost: $30,972 and $27,500, respectively)	31,635	28,142
Restricted funds held in trust	121,123	146,529
Unbilled service receivables	34,344	37,389
Waste, service and energy contracts, net	501,471	380,359
Other intangible assets, net	83,138	84,610
Goodwill	227,734	202,996
Investments in investees and joint ventures	122,935	120,173
Other assets	265,824	306,366
Total Assets	$ 4,892,395	$ 4,934,282
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$ 6,801	$ 7,027
Current portion of project debt	229,028	191,993
Accounts payable	46,516	27,831
Deferred revenue	50,950	60,256
Accrued expenses and other current liabilities	221,100	217,721
Total Current Liabilities	554,395	504,828
Long-term debt	1,400,399	1,430,679
Project debt	726,880	767,371
Deferred income taxes	559,186	571,122
Waste and service contracts	98,187	101,353

Other liabilities	142,512	141,760
Total Liabilities	3,481,559	3,517,113
Commitments and Contingencies (Note 14)		
Equity:		
Covanta Holding Corporation stockholders equity:		
Preferred stock ($0.10 par value; authorized 10,000 shares; none issued and outstanding)		
Common stock ($0.10 par value; authorized 250,000 shares; issued 156,378 and 155,615 shares; outstanding 155,651 and 154,936 shares)	15,638	15,562
Additional paid-in capital	911,628	909,205
Accumulated other comprehensive income	6,154	7,443
Accumulated earnings	443,631	450,864
Treasury stock, at par	(73)	(68)
Total Covanta Holding Corporation stockholders equity	1,376,978	1,383,006
Noncontrolling interests in subsidiaries	33,858	34,163
Total Equity	1,410,836	1,417,169
Total Liabilities and Equity	$ 4,892,395	$ 4,934,282

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2010	2009
	(Unaudited) (In thousands)	
OPERATING ACTIVITIES:		
Net (loss) income	$ (4,733)	$ 729
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	49,922	51,498
Amortization of long-term debt deferred financing costs	1,682	904
Amortization of debt premium and discount	(1,851)	(2,082)
Non-cash convertible debt related expense	8,247	4,702
Stock-based compensation expense	3,500	3,907
Equity in net income from unconsolidated investments	(3,670)	(5,809)
Dividends from unconsolidated investments	447	266
Deferred income taxes	(8,537)	(5,643)
Other, net	278	462
Increase in restricted funds held in trust	(6,140)	(9,413)
Change in working capital, net of effects of acquisitions	79,882	11,874
Net cash provided by operating activities	119,027	51,395
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	1,228	3,405
Purchase of investment securities	(6,411)	(3,779)
Purchase of property, plant and equipment	(37,982)	(26,833)
Purchase of equity interest		(1,083)
Acquisition of noncontrolling interests in subsidiaries	(2,000)	
Acquisition of businesses, net of cash acquired	(128,254)	
Loan issued to client community to fund certain facility improvements, net of repayments	(400)	(6,192)
Other, net	(10,440)	(238)
Net cash used in investing activities	(184,259)	(34,720)
FINANCING ACTIVITIES:		
Principal payments on long-term debt	(1,857)	(1,675)
Principal payments on project debt	(47,357)	(45,268)
Proceeds from borrowings on project debt	922	
Decrease in restricted funds held in trust	15,488	4,321
Proceeds from the exercise of options for common stock, net	278	147
Financings of insurance premiums, net	(3,200)	(3,112)
Distributions to partners of noncontrolling interests in subsidiaries	(3,054)	(3,716)

Net cash used in financing activities	(38,780)	(49,303)
Effect of exchange rate changes on cash and cash equivalents	(308)	(293)
Net decrease in cash and cash equivalents	(104,320)	(32,921)
Cash and cash equivalents at beginning of period	433,683	192,393
Cash and cash equivalents at end of period	$ 329,363	$ 159,472

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

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COVANTA HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	Covanta Holding Corporation Stockholders Equity								
	Common Stock		Additional	Accumulated Other		Treasury Stock		Noncontrolling Interests in	
	Shares	Amount	Paid-In Capital	Comprehensive Income	Accumulated Earnings	Shares	Amount	Subsidiaries	Total
	(Unaudited, in thousands)								
Balance as of December 31, 2009	155,615	$ 15,562	$ 909,205	$ 7,443	$ 450,864	679	$ (68)	$ 34,163	$ 1,417,169
Stock-based compensation expense			3,500						3,500
Shares forfeited for terminated employees			5			48	(5)		
Exercise of options to purchase common stock	37	3	275						278
Shares issued in non-vested stock award	726	73	(73)						
Acquisition of noncontrolling interests in subsidiaries			(1,284)					(716)	(2,000)
Distributions to partners of noncontrolling interests in subsidiaries								(3,054)	(3,054)
Comprehensive income, net of income taxes:									
Net (loss) income					(7,233)			2,500	(4,733)
Foreign currency translation				(1,391)				965	(426)
Pension and other postretirement plan unrecognized net				(74)					(74)

loss, net of income tax benefit of $29									
Net unrealized gain on available-for-sale securities, net of income tax expense of $70				176					176
Total comprehensive (loss) income				(1,289)	(7,233)			3,465	(5,057)
Balance as of March 31, 2010	156,378	$ 15,638	$ 911,628	$ 6,154	$ 443,631	727	$ (73)	$ 33,858	$ 1,410,836

	Covanta Holding Corporation Stockholders Equity								
	Common Stock		Additional	Accumulated Other		Treasury Stock		Noncontrolling Interests	
	Shares	Amount	Paid-In Capital	Comprehensive Loss	Accumulated Earnings	Shares	Amount	in Subsidiaries	Total
	(Unaudited, in thousands)								
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			3,907						3,907
Shares forfeited for terminated employees			1			8	(1)		
Shares repurchased for tax withholdings for vested stock awards			(1,911)			140	(14)		(1,925)
Exercise of options to purchase common stock	25	3	144						147
Shares issued in non-vested stock award	684	68	(68)						
Distributions to partners of noncontrolling								(4,677)	(4,677)

interests in subsidiaries									
Comprehensive income, net of income taxes:									
Net (loss) income					(651)			1,380	729
Foreign currency translation				(1,801)				(530)	(2,331)
Pension and other postretirement plan unrecognized net loss, net of income tax benefit of $17				(42)					(42)
Net unrealized loss on available-for-sale securities, net of income tax benefit of $114				(284)					(284)
Total comprehensive (loss) income				(2,127)	(651)			850	(1,928)
Balance as of March 31, 2009	155,506	$ 15,551	$ 834,668	$ (10,332)	$ 348,568	665	$ (67)	$ 31,187	$ 1,219,575

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

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

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

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

Organization

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 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 own, have equity investments in, and/or operate 65 energy generation facilities, 57 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, four landfills, which we use primarily for ash disposal, and several waste transfer stations. We have two reportable segments, 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 international waste and energy services.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for fair presentation have been included in our financial statements. All intercompany accounts and transactions have been eliminated. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ended December 31, 2010. This Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and accompanying Notes in our Annual Report on Form 10-K for the year ended December 31, 2009 (Form 10-K).

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard related to multiple-deliverable revenue arrangements which we are required to adopt by January 1, 2011, although earlier application is permitted. The standard provides amendments to criteria for separating consideration in multiple element arrangements. As a result, multiple deliverable arrangements generally will be separated in more circumstances than under existing U.S. GAAP. We are currently evaluating the potential effects of this standard (which may be adopted either on a prospective or retrospective basis) on our condensed consolidated financial statements.

NOTE 3. ACQUISITIONS AND BUSINESS DEVELOPMENT

Our growth strategy includes the acquisition of waste and energy related businesses located in markets with significant growth opportunities and the development of new projects and expansion of existing projects. We will also consider acquiring or developing new technologies and businesses that are complementary with our existing renewable energy and waste services business. The results of operations reflect the period of ownership of the acquired businesses and business development projects. The acquisitions in the section below are not material to our condensed consolidated financial statements individually or in the aggregate and therefore, disclosures of pro forma financial information have not been presented.

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

Acquisitions and Business Development

Americas

Covanta Huntington Limited Partnership

In March 2010, for cash consideration of $2.0 million, we acquired a nominal limited partnership interest held by a third party in Covanta Huntington Limited Partnership, our subsidiary which owns and operates an energy-from-waste facility in Huntington, New York.

Honolulu Energy-from-Waste Facility

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 tons per day (tpd) to 3,060 tpd and to increase gross electricity capacity from 57 megawatts (MW) to 90 MW. The agreements also extend the contract term by 20 years. The $302 million expansion project is a fixed-price construction contract 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.

Veolia Energy-from-Waste Businesses

We completed the following transactions with Veolia Environmental Services North America Corp. (collectively referred to as the Veolia EfW Acquisition). The acquired businesses have a combined capacity of 9,600 tpd. Each of the operations acquired includes a long-term operating contract with their respective municipal client. Six of the energy-from-waste facilities and the transfer station are publicly-owned facilities.

> Between August 2009 and February 2010, we acquired one transfer station business and seven energy-from-waste businesses located in New York, Pennsylvania, California, Florida and British Columbia. We paid cash consideration of $259.3 million in August 2009 for six energy-from-waste businesses and one transfer station, and in February 2010, we paid $128.3 million for the seventh energy-from-waste business. The businesses acquired in August 2009 included a majority ownership stake in one energy-from-waste facility and in November 2009, we acquired the remaining ownership stake in that facility for cash consideration of $23.7 million.

The cash consideration is subject to certain post-closing adjustments. The preliminary purchase price allocation included $139.8 million of property, plant and equipment, $329.2 million of intangible assets related to long-term operating contracts at each acquired Veolia business except for the facility which we own, $24.7 million related to goodwill and $113.9 million of assumed debt. The acquired intangible assets will be amortized over an average remaining useful facility life of 31 years. The preliminary purchase price allocation of the businesses acquired was based on estimates and assumptions, any changes to which could affect the reported amounts of assets and liabilities resulting from this acquisition.

Detroit Michigan Energy-from-Waste Facility

On June 30, 2009, our long-term operating contract with the Greater Detroit Resource Recovery Authority (GDRRA) to operate the 2,832 tpd energy-from-waste facility located in Detroit, Michigan (the Detroit Facility) expired.

Effective June 30, 2009, we entered into the following transactions, which extended our interest in the Detroit Facility:

- A newly-formed Covanta subsidiary purchased an undivided 30% owner-participant interest in the Detroit Facility for total cash consideration of $7.9 million.
- We entered into an operating and maintenance agreement with owners of the Detroit Facility, 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.
- The project company entered into a waste disposal agreement with 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 either party provides advance written notice of termination in accordance with the provisions thereof. 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 Facility at market-based rates. The call right continues for the duration of the participation agreements which expire in 2035, and the City of Detroit stands behind GDRRA s waste delivery obligation following exercise of the call until 2021.

In December 2009, we entered into a short-term steam agreement for the Detroit Facility which remains in effect until June 2010. Negotiations with all stakeholders are in progress for arrangements to continue operating the Detroit Facility beyond June 30, 2010. Securing a long-term steam agreement with appropriate pricing remains an important factor to the overall Detroit Facility long-term economic viability.

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

Philadelphia Transfer Stations

On May 1, 2009, we acquired two waste transfer stations with combined capacity of 4,500 tpd in Philadelphia, Pennsylvania for cash consideration of $17.5 million, inclusive of final working capital adjustments. The final purchase price allocation included $5.9 million of identifiable intangible assets related primarily to customer relationships and goodwill of $1.3 million.

Alternative Energy Technology Development

We have 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 purchases aggregated $1.6 million during the quarter ended March 31, 2010 and, $4.7 million and $6.5 million during the years ended December 31, 2009 and 2008, respectively.

Harrisburg Energy-from-Waste Facility

In February 2008, we entered into a ten year agreement to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania. Under the agreement, we have a right of first refusal to purchase the facility. We also have agreed to provide construction management services and to advance up to $25.5 million 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. We have advanced $21.7 million, of which $19.8 million is outstanding as of March 31, 2010 under this funding arrangement. The first three repayment installments under this funding arrangement have been paid, but the repayment installment of $0.6 million which was due to us on April 1, 2010 has not been paid, and the City of Harrisburg has requested a forbearance period. We are discussing the proposed terms of the forbearance period with representatives of the City and certain other stakeholders. The City of Harrisburg is in a precarious financial condition with substantial obligations, and it has reported consideration of various future options (including seeking bankruptcy protection). We intend to work with the City of Harrisburg and other stakeholders to maintain our position in the project and to protect the recovery of our advance.

Hillsborough County Energy-from-Waste Facility

In 2005, we entered into agreements with Hillsborough County to implement a 600 tpd expansion of this energy-from-waste facility, and to extend the agreement under which we operate the facility through 2027. During the third quarter of 2009, construction of the expansion was successfully completed and commercial operation commenced.

International

China Joint Ventures and Energy-from-Waste Facilities

On March 24, 2009, 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.

On April 2, 2008, our project joint venture with Chongqing Iron & Steel Company (Group) Limited received an award 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. On June 25, 2008, the project s 25 year waste concession agreement was executed. In connection with this project, we invested $17.1 million for 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 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.

Dublin Joint Venture

On September 6, 2007, we entered into agreements to build, own, and operate a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities at an estimated cost of 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 320,000 metric tons of waste annually, representing approximately 50% of the facility s processing capacity. 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.

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

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. The parties are working to satisfy remaining conditions and obtain remaining approvals for the balance of construction activity, pending receipt of which we expect to curtail project spending.

NOTE 4. LOSS PER SHARE

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

	For the Three Months Ended March 31,	
	2010	**2009**
Net loss attributable to Covanta Holding Corporation	$ (7,233)	$ (651)
Basic earnings per share:		
Weighted average basic common shares outstanding	153,894	153,467
Basic loss per share	$ (0.05)	$
Diluted earnings per share:		
Weighted average basic common shares outstanding	153,894	153,467
Dilutive effect of stock options		
Dilutive effect of restricted stock		
Dilutive effect of convertible debentures		
Dilutive effect of warrants		
Weighted average diluted common shares outstanding	153,894	153,467
Diluted loss per share	$ (0.05)	$
Stock options excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive	1,915	2,026
Restricted stock awards excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive	1,327	1,128
Restricted stock units excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive	986	

Warrants excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive	24,803

On May 22, 2009, we entered into privately negotiated warrant transactions in connection with the issuance of 3.25% Cash Convertible Senior Notes due 2014. These warrants could have a dilutive effect to the extent that the price of our common stock exceeds the applicable strike price of the warrants. As of March 31, 2010, the warrants did not have a dilutive effect on earnings per share.

On January 31, 2007, we issued 1.00% Senior Convertible Debentures due 2027 (Debentures). The Debentures are convertible under certain circumstances if the closing sale price of our common stock exceeds a specified conversion price before February 1, 2025. As of March 31, 2010, the Debentures did not have a dilutive effect on earnings per share.

NOTE 5. FINANCIAL INFORMATION BY 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

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

services operations in other markets, currently the United Kingdom, Ireland, Italy, China, The Philippines, India, and Bangladesh. The results of our reportable segments are as follows (in thousands):

	Reportable Segments			
	Americas	International	All Other(1)	Total
Three Months Ended March 31, 2010:				
Operating revenues	$ 357,287	$ 54,774	$ 4,734	$ 416,795
Operating income (loss)	1,727	(247)	491	1,971
Three Months Ended March 31, 2009:				
Operating revenues	$ 313,173	$ 41,537	$ 4,050	$ 358,760
Operating income (loss)	4,435	(859)	(384)	3,192

(1) All other is comprised of our insurance subsidiaries operations.

NOTE 6. CHANGES IN CAPITALIZATION

Short-Term Liquidity

The credit facilities 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 March 31, 2010, we were in compliance with all required covenants and had available credit for liquidity as follows (in thousands):

	Total Available Under Facility	Maturing	Outstanding Letters of Credit as of March 31, 2010	Available as of March 31, 2010
Revolving Loan Facility(1)	$ 300,000	2013	$	$ 300,000
Funded L/C Facility	$ 320,000	2014	$ 295,339	$ 24,661

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

Long-Term Debt

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

	As of	
	March 31, 2010	December 31, 2009

3.25% Cash Convertible Senior Notes due 2014	$ 460,000	$ 460,000
Debt discount related to Cash Convertible Senior Notes	(107,359)	(112,475)
Cash conversion option derivative at fair value	89,785	128,603
3.25% Cash Convertible Senior Notes, net	442,426	476,128
1.00% Senior Convertible Debentures due 2027	373,750	373,750
Debt discount related to Convertible Debentures	(39,988)	(45,042)
1.00% Senior Convertible Debentures, net	333,762	328,708
Term Loan Facility due 2014	630,500	632,125
Other long-term debt	512	745
Total	1,407,200	1,437,706
Less: current portion	(6,801)	(7,027)
Total long-term debt	$ 1,400,399	$ 1,430,679

3.25% Cash Convertible Senior Notes due 2014 (Notes   )

Under limited circumstances, the Notes are convertible by the holders thereof 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) subject to certain customary adjustments as provided in the indenture for the Notes. We will not deliver common stock (or any other securities) upon conversion under any circumstances.

For specific criteria related to contingent interest, conversion or redemption features of the Notes and details related to the cash conversion option, cash convertible note hedge and warrants related to the Notes, refer to Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.

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For details related to the fair value for the contingent interest feature, cash conversion option, and cash convertible note hedge related to the Notes, see Note 12. Derivative Instruments.

1.00% Senior Convertible Debentures due 2027

Under limited circumstances, prior to February 1, 2025, the Debentures are convertible by the holders into cash and shares of our common stock, if any, initially based on a conversion rate of 35.4610 shares of our common stock per $1,000 principal amount of Debentures, (which represents an initial conversion price of approximately $28.20 per share) or 13,253,867 issuable shares. As of March 31, 2010, if the Debentures were converted, no shares would have been issued since the trading price of our common stock was below the conversion price of the Debentures.

For specific criteria related to contingent interest, conversion or redemption features of the Debentures, refer to Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.

For details related to the fair value for the contingent interest feature related to the Debentures, see Note 12. Derivative Instruments.

Debt discount for the Debentures and the Notes

The debt discount related to the Debentures and the debt discount related to the Notes is accreted over their respective terms and recognized as non-cash convertible debt related expense.

The following table details the amount of the accretion of debt discount as of March 31, 2010 included or expected to be included in our condensed consolidated financial statements for each of the periods indicated (in millions):

	Three Months ended March 31, 2010	Remainder of 2010	For the Years Ended 2011	2012	2013	2014
Non-cash convertible debt discount expense for the Notes	$ 5.1	$ 16.2	$ 23.5	$ 26.0	$ 28.8	$ 12.9
Non-cash convertible debt discount expense for the Debentures (1)	$ 5.1	$ 15.7	$ 22.3	$ 1.9	$	$

(1) The Debentures 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. 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 purposes of the accretion of the debt discount related to the Debentures, we have assumed that the Debentures will be repurchased pursuant to the holders option on February 1, 2012. For information detailing the redemption features of the Debentures, see Note 11 of the Notes to Consolidated Financial Statements in our Form 10-K.

Equity

During the three months ended March 31, 2010, we granted 725,693 restricted stock awards. For information related to stock-based award plans, see Note 10. Stock-Based Compensation. During the three months ended March 31, 2010, we did not repurchase shares of our common stock.

During the three months ended March 31, 2009, we repurchased 139,762 shares of our common stock in connection with tax withholdings for vested stock awards.

NOTE 7. INCOME TAXES

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

We currently estimate our annual effective tax rate for the year ended December 31, 2010 to be approximately 42.4%. The increase in the estimated annual effective tax rate for 2010 was primarily a result of the sunset of eligibility for production tax credits at some of our biomass facilities. We review the annual effective tax rate on a quarterly basis as projections are revised and laws are enacted. The effective income tax rate was 48.4% and 39.5% for the three months ended March 31, 2010 and 2009, respectively. The liability for uncertain tax positions, exclusive of interest and penalties, was $131.6 million and $131.2 million as of March 31, 2010 and December 31, 2009, respectively. Liabilities for uncertain tax positions increased by approximately $0.4 million during the three months ended March 31, 2010. Included in the balance of unrecognized tax benefits as of March 31, 2010 are potential benefits of $115.1 million that, if recognized, would impact the effective tax rate.

For the three months ended March 31, 2010 and 2009, we recognized a benefit of $1.7 million and an expense of $0.03 million, respectively, of interest and penalties on uncertain tax positions. As of March 31, 2010 and December 31, 2009,

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

we had accrued interest and penalties associated with liabilities for unrecognized tax positions of $6.8 million and $8.4 million, respectively. We continue to reflect interest accrued on uncertain tax positions and penalties as part of the tax provision.

As issues are examined by the Internal Revenue Service (IRS) and state auditors, we may decide to adjust the existing liability for uncertain tax positions for issues that were not deemed an exposure at the time we adopted accounting standards related to the accounting for uncertainty in income taxes. Accordingly, we will continue to monitor the results of audits and adjust the liability as needed. Federal income tax returns for Covanta Energy are closed for the years through 2003. However, to the extent NOLs are utilized from earlier years, federal income tax returns for Covanta Holding Corporation, formerly known as Danielson Holding Corporation, are still open. State income tax returns are generally subject to examination for a period of three to five years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

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

While we cannot predict with certainty what amounts, if any, may be includable in taxable income as a result of the final administration of these grantor trusts, substantial actions toward such final administration have been taken and we believe that neither arrangements with the California Commissioner nor the final administration by the Missouri Director will result in a material reduction in available NOLs.

We had consolidated federal NOLs estimated to be approximately $545 million for federal income tax purposes as of December 31, 2009, based on the tax returns as filed. The federal NOLs will expire in various amounts from December 31, 2011 through December 31, 2028, if not used. Current forecasts indicate we will utilize consolidated federal NOLs in 2010 which will otherwise expire in 2011. In addition to the consolidated federal NOLs, as of December 31, 2009, we had state NOL carryforwards of approximately $264.7 million, which expire between 2011 and 2027, capital loss carryforwards of $0.2 million expiring in 2013, and additional federal credit carryforwards of $47.5 million. These deferred tax assets are offset by a valuation allowance of $20.5 million.

In March, 2010, U.S. Federal legislation enacted the Patient Protection and Affordable Care Act (PPACA) as well as a companion bill, the Health Care and Education Reconciliation Act of 2010 (the Reconciliation Act). As a result of enactment of the PPACA and the Reconciliation Act (collectively, the Acts), employers receiving the Medicare Part D subsidy will recognize a deferred tax charge for the reduction in deductibility of postretirement prescription drug coverage for eligible retirees. The resulting deferred tax charge from enactment of the Acts was recognized in the results for March 31, 2010. This charge was not material to our condensed consolidated financial statements.

For further information, refer to Note 16. Income Taxes of the Notes to the Consolidated Financial Statements in our Form 10-K.

NOTE 8. SUPPLEMENTARY INFORMATION

Operating Revenues

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

	For the Three Months Ended March 31, 2010	2009
Waste and service revenues unrelated to project debt	$ 220,757	$ 186,680
Revenue earned explicitly to service project debt-principal	16,392	13,719
Revenue earned explicitly to service project debt-interest	4,851	5,870
Total waste and service revenues	$ 242,000	$ 206,269

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

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

Our independent power production facilities in India generate electricity and steam explicitly for specific purchasers and as such, these agreements are considered lease arrangements. Electricity and steam sales included lease income from our international business of $43.5 million and $32.3 million for the three months ended March 31, 2010 and 2009, respectively.

Operating Costs

Pass through costs

Pass through costs are costs for which we receive a direct contractually committed reimbursement from the municipal client which sponsors an energy-from-waste project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal and certain chemical costs. These costs are recorded net of municipal client reimbursements in our condensed consolidated financial statements. Total pass through costs were $20.5 million and $14.8 million for the three months ended March 31, 2010 and 2009, respectively.

Other operating expenses

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

	For the Three Months Ended March 31,	
	2010	**2009**
Construction costs	$ 20,485	$ 5,346
Insurance subsidiary operating expenses (1)	4,070	3,813
Foreign exchange (gain) loss	(1,008)	505
Other	(37)	80
Total other operating expenses	$ 23,510	$ 9,744

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

Amortization of waste, service and energy contracts

Our waste, service and energy contracts are intangible assets and liabilities relating to long-term operating contracts at acquired facilities and are recorded upon acquisition at their estimated fair market values based upon discounted cash flows. Intangible assets and liabilities are amortized using the straight line method over their remaining useful lives.

The following table details the amount of the actual/estimated amortization expense and contra-expense associated with these intangible assets and liabilities as of March 31, 2010 included or expected to be included in our condensed consolidated statement of income for each of the years indicated (in thousands):

	Waste, Service and Energy Contracts (Amortization Expense)	Waste and Service Contracts (Contra-Expense)
Three Months ended March 31, 2010	$ 10,278	$ (3,166)
Remainder of 2010	$ 30,258	$ (9,555)
2011	37,730	(12,408)
2012	35,636	(12,412)
2013	32,026	(12,390)
2014	29,135	(12,500)
2015	25,800	(8,188)
Thereafter	310,886	(30,734)
Total	$ 501,471	$ (98,187)

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

Non-Cash Convertible Debt Related Expense

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

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Debt discount accretion related to the Debentures	$ 5,054	$ 4,702
Debt discount accretion related to the Notes	5,116	
Fair value changes related to the Note Hedge	36,896	
Fair value changes related to the Cash Conversion Option	(38,819)	
Total non-cash convertible debt related expense	$ 8,247	$ 4,702

Comprehensive (Loss) Income

The components of comprehensive (loss) income are as follows (in thousands):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Comprehensive (loss) income, net of income taxes:		
Net loss attributable to Covanta Holding Corporation	$ (7,233)	$ (651)
Foreign currency translation	(1,391)	(1,801)
Pension and other postretirement plan unrecognized net loss	(74)	(42)
Net unrealized gain (loss) on available-for-sale securities	176	(284)
Other comprehensive loss attributable to Covanta Holding Corporation	(1,289)	(2,127)
Comprehensive loss attributable to Covanta Holding Corporation	$ (8,522)	$ (2,778)
Net income attributable to noncontrolling interests in subsidiaries	$ 2,500	$ 1,380
Other comprehensive gain (loss) Foreign currency translation	965	(530)
Comprehensive income attributable to noncontrolling interests in subsidiaries	$ 3,465	$ 850

Goodwill

The following table details the changes in the carrying value of goodwill (in thousands):

	Total
Balance as of December 31, 2009	$ 202,996
Veolia EfW Acquisition (See Note 3)	24,738
Balance as of March 31, 2010	$ 227,734

NOTE 9. BENEFIT OBLIGATIONS

Pension and Other Benefit Obligations

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

	Pension Benefits		Other Post-Retirement Benefits	
	For the Three Months Ended March 31,			
	2010	2009	2010	2009
Service cost	$	$	$	$
Interest cost	1,056	1,197	119	122
Expected return on plan assets	(1,237)	(975)		
Amortization of net prior service cost	(82)	19		
Amortization of actuarial gain	(15)	(46)	(25)	(37)
Net periodic benefit cost	$ (278)	$ 195	$ 94	$ 85

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
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Defined Contribution Plans

Substantially all of our employees in the United States are eligible to participate in defined contribution plans we sponsor. Our costs related to all defined contribution plans were $4.9 million and $4.4 million for the three months ended March 31, 2010 and 2009, respectively.

NOTE 10. STOCK-BASED COMPENSATION

Compensation expense related to our stock-based awards totaled $3.5 million and $3.9 million during the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010, we awarded certain employees 725,693 shares of restricted stock awards. The restricted stock awards will be expensed over the requisite service period, subject to an assumed ten percent forfeiture rate. The terms of the restricted stock awards include vesting provisions based solely on continued service. If the service criteria are satisfied, the awards vest during March of 2011, 2012 and 2013.

During the three months ended March 31, 2010, we adopted a Growth Equity Plan, which is to be used for awards pursuant to our Equity Award Plan for Employees and Officers. The Growth Equity Plan provides for the award of restricted stock units (RSU) to certain employees in connection with specified growth-based acquisitions that have been completed or development projects that have commenced. We awarded certain employees 1,085,040 shares of restricted stock units under the Growth Equity Plan.

The Growth Equity Plan provides that as of the award date of the restricted stock units, the Compensation Committee shall determine the net present value of cash flows for the applicable acquisitions or development projects (Projected NPV). Vesting of such awards will not occur until at least three years have passed following an acquisition and upon the later of three years from the grant date or one year following the commencement of commercial operations for development projects. Upon the vesting date, the Compensation Committee will re-calculate the net present values from cash flows (Bring Down NPV). If the ratio of the Bring Down NPV to the Projected NPV is greater than 95% all of the RSUs related to the particular project will vest. If the ratio is less than 95%, the number of RSUs originally issued will be proportionately reduced.

As of March 31, 2010, we had approximately $18.6 million, $12.0 million and $2.6 million of unrecognized compensation expense related to our unvested restricted stock awards, restricted stock units, and unvested stock options, respectively. We expect this compensation expense to be recognized over a weighted average period of approximately 2 years for our unvested restricted stock awards, approximately 4 years for our unvested restricted stock units and approximately 2 years for our unvested stock options.

NOTE 11. FINANCIAL INSTRUMENTS

Fair Value Measurements

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

For cash and cash equivalents, restricted funds, and marketable securities, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of restricted funds held in trust is based on quoted market prices of the investments held by the trustee.

Fair values for long-term debt and project debt are determined using quoted market prices.
The fair value of the Note Hedge and the Cash Conversion Option are determined using an option pricing model based on observable inputs such as implied volatility, risk free 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.

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of March 31, 2010. However, such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2010, and current estimates of fair value may differ significantly from the amounts presented herein.

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The following table presents information about the fair value measurement of our assets and liabilities as of March 31, 2010:

Financial Instruments Recorded at Fair Value on a Recurring Basis:	As of March 31, 2010 Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)				
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 77,615	$ 77,615	$ 77,615	$	$
Money market funds	251,748	251,748	251,748		
Total cash and cash equivalents:	329,363	329,363	329,363		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	23,805	23,791	23,791		
Money market funds	147,809	147,842	147,842		
U.S. Treasury/Agency obligations (a)	41,552	41,552	41,552		
State and municipal obligations	10,253	10,253	10,253		
Commercial paper/Guaranteed investment contracts/ Repurchase agreements	52,660	52,660	52,660		
Total restricted funds held in trust:	276,079	276,098	276,098		
Restricted funds other:					
Bank deposits and certificates of deposit (b)	20,253	20,244	20,244		
Money market funds (c)	7,557	7,557	7,557		
U.S. Agency obligations (c)	1,629	1,629	1,629		
Total restricted funds other:	29,439	29,430	29,430		
Investments:					
Marketable securities available for sale (c)	300	300	300		
Mutual and bond funds (b)	2,214	2,343	2,343		
Investments available for sale:					
U.S. Treasury/Agency obligations (d)	14,810	14,810	14,810		
Residential mortgage-backed securities (d)	3,197	3,197	3,197		
Corporate investments (d)	12,302	12,302	12,302		
Other government obligations (d)	1,326	1,326	1,326		
Equity securities (c)	897	897	897		

Total investments:	35,046	35,175	35,175		
Derivative Asset Note Hedge	86,647	86,647		86,647	
Total assets:	$ 756,574	$ 756,713	$ 670,066	$ 86,647	$
Liabilities:					
Derivative Liability Cash Conversion Option	$ 89,785	$ 89,785	$	$ 89,785	$
Derivative Liabilities Contingent interest features of the Debentures and Notes	0	0		0	
Total liabilities:	$ 89,785	$ 89,785	$	$ 89,785	$
Financial Instruments Recorded at Carrying Amount:					
Assets:					
Accounts receivables (e)	$ 288,984	$ 288,984			
Liabilities:					
Long-term debt (excluding Cash Conversion Option)	$ 1,317,415	$ 1,301,036			
Project debt	$ 955,908	$ 972,324			

(a) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.
(b) Included in other noncurrent assets in the condensed consolidated balance sheets.
(c) Included in prepaid expenses and other current assets in the condensed consolidated balance sheets.
(d) Included in investments in fixed maturities at market in the condensed consolidated balance sheets.
(e) Includes $30.6 million of noncurrent receivables in other noncurrent assets.

Investments

Our insurance subsidiaries fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Equity securities that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation. Debt securities values are determined by third party matrix pricing based on the last days trading activity. Changes in fair values are credited or charged directly to Accumulated Other Comprehensive Income (AOCI) in the condensed consolidated statements of equity as unrealized gains or losses, respectively. Investment gains or losses realized on the sale of securities are determined using the specific identification method. Realized gains and losses are recognized in the condensed consolidated statements of income based on the amortized cost of fixed maturities and the cost basis for equity securities on the date of trade, subject to any previous adjustments for other-than-temporary declines.

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Other-than-temporary declines in fair value are recorded as realized losses in the condensed consolidated statements of income to the extent they relate to credit losses, and to AOCI to the extent they are related to other factors. The cost basis of the security is also reduced. We consider the following factors in determining whether declines in the fair value of securities are other-than-temporary:

- the significance of the decline in fair value compared to the cost basis;
- the time period during which there has been a significant decline in fair value;
- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- a fundamental analysis of the business prospects and financial condition of the issuer; and
- our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments, such as investments in companies in which we do not have the ability to exercise significant influence, are carried at the lower of cost or estimated realizable value.

The cost or amortized cost, unrealized gains, unrealized losses and the fair value of our investments categorized by type of security, were as follows (in thousands):

	As of March 31, 2010			
	Cost or Amortized Cost	**Unrealized Gain**	**Unrealized Loss**	**Fair Value**
Current investments:				
Fixed maturities	$ 300	$	$	$ 300
Equity securities insurance business	732	168	3	897
Total current investments	$ 1,032	$ 168	$ 3	$ 1,197
Noncurrent investments:				
Fixed maturities insurance business:				
U.S. government obligations	$ 315	$ 2	$	$ 317
U.S. government agencies	14,274	245	26	14,493
Residential mortgage-backed	3,109	88		3,197
Corporate	11,932	410	40	12,302
Other government obligations	1,342		16	1,326
Total fixed maturities insurance business	30,972	745	82	31,635
Mutual and bond funds	2,214	129		2,343
Total noncurrent investments	$ 33,186	$ 874	$ 82	$ 33,978

As of December 31, 2009

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Current investments:				
Fixed maturities	$ 300	$	$	$ 300
Equity securities insurance business	732	150	11	871
Total current investments	$ 1,032	$ 150	$ 11	$ 1,171
Noncurrent investments:				
Fixed maturities insurance business:				
U.S. government obligations	$ 315	$ 6	$	$ 321
U.S. government agencies	13,157	257	9	13,405
Residential mortgage-backed	5,150	74	21	5,203
Corporate	8,878	337	2	9,213
Total fixed maturities insurance business	27,500	674	32	28,142
Mutual and bond funds	1,802	303		2,105
Total noncurrent investments	$ 29,302	$ 977	$ 32	$ 30,247

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The following table sets forth a summary of temporarily impaired investments held by our insurance subsidiary (in thousands):

	As of March 31, 2010		As of December 31, 2009	
Description of Investments	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury and other direct U.S. Government obligations	$ 1,974	$ 26	$ 341	$ 9
Federal agency mortgage-backed securities			1,503	21
Other government obligations	1,326	16		
Corporate bonds	3,029	40	100	2
Total fixed maturities	6,329	82	1,944	32
Equity securities	121	3	94	11
Total temporarily impaired investments	$ 6,450	$ 85	$ 2,038	$ 43

The number of U.S. Treasury and federal agency obligations, mortgage-backed securities, other government obligations, and corporate bonds temporarily impaired are 2, 0, 2, and 6, respectively. As of March 31, 2010, all of the temporarily impaired fixed maturity investments had maturities greater than 12 months.

Our fixed maturities held by our insurance subsidiary include mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) representing 10.1%, and 18.5% of the total fixed maturities as of March 31, 2010 and December 31, 2009, respectively. Our MBS holdings are 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. MBS and callable bonds, in contrast to other bonds, are more sensitive to market value declines in a rising interest rate environment than to market value increases in a declining interest rate environment.

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

	As of March 31, 2010	
	Amortized Cost	**Fair Value**
Available-for-sale:		
One year or less	$ 11,331	$ 11,535
Over one year to five years	15,900	16,398
Over five years to ten years	2,391	2,373
More than ten years	1,350	1,329
Total fixed maturities	$ 30,972	$ 31,635

The following reflects the change in net unrealized gain (loss) on available-for-sale securities included as a separate component of accumulated AOCI in the condensed consolidated statements of equity (in thousands):

	For the Three Months Ended March 31,	
	2010	2009
Fixed maturities, net	$ 21	$ (97)
Equity securities, net	26	(145)
Mutual and bond funds	129	(42)
Change in net unrealized gain (loss) on investments	$ 176	$ (284)

The components of net unrealized gain (loss) on available-for-sale securities consist of the following (in thousands):

	For the Three Months Ended March 31,	
	2010	2009
Net unrealized holding gain (loss) on available-for-sale securities arising during the period	$ 176	$ (290)
Reclassification adjustment for net realized losses on available-for-sale securities included in net income		6
Net unrealized gain (loss) on available-for-sale securities	$ 176	$ (284)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. DERIVATIVE INSTRUMENTS

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

Derivative Instruments Not Designated As Hedging Instruments	Balance Sheet Location	Fair Value as of March 31, 2010 (In thousands)	Fair Value as of December 31, 2009 (In thousands)
Asset Derivatives:			
Note Hedge	Other noncurrent assets	$ 86,647	$ 123,543
Liability Derivatives:			
Cash Conversion Option	Long-term debt	$ 89,785	$ 128,603
Contingent interest features of the Debentures and Notes	Other noncurrent liabilities	$ 0	$ 0