COVANTA HOLDING CORP
Form 424B5
November 09, 2010

Table of Contents

This preliminary prospectus supplement relates to an effective registration statement but it is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
File No. 333-158409

Subject to completion, dated November 9, 2010

Preliminary prospectus supplement
(To Prospectus dated April 3, 2009)

Covanta Holding Corporation

$400,000,000
% Senior Notes due 2020

Interest payable and

Issue price: *%*

We are offering $400,000,000 aggregate principal amount of our % Senior Notes due 2020 (the notes). The notes will mature on , 2020. Interest will accrue from , 2010, and the first interest payment date will be , 2011.

We may redeem some or all of the notes at any time on or after , 2015. We may also redeem up to 35% of the notes using the proceeds of certain equity offerings completed before , 2013. In addition, at any time prior to , 2015, we may redeem some or all of the notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, plus a make-whole premium. If we sell certain of our assets or experience specific kinds of changes in control, we must offer to purchase the notes.

The notes will be our senior unsecured obligations, ranking equally in right of payment with all of our existing and future senior unsecured indebtedness and senior to our future subordinated indebtedness. The notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness and to the existing and future indebtedness and other liabilities of our subsidiaries. We conduct all of our business through our subsidiaries. None of our subsidiaries will guarantee the notes.

You should read this prospectus supplement and the accompanying prospectus carefully before you invest in our notes. Investing in our notes involves a high degree of risk. See Risk factors beginning on page S-21 for a discussion of certain risks that you should consider in connection with an investment in the notes.

	Public offering price[(1)]	Underwriting discounts and commissions	Proceeds, before expenses, to us[(1)]
Per note			
Total			

(1) Plus accrued interest, if any, from November , 2010.

The notes will not be listed on any securities exchange or automated quotation system.

The Issuer expects that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company on or about , 2010.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

Joint book-running managers

J.P. Morgan

BofA Merrill Lynch

Barclays Capital

Citi

Joint lead managers

Credit Agricole CIB **RBS**

Co-managers

HSBC **Mizuho Securities USA Inc.** **TD Securities**

November , 2010

This prospectus supplement is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC, utilizing a shelf registration process. This prospectus supplement relates to the offer and sale of the notes.

In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement. We and the underwriters have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it.

We and the underwriters are offering to sell the notes only in places where offers and sales are permitted.

You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than its date or that the information incorporated by reference in this prospectus supplement is accurate as of any date other than the date of the incorporated document. Neither the delivery of this prospectus supplement nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this prospectus supplement.

Table of contents

Prospectus supplement

Prospectus

We are a Delaware corporation. Our principal executive offices are located at 40 Lane Road, Fairfield, NJ 07004 and our telephone number at that address is (973) 882-9000. Our website is

Table of Contents

located at *http://www.covantaholding.com*. Our website and the information contained on our website are not part of this prospectus supplement, and you should rely only on the information contained or incorporated by reference in this prospectus supplement when making a decision as to whether to invest in the notes.

Except as otherwise stated and unless the context otherwise requires, references in this prospectus supplement to Covanta Holding, Covanta, the Issuer, we, our, us and similar terms refer to Covanta Holding Corporation an subsidiaries; references to Covanta Energy refer to Covanta Energy Corporation, a direct wholly-owned subsidiary of Covanta Holding, and its subsidiaries. References to underwriters refer to the firms listed on the cover page of this prospectus supplement.

Cautionary statement regarding forward-looking statements

Certain statements in this prospectus supplement, including documents incorporated by reference therein, contain statements that may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (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 us, or general industry or broader economic performance in domestic and international markets in which we operate or compete, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, will, would, could, scheduled to, or other 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. We caution investors that any forward-looking statements made by us 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 us include, but are not limited to, the risks and uncertainties affecting our businesses described in the Risk factors section in this prospectus supplement and in the filings with the SEC incorporated by reference herein.

Although we believe that our 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 our forward-looking statements. Our 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 prospectus supplement or the documents incorporated herein by reference are made only as of the date hereof and we do not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

Table of Contents

Non-GAAP financial measures

To supplement our results prepared in accordance with United States Generally Accepted Accounting Principles (GAAP), we have included in this prospectus supplement certain non-GAAP measures, including Adjusted EBITDA and Free Cash Flow, which are non-GAAP measures as defined by the SEC. These non-GAAP financial measures are not intended as substitutes 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 and Free Cash Flow are 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 Adjusted EBITDA to provide further information that is useful to an understanding of the financial covenants contained in Covanta Energy s credit facilities, and as an additional way of viewing aspects of its operations that, when viewed with the GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, we believe provides a more complete understanding of our business. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, as adjusted for additional items subtracted from or added to net income. For further information on these additional items, see Management s discussion and analysis of financial condition and results of operations Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion).

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 in accordance with GAAP.

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 making acquisitions, investing in construction of new projects or making principal payments on debt. For further information, see Management s discussion and analysis of financial condition and results of operations Supplementary Financial Information Free Cash Flow (Non-GAAP Discussion).

Free Cash Flow should not be considered as an alternative to cash flow provided by operating activities as an indicator of our liquidity or any other measure of liquidity in accordance with GAAP.

For more information, see Summary historical consolidated financial information, Selected historical consolidated financial information and the financial statements and related notes thereto incorporated by reference in this prospectus supplement.

Table of Contents

Market, ranking, industry data and forecasts

This prospectus supplement and the documents incorporated by reference herein include market share, ranking, industry data and forecasts that we obtained from industry publications and surveys, public filings and internal company sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position and ranking are based on market data currently available to us, management s estimates and assumptions we have made regarding the size of our markets within the energy-from-waste industry. While we are not aware of any misstatements regarding our industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk factors in this prospectus supplement. Neither we nor the underwriters can guarantee the accuracy or completeness of such information contained or incorporated by reference in this prospectus supplement.

Table of Contents

Summary

Our company

We are one of the world s largest owners and operators of infrastructure for the conversion of waste to energy (known as energy-from-waste or EfW). Energy-from-waste serves two key markets as both a sustainable waste disposal solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 19 million tons of solid waste annually, representing approximately 5% of U.S. waste generation, and produce over 11 million megawatt hours of baseload electricity annually, representing over 5% of the nation s non-hydroelectric renewable power. We operate and/or have ownership positions in 44 energy-from-waste facilities, which are primarily located in North America, and 20 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass, landfill gas and hydroelectric) and independent power production (IPP) facilities in Asia. We also operate waste management infrastructure that is complementary to our core EfW business.

For the twelve months ended September 30, 2010 (LTM), we generated $1,696 million of revenue and $524 million of Adjusted EBITDA.

The energy-from-waste process

Energy-from-waste facilities produce energy through the combustion of non-hazardous municipal solid waste (MSW) in specially-designed power plants. Most of our facilities are mass-burn facilities, which combust the MSW on an as-received basis without any pre-processing such as shredding, sorting, or sizing. In a typical mass-burn facility, waste collection trucks deliver waste to the facility, where it is dumped into a concrete storage pit, then loaded by an overhead crane into a feed chute leading to a furnace. The waste is combusted in a self-sustaining process at temperatures greater than 2,000 degrees Fahrenheit, and heat from the combustion process converts water inside steel tubes that form the furnace walls and boilers into steam. A superheater further heats the steam before it is either sent to a turbine generator to produce electricity (in most facilities), or sold directly to industrial or commercial users. From the boiler, the cooled gases enter an advanced air pollution control system, where dry scrubbers neutralize any acid-forming gases and a high-efficiency fabric baghouse captures more than 99% of particulate matter. The process reduces the waste to an inert ash that is only about 10% of its original volume. In addition, ferrous and non-ferrous metals are removed and recycled during the process. On average, each ton of waste processed yields approximately 550 kilowatt hours of electricity and approximately 50 pounds of recycled metal. The amount of waste generated annually by a family of four could power an average home for roughly two months. New facilities currently under development are even more efficient and can recover 700 to 800 kilowatt hours of electricity or more from each ton of waste processed.

Table of Contents

Revenue sources

Our energy-from-waste projects generate revenue from three main sources: (1) fees charged for operating projects or processing waste received, (2) the sale of electricity and/or steam, and (3) the sale of ferrous and non-ferrous metals that are recycled as part of the energy-from-waste process. We may also generate additional revenue from the construction or expansion of a facility when a municipal client owns the facility. Our customers for waste disposal or facility operations are principally municipal entities, though we also market disposal capacity at certain facilities to commercial waste haulers. Our facilities sell energy primarily to utilities at contracted rates or, in situations where a contract is not in place, at prevailing market rates in regional markets (primarily PJM, NEPOOL and NYISO in the Northeastern U.S.). Our revenue is highly contracted, with over 75% of our waste and service revenue under contract for the LTM period. Further, over 70% of our energy revenue was under contract and not subject to market price fluctuation for the LTM period.

LTM Revenue by Source
($1,696 million)

LTM Revenue by Facility Type
($1,696 million)

Energy-from-waste 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 individual project structure is different, reflecting the specific needs and concerns of a client community, applicable regulatory requirements and/or other factors.

Our EfW projects can generally be divided into three categories, based on the applicable contract structure at a project: (1) Tip Fee projects, (2) Service Fee projects that we own, and (3) Service Fee projects that we do not own but operate on behalf of a municipal owner. At Tip Fee projects, we receive a per-ton fee for processing waste, and we typically retain all of the energy and recycled metal sales. We generally own or lease the Tip Fee facilities. At Service Fee projects, we typically charge a fixed fee for operating the facility, and the facility capacity is dedicated either primarily or exclusively to the host community client, which also retains the majority of any energy and recycled metal sales. As a result of these distinctions, the revenue generated at Tip Fee projects tends to be more dependent on operating performance, as well as market conditions, than the revenue at Service Fee projects.

Table of Contents

Our projects were generally financed at construction with project debt in the form of tax-exempt municipal bonds issued by a sponsoring municipality, which generally matures at the same time the initial term of our service contract expires and is repaid over time based on set amortization schedules. At Tip Fee facilities, our project subsidiary is responsible for meeting any debt service or lease payment obligations out of the revenue generated by the facility. At Service Fee projects that we own and where project debt is in place, a portion of our monthly fee from the municipal client is dedicated, dollar-for-dollar, to project debt service. We are not responsible for debt service for projects that we neither own nor lease. When the service contract expires and the debt is paid off, the project owner (either Covanta or the municipal entity) will determine the form of any new contractual arrangements.

The following summarizes the typical contractual and economic characteristics of the three project structures:

	Tip fee	Service fee (owned)	Service fee (operated)
Number of facilities:	17	11	16
% of Tons Processed (LTM):	37%	23%	40%
Client(s):	Host community and/or merchant customers	Host community, with limited merchant capacity in some cases	Dedicated to host community exclusively
Waste or service revenue:	Per ton tipping fee	Fixed fee, with performance incentives and inflation escalation	Fixed fee, with performance incentives and inflation escalation
Energy revenue:	Covanta retains 100%	Share with client (typically retain 10%)	Share with client (typically retain 10%)
Metals revenue:	Covanta retains 100%	Share with client	Share with client
Operating costs:	Covanta responsible for all operating costs	Pass through certain costs to municipal client (e.g., ash disposal)	Pass through certain costs to municipal client (e.g., ash disposal)
Project debt service:	Covanta project subsidiary responsible	Paid by client explicitly as part of service fee	Client responsible for debt service
	N/A		

After service contract expiration:	Covanta owns the facility; clients have certain rights; new contract(s) negotiated	Client controls the facility; extend with Covanta or tender for new contract

Table of Contents

Industry

Waste disposal

The U.S. generates more than 380 million tons of waste annually (nearly 1.3 tons for every person), which is approximately 20% of the world s total. Of that amount, approximately 29% is recycled, 64% is landfilled, and 7% is processed by energy-from-waste (of which approximately two-thirds is processed by us). In the U.S., waste generation has increased steadily over time, growing by a 2% annual rate over the past 19 years. At the same time, the number of landfills in the U.S. has decreased dramatically, from over 7,500 in 1986 to under 2,000 today. We believe that these trends, and the fact that waste disposal is an essential service, mean that the industry is relatively recession-resistant.

Energy-from-waste is an important part of the waste management infrastructure of the U.S., with approximately 85 facilities currently in operation, processing over 29 million tons and serving the needs of nearly 25 million people, while producing enough electricity for 1.3 million homes. The use of energy-from-waste is even more prevalent in Western Europe and many countries in Asia, such as Japan. An estimated 800 energy-from-waste facilities are in use today around the world, processing approximately 140 million tons of waste per year. In the waste management hierarchies of the U.S. EPA and the European Union, energy-from-waste is designated as a superior solution to landfilling.

Renewable energy

Public policy in the U.S., at both the state and national levels, has developed over the past several years in support of increased generation of renewable energy as a means of combating the potential effects of climate change, as well as increasing domestic energy security. Today in the U.S., approximately 10.5% of electricity is generated from renewable sources, two-thirds of which is hydroelectric power.

Energy-from-waste contributes approximately 10% of the nation s non-hydroelectric renewable power. Energy-from-waste is designated as renewable energy in 25 states, the District of Columbia, and Puerto Rico, as well as in several federal statutes and policies. In addition, unlike other renewable resources, EfW generation can serve base-load demand and is more often located near population centers where demand is greatest, minimizing the need for expensive incremental transmission infrastructure.

Environmental benefits of energy-from-waste

We believe that energy-from-waste offers solutions to public sector leaders around the world in addressing two key issues: sustainable 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 (as the methane emitted by landfills is over 20 times more potent a GHG than carbon dioxide), 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. Based on estimates using the EPA s Decision Support Tool, one ton of CO_2 equivalent is reduced relative to landfilling for every ton of waste processed. In addition, each ton of waste processed eliminates the need to consume approximately one barrel of oil or one-quarter ton of coal, in order to generate the equivalent amount

Table of Contents

of electricity. As public planners in North America, 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.

Competitive strengths

World leader in energy-from-waste with consistently strong long-term operating performance

We are one of the world s largest owners and operators of energy-from-waste facilities, operating an estimated two-thirds of the energy-from-waste capacity in North America. We believe that we have more experience in developing, constructing and operating energy-from-waste facilities than any other company in the world. We operate over 10 different types of energy-from-waste technologies, representing many of the commercially viable systems in the world. In addition, we believe that we have earned a strong reputation in our industry for maintaining successful long-term partnerships with our host communities, which are critical to our long-term success.

As a result of our experience and expertise in facility operations and maintenance, we have a track record of consistently high availability, and our facilities have processed nearly 350 million tons of waste. Our facilities have maintained average boiler availability above 90% since 2001, which is significantly in excess of our contractually-required levels. In 2009, we achieved our highest portfolio availability on record at 91.6%. Consistent production allows us to provide steady and reliable service for our customers. In addition, we believe that our maintenance practices are critical to maximizing the long-term value of our assets. Most of our facilities have been in operation for over 15 years, and we are confident that their useful lives will extend at least as long into the future.

Waste Tons Processed (millions) Americas

Boiler Availability Americas

The depth and scope of our experience is also evident in our outstanding record of environmental performance, where our emphasis is to go beyond mere compliance with legal and permit requirements. Our U.S.-based EfW facilities routinely achieve emission levels for various measures 60 to 90 percent below the established requirements of the U.S. EPA. We believe that this approach to environmental performance is an important element of our corporate risk management, which enhances both the service we provide our customers and our prospects for growth.

Table of Contents

Highly contracted revenue with credit-worthy counterparties

Our revenue is highly contracted, with over 75% of our waste and service revenue under contract for the LTM period. Further, over 70% of our energy revenue was under contract and not subject to market price fluctuation for the LTM period. As our existing service agreements and waste contracts expire, we will generally seek to renew or replace these contracts in order to maintain a substantial portion of our facility capacity under contract. We have historically been able to renew or extend our waste and service contracts on commercially agreeable terms. As our energy contracts expire, we will also pursue opportunities to enter into new contracts; however, we expect that the percentage of our energy revenue sold at market prices will increase over time, but with a substantial contracted profile remaining in place over the next several years.

Our customers for waste services are principally municipal entities for whom waste disposal is an essential public service. We have encountered no material counterparty issues with any of our municipal clients relating to waste services during the recent economic downturn. For facility capacity that we market to private waste haulers, we primarily contract with large, national and regional waste companies. For energy sales, we generally contract with regulated utilities, and where we do not sell under long-term contracts, we sell directly into the electricity grid and are paid by the independent system operator. Overall, our revenue sources are also highly diversified, with no facility or counterparty contributing more than 7% of total revenue during the LTM period.

Substantial and consistent free cash flow generation and strong balance sheet

Our business generates substantial Free Cash Flow. In 2009, we generated $397 million of cash flow from operating activities and $345 million of Free Cash Flow (after maintenance capital expenditures). This Free Cash Flow represented 22% of revenue and 67% of Adjusted EBITDA. See Management s discussion and analysis of financial condition and results of operations Supplementary Financial Information Free Cash Flow (Non-GAAP Discussion).

Our project debt is repaid over time based on set amortization schedules, with payments often made directly by our municipal clients as a component of our fees paid under service agreements. We repaid $194 million in project debt in 2009 and have repaid a further $123 million during the nine months ended September 30, 2010. As of September 30, 2010, we had $877 million of project debt principal outstanding, and based on existing bond maturity schedules, more than half of that principal is scheduled to be repaid by 2013. This ongoing project debt repayment enhances the strength of our credit over time.

We believe that these financial characteristics provide us with an important competitive advantage, as they enable us to pursue attractive growth opportunities, and we believe that they also provide our municipal clients with confidence that we will have the ability to serve as long-term partners and continue to satisfy our contractual obligations for facility performance well into the future.

Strong industry fundamentals in attractive geographic markets

Our energy-from-waste facilities are critical infrastructure assets that provide a necessary and essential service to our client communities. While the recent economic downturn has negatively impacted waste generation rates, industry fundamentals overall have remained strong, as per capita waste generation in North America remains the highest in the world and waste disposal capacity is constrained in many of the geographic markets where we operate. Given the essential nature of waste disposal services, we believe that our business is relatively recession-resistant.

Our energy-from-waste facilities in North America are concentrated in the attractive Northeastern U.S. where population density and constraints on landfill capacity drive the highest waste disposal fees of any region in the country. In addition, our facilities are typically located near or within the populations that they serve, and often enjoy a geographic advantage over competing landfills, which are increasingly located farther away from the sources of waste in less populated areas where landfill capacity is less expensive and easier to permit. As a result, landfills generally must incur greater transportation costs than our facilities, and we believe that these costs will increase to the extent that fossil fuel costs rise in the future.

The Northeast is also an attractive regional electricity market, where similar drivers (dense populations and constrained capacity) have supported prices over time. The majority of our merchant electricity sales are in the PJM, NEPOOL and NYISO markets, which are among the most liquid electricity markets in the country. In addition, our facilities are generally located near or within the load centers of the regions they serve, where market electricity prices are typically at a premium due to transmission congestion.

Critical infrastructure assets that are difficult to replicate

Waste disposal infrastructure is difficult and costly to replicate or expand. While all aspects of waste disposal are subject to extensive regulation, and energy-from-waste is among the most highly regulated sectors of the market, EfW requires a larger initial investment than most waste disposal alternatives. There are currently approximately 85 EfW facilities in operation in the United States, and while we expect that there will be new facilities built in the future, it has been almost 15 years since the last new facility was constructed.

Landfills represent our primary competition in the waste disposal market, and in the densely populated areas of the Northeast where the majority of our facilities are located, construction of new landfill capacity is constrained due to increased regulation and the difficulty of building or expanding landfills close to urban areas. The number of landfills in the U.S. overall has decreased dramatically, from over 7,500 facilities in 1986 to under 2,000 today. While less costly than EfW in terms of initial investment, we believe that the environmental disadvantages of landfilling are now widely recognized and factored into the development of energy and waste management policies, as they have been in other countries for many years. As a result, we believe that our existing EfW asset base will become increasingly valuable over time, and our EfW focus and experience will enhance our ability to expand our business with new project development.

Favorable environmental and regulatory trends

We believe that the environmental benefits of energy-from-waste as both a sustainable waste disposal solution and source of clean, renewable energy will continue to support a favorable regulatory framework in the markets where we operate. Examples of this include the European Union Landfill Directive, which directs member states to substantially reduce their reliance on landfills over the next 10 years (and thus, in many cases, rely more heavily on energy-from-waste as an alternative), and existing legislation in numerous U.S. states that supports energy-from-waste as a renewable energy source. In addition, we believe that the benefits of energy-from-waste as a net reducer of GHG emissions should increasingly be recognized as regulations are

Table of Contents

developed to combat climate change, and that our other renewable energy operations will benefit from such regulations as well.

Experienced operational management team with long continuity

We believe that our senior operational management has a level of experience in energy-from-waste and continuity at Covanta that is unmatched in our industry. Our President and CEO, Anthony Orlando, has been with Covanta for 23 years and held the position of CEO for 7 years. John Klett, our Chief Operating Officer, has 33 years of industry experience, including 24 with Covanta. Each member of our senior-level operating team worked for us for more than 20 years.

Strategy

Our mission is to be the leading energy-from-waste company in the world, which we intend to pursue through the following key strategies:

Maximize the value of our existing portfolio. We intend to maximize the long-term value of our existing portfolio by continuing to operate at our historic production levels, maintaining our facilities in optimal condition through our ongoing maintenance programs, extending or replacing waste and service contracts upon their expiration, seeking incremental revenue opportunities with our existing assets and expanding facility capacity where possible.

Grow in selected attractive markets. We seek to grow our portfolio primarily through the development of new facilities where we believe that market and regulatory conditions will enable us to invest our capital at attractive risk-adjusted rates of return. We are currently focusing on development opportunities in the U.S., Canada and Europe, which we consider to be our core markets. We believe that there are numerous attractive opportunities in the United Kingdom in particular, where national policies, such as a substantial tax on landfill use, are intended to achieve compliance with the EU Landfill Directive, which we believe will result in the development of over 10 million tons of new energy-from-waste capacity within the next 10 years.

We believe that our approach to development opportunities is highly-disciplined, both with regard to our required rates of return and the manner in which potential new projects will be structured and financed. In general, prior to the commencement of construction of a new facility, we intend to enter into long-term contracts with municipal and/or commercial customers for a substantial portion of the disposal capacity and obtain non-recourse project financing for a majority of the capital investment. We intend to finance new projects in a prudent manner, minimizing the impact on our balance sheet and credit profile at the parent company level where possible.

Develop and commercialize new technology. We believe that our efforts to protect and 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 and have patents pending for major advances in controlling nitrogen oxide (NO_x) emissions and have a patent 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.

Table of Contents

Advocate for public policy favorable to energy-from-waste. We seek to educate policymakers about the environmental and economic benefits of energy-from-waste and advocate for policies that appropriately reflect these benefits. Energy-from-waste is a highly regulated business, and as such we believe that it is critically important for us, as an industry leader, to play an active role in the debates surrounding potential policy developments that could impact our business.

Corporate information

We were incorporated in Delaware as a holding company in 1992. We conduct all of our operations through subsidiaries, which are predominantly engaged in the waste and energy businesses. We also continue to operate subsidiaries that are engaged in insurance operations, primarily in California; however, these collectively account for only approximately 1% of our consolidated revenue.

Recent developments

We have announced our intention to pursue a sale of our interests in four independent power production facilities in the Philippines, India and Bangladesh, representing all of our IPP operations in Asia outside of China. In anticipation of this potential transaction, our foreign subsidiaries that are involved in the operation or ownership of our businesses in Asia are designated as unrestricted subsidiaries under the indenture under which the notes will be issued. For the twelve months ended September 30, 2010, our unrestricted subsidiaries, which also include our insurance subsidiaries, contributed approximately 10% of our total Adjusted EBITDA.

The tender offer

On November 9, 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027 (the Debentures). We are offering to purchase the Debentures at a purchase price of $990 for each $1,000 principal amount of Debentures, plus accrued and unpaid interest to, but excluding, the date of payment for Debentures accepted for payment. The tender offer will expire at 12:00 midnight, New York City time, on December 8, 2010 unless extended or earlier terminated by us. We intend to use a portion of the proceeds of this offering to finance the tender offer. See Use of proceeds. This prospectus supplement is not an offer to purchase or a solicitation of an offer to sell the Debentures. The tender offer is made only by and pursuant to the terms of the Offer to Purchase, dated November 9, 2010, and the related Letter of Transmittal, as they may be amended or supplemented. The consummation of the tender offer is conditioned upon the satisfaction of certain conditions set forth in the Offer to Purchase, including the closing in this offering of at least $400 million of notes on terms and conditions satisfactory to us. We reserve the right to waive any or all conditions to the tender offer. As of November 9, 2010, there was $373.75 million aggregate principal amount of Debentures outstanding.

Table of Contents

Organization and indebtedness

The following chart illustrates, in summary form, our organization and indebtedness (principal amounts) immediately after giving effect to the offering and tender offer (assuming that 100% of the holders tender their Debentures in the tender offer):

(1) As adjusted for the tender offer assuming 100% of the holders tender their Debentures in the tender offer. Under the terms of the tender offer we have offered to purchase any and all of the outstanding Debentures at a purchase price of $990 for each $1,000 principal amount of Debentures tendered. As of November 9, 2010, there was $373.75 million aggregate principal amount of Debentures outstanding.

(2) As of September 30, 2010, we had no borrowings outstanding under our revolving credit facility, with the full $300 million of capacity available, of which up to $200 million may be utilized for letters of credit. For additional information, see Management s discussion and analysis of financial conditions and results of operations Available Sources of Liquidity Short-Term Liquidity and Description of other indebtedness.

(3) As of September 30, 2010, we had $294.5 million in letters of credit outstanding under our $320 million funded letter of credit facility, with remaining capacity of up to an additional $25.5 million. For additional information, see Management s discussion and analysis of financial conditions and results of operations Available Sources of Liquidity Short-Term Liquidity and Description of other indebtedness.

(4) Guaranteed by Covanta Holding and each of Covanta Energy s domestic subsidiaries (as such term is defined in the Credit and Guaranty Agreement dated February 9, 2007).

(5) Project debt is included as the principal portion of Project debt (short- and long-term) in our condensed consolidated financial statements incorporated by reference herein. Generally, project debt is secured by the revenues generated by the project and other project assets, including the related facility. The only recourse to Covanta Holding or Covanta Energy with respect to project debt arises under the operating performance guarantees described under Description of other indebtedness. Certain subsidiaries have project debt which is recourse to our subsidiary Covanta ARC LLC, but is non-recourse to Covanta Holding or Covanta Energy, which as of September 30, 2010 aggregated to $208.5 million.

Table of Contents

The offering

The following summary contains basic information about the notes and is not intended to be complete. For a more complete understanding of the notes, please refer to the section entitled Description of notes in this prospectus supplement.

Issuer	Covanta Holding Corporation.
Securities offered	$400 million aggregate principal amount of % Senior Notes due 2020.
Maturity date	, 2020.
Interest rate	% per year.
Interest payment dates	and , commencing , 2011.
Optional redemption	The notes will be redeemable at the Issuer s option, in whole or in part, at any time on or after , 2015, at the redemption prices set forth in this prospectus supplement, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to , 2013, we may redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings at a redemption price of % of the principal amount of the notes, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to , 2015, we may also redeem some or all of the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, plus a make-whole premium.
Mandatory offers to purchase	The occurrence of specific kinds of changes in control will be a triggering event requiring us to offer to purchase from you all or a portion of your notes at a price equal to 101% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase. Certain asset dispositions will be triggering events that may require us to use the proceeds from those asset dispositions to make an offer to purchase the notes at 100% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase if such proceeds are not otherwise used within 365 days to repay indebtedness (with a corresponding permanent reduction in commitment, if applicable) or to invest or commit to invest such proceeds in additional assets related to our business or capital stock of a restricted subsidiary (as defined under the heading Description of notes).

Ranking

The notes will be the Issuer s senior unsecured obligations and:

will rank equally in right of payment with all of the Issuer s existing and future senior unsecured indebtedness;

will rank senior in right of payment to all of the Issuer s existing and future subordinated indebtedness;

will be effectively subordinated to any of the Issuer s existing and future secured debt, to the extent of the value of the assets securing such debt; and

will be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of our subsidiaries.

As of September 30, 2010, after giving effect to this offering and the completion of the tender offer (assuming that 100% of the holders tender their Debentures (as defined below) in the tender offer) with the net proceeds from this offering:

we would have had approximately $2,375.5 million of total consolidated indebtedness (including the notes), of which $456.6 million would have ranked equally with the notes;

of our total consolidated indebtedness, Covanta Energy would have had approximately $627.3 million of secured indebtedness under our senior credit facility (excluding an additional $294.5 million represented by letters of credit under the senior credit facility) to which the notes would have been effectively subordinated;

Covanta Energy would have had commitments available to be borrowed under the senior credit facility of $325.5 million, after giving effect to $294.5 million of outstanding letters of credit; and

our subsidiaries would have had $2,849.0 million of total liabilities (including trade payables), all of which would have been structurally senior to the notes.

Covenants

The Issuer will issue the notes under an indenture with Wells Fargo Bank, National Association, as trustee. The indenture will, among other things, limit the Issuer s ability and the ability of its restricted subsidiaries to:

incur additional indebtedness;

pay dividends or make other distributions or repurchase or redeem their capital stock;

prepay, redeem or repurchase certain debt;

make loans and investments;

sell assets;

incur liens;

Table of Contents

- enter into transactions with affiliates;
- alter the businesses they conduct;
- enter into agreements restricting our subsidiaries ability to pay dividends; and
- consolidate, merge or sell all or substantially all of their assets.

These covenants will be subject to a number of important exceptions and qualifications. In addition, if and for so long as the notes have an investment grade rating from both Standard & Poor s Ratings Group Inc. and Moody s Investors Service, Inc. and no default under the indenture has occurred, certain of the covenants listed above will be suspended. For more details, see Description of notes.

Absence of public market for the notes	The notes are a new issue of securities and there is currently no established trading market for the notes. We do not intend to apply for a listing of the notes on any securities exchange or an automated dealer quotation system. Accordingly, there can be no assurance as to the development or liquidity of any market for the notes. The underwriters have advised us that they currently intend to make a market in the notes. However, they are not obligated to do so, and any market making with respect to the notes may be discontinued without notice.
U.S. Federal Income Tax Considerations	Holders are urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the notes. See Certain United States federal income tax considerations.
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $ million, after deducting discounts and commissions and estimated offering expenses. We intend to use a portion of the net proceeds of this offering to finance our tender offer for any and all of the aggregate principal amount outstanding of our Debentures. Remaining proceeds will be used for general corporate purposes. If the tender offer is not consummated for any reason, all of the net proceeds of this offering will be used for general corporate purposes. Pending such uses, we intend to invest the net proceeds in short-term interest-bearing accounts, securities or similar investments. See Use of proceeds.

Risk factors

In evaluating an investment in the notes, prospective investors should carefully consider, along with the other information in this prospectus supplement, the specific factors set forth under Risk factors for risks involved with an investment in the notes.

Table of Contents

Summary historical consolidated financial information

The following table sets forth our summary consolidated financial data as of and for the periods indicated. The summary consolidated financial data as of and for the nine months ended September 30, 2010 and 2009 was derived from our unaudited consolidated financial statements incorporated by reference herein. The summary consolidated financial data as of and for the years ended December 31, 2009, 2008 and 2007 was derived from our audited consolidated financial statements incorporated by reference herein. The unaudited information as of and for the nine months ended September 30, 2010 and 2009 has been prepared on the same basis as the audited consolidated financial statements and, in management s opinion, includes all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for such periods. The Income statement data, Other financial data and other information presented for the twelve months ended September 30, 2010 have been derived from our audited and unaudited consolidated financial statements incorporated by reference herein for each item presented by subtracting the item for the nine months ended September 30, 2009 from the item for the year ended December 31, 2009, and adding the amount of the item for the nine months ended September 30, 2010. The financial data presented for the nine months ended September 30, 2010 and 2009 and the twelve months ended September 30, 2010, is not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or any future period. When you read this summary consolidated financial data, it is important that you also read our audited and unaudited financial statements and related notes thereto incorporated by reference in this prospectus supplement, as well as the section of this prospectus supplement entitled Management s discussion and analysis of financial condition and results of operations. Historical results are not necessarily indicative of future performance.

The summary financial information below contains the non-GAAP measures of Adjusted EBITDA and Free Cash Flow. For additional information on the calculations of Adjusted EBITDA and Free Cash Flow, see Management s discussion and analysis of financial condition and results of operations Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion) and Management s discussion and analysis of financial condition and results of operations Supplementary Financial Information Free Cash Flow (Non-GAAP Discussion), respectively.

(dollars in thousands)	Years ended December 31, 2007	2008	2009	Nine months ended September 30, 2009	2010	Twelve months ended September 30, 2010[1]
Income statement data:						
Operating revenues:						
Waste and service revenues	$ 864,396	$ 934,527	$ 919,604	$ 667,298	$ 768,433	$ 1,020,739
Electricity and steam sales	498,877	660,616	580,248	439,751	438,005	578,502
Other operating revenues	69,814	69,110	50,615	36,206	82,545	96,954
Total operating revenues	1,433,087	1,664,253	1,550,467	1,143,255	1,288,983	1,696,195
Operating expenses:						
Plant operating expenses	801,560	999,674	946,166	703,888	813,086	1,055,364
Other operating expenses	60,639	66,701	47,968	34,270	77,568	91,266
General and administrative expenses	82,729	97,016	109,235	81,366	77,401	105,270
Depreciation and amortization expense	196,970	199,488	202,872	150,717	146,527	198,682
Net interest expense on project debt	54,579	53,734	48,391	37,511	31,266	42,146
Write-down of assets, net of insurance recoveries		(8,325)			32,321	32,321
Total operating expenses	1,196,477	1,408,288	1,354,632	1,007,752	1,178,169	1,525,049
Operating income	236,610	255,965	195,835	135,503	110,814	171,146
Other income (expense):						

Investment income	10,578	5,717	4,007	3,136	1,669	2,540
Interest expense	(67,104)	(46,804)	(38,116)	(27,291)	(32,250)	(43,075)
Non-cash convertible debt related expense	(15,377)	(17,979)	(24,290)	(14,562)	(29,760)	(39,488)
Loss on extinguishment of debt	(32,071)					
Total other expenses	(103,974)	(59,066)	(58,399)	(38,717)	(60,341)	(80,023)
Income before income tax expense and equity in net income from unconsolidated investments	132,636	196,899	137,436	96,786	50,473	91,123
Income tax expense	(24,483)	(84,561)	(50,044)	(34,197)	(23,348)	(39,195)
Equity in net income from unconsolidated investments	22,196	23,583	23,036	17,091	18,024	23,969
NET INCOME	130,349	135,921	110,428	79,680	45,149	75,897
Less: Net income attributable to noncontrolling interest in subsidiaries	(8,656)	(6,961)	(8,783)	(6,312)	(6,436)	(8,907)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$ 121,693	$ 128,960	$ 101,645	$ 73,368	$ 38,713	$ 66,990

(dollars in thousands)	Years ended December 31, 2007	2008	2009	Nine months ended September 30, 2009	2010	Twelve months ended September 30, 2010[1]
Other financial data:						
Net cash provided by operating activities	$ 363,591	$ 402,607	$ 397,238	$ 247,733	$ 328,107	$ 477,612
Net cash used in investing activities	(179,910)	(189,308)	(387,240)	(329,624)	(247,573)	(305,189)
Net cash (used in) provided by financing activities	(268,335)	(170,242)	230,950	261,902	(437,395)	(468,347)
Acquisition of businesses, net of cash acquired	(110,465)	(73,393)	(265,644)	(251,734)	(128,254)	(142,164)
Purchase of property, plant and equipment	(85,748)	(87,920)	(73,619)	(59,109)	(83,101)	(97,611)
Adjusted EBITDA[2][3]	549,181	573,789	515,098	375,109	383,794	523,783
Free Cash Flow[4]	308,103	341,968	345,301	203,588	271,267	412,980

(dollars in thousands)	2007	2008	December 31, 2009	2009	September 30, 2010
Balance sheet data:					
Cash and cash equivalents	$ 149,406	$ 192,393	$ 433,683	$ 372,600	$ 76,507
Restricted funds held in trust	379,864	324,911	277,752	335,204	337,721
Property, plant and equipment, net	2,620,507	2,530,035	2,582,841	2,612,304	2,526,291
Total assets	4,368,499	4,279,989	4,934,282	4,974,026	4,652,714
Total debt, including current portion:					
Covanta Energy debt	1,925,957	1,717,507	1,592,235	1,656,906	1,518,904
Covanta Holding debt	2,217,359	2,026,888	2,397,070	2,437,471	2,319,652
Total equity	1,114,066	1,224,051	1,417,169	1,395,623	1,200,536

	Twelve months ended September 30, 2010 Actual	As adjusted
Credit Statistics:		

Ratio of Covanta Energy Debt / Net cash provided by operating activities	3.18x	3.18x
Ratio of Covanta Holding Debt / Net cash provided by operating activities	4.86x	4.97x
Ratio of Covanta Energy Net Debt / Adjusted EBITDA[5]	2.53x	2.53x
Ratio of Covanta Holding Net Debt / Adjusted EBITDA[5]	4.05x	4.16x

Table of Contents

(1) The Income statement data, Other financial data and other information presented for the twelve months ended September 30, 2010 have been derived from our audited and unaudited consolidated financial statements incorporated by reference herein for each item presented by subtracting the item for the nine months ended September 30, 2009 from the item for the year ended December 31, 2009, and adding the amount of the item for the nine months ended September 30, 2010. We believe that the presentation of information for the twelve months ended September 30, 2010 provides useful information to investors regarding our recent financial performance and we view the most recently completed twelve-month period as an important measurement period for investors to assess our historical results. We also use trailing four quarter financial data to test compliance with covenants under our senior credit facility. Our presentation of information for the twelve months ended September 30, 2010 should not be considered in isolation or to the exclusion of consideration of our annual audited financial statements or quarterly unaudited financial statements included in our period filings with the SEC which are incorporated by reference herein.

(2) For all periods presented, Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, as adjusted for additional items subtracted from or added to net income. 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. 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 definition of Adjusted EBITDA is substantially similar to that of Consolidated Adjusted EBITDA as defined in the indenture, but may differ in certain respects. 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. The following are reconciliations of net income to Adjusted EBITDA and net cash provided by operating activities to Adjusted EBITDA for the three years ended December 31, 2009, 2008 and 2007, the nine months ended September 30, 2010 and 2009 and the twelve months ended September 30, 2010:

Table of Contents

(dollars in thousands)	Years ended December 31, 2007	2008	2009	Nine months ended September 30, 2009	2010	Twelve months ended September 30, 2010
Computation of Adjusted EBITDA:						
Net Income attributable to Covanta Holding Corporation	$ 121,693	$ 128,960	$ 101,645	$ 73,368	$ 38,713	$ 66,990
Depreciation and amortization expense	196,970	199,488	202,872	150,717	146,527	198,682
Debt service:						
Net interest expense on project debt	54,579	53,734	48,391	37,511	31,266	42,146
Interest expense	67,104	46,804	38,116	27,291	32,250	43,075
Non-cash convertible debt related expense	15,377	17,979	24,290	14,562	29,760	39,488
Investment income	(10,578)	(5,717)	(4,007)	(3,136)	(1,669)	(2,540)
Subtotal debt service	126,482	112,800	106,790	76,228	91,607	122,169
Income tax expense	24,483	84,561	50,044	34,197	23,348	39,195
Other adjustments:						
Write-down of assets					32,321	32,321
Change in unbilled service receivables	19,403	14,020	18,620	13,656	23,574	28,538
Non-cash compensation expense	13,448	14,750	14,220	10,724	13,279	16,775
Transaction-related costs			6,289	5,952	1,349	1,686
Loss on extinguishment of debt	32,071					
Other	5,975	12,249	5,835	3,955	6,640	8,520
Subtotal other adjustments	70,897	41,019	44,964	34,287	77,163	87,840
Net income attributable to noncontrolling interests in subsidiaries	8,656	6,961	8,783	6,312	6,436	8,907
Total adjustments	427,488	444,829	413,453	301,741	345,081	456,793
Adjusted EBITDA	**$ 549,181**	**$ 573,789**	**$ 515,098**	**$ 375,109**	**$ 383,794**	**$ 523,783**

Net cash provided by operating activities	$ 363,591	$ 402,607	$ 397,238	$ 247,733	$ 328,107	$ 477,612
Transaction-related costs			6,289	5,952	1,349	1,686
Debt service	126,482	112,800	106,790	76,228	91,607	122,169
Amortization of debt premium and deferred financing costs	11,016	7,023	3,265	2,791	576	1,050
Other	48,092	51,359	1,516	42,405	(37,845)	(78,734)
Adjusted EBITDA	**$ 549,181**	**$ 573,789**	**$ 515,098**	**$ 375,109**	**$ 383,794**	**$ 523,783**

(3) For all periods presented, Adjusted EBITDA (Restricted Group) is defined as earnings before interest, taxes, depreciation and amortization, as adjusted for additional items subtracted from or added to net income, as calculated for our Restricted Subsidiaries only. The Restricted Subsidiaries exclude our foreign subsidiaries that are involved in the operation or ownership of our businesses in Asia, much of which we intend to sell, and our insurance subsidiaries. Adjusted EBITDA (Restricted Group) 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. The following are reconciliations of net income (Restricted Group) to Adjusted EBITDA (Restricted Group) and net cash provided by operating activities (Restricted Group) to Adjusted EBITDA (Restricted Group) for the three years ended December 31, 2009, 2008 and 2007, the nine months ended September 30, 2010 and 2009 and the twelve months ended September 30, 2010:

(dollars in thousands)	Years ended December 31, 2007	2008	2009	Nine months ended September 30, 2009	2010	Twelve months ended September 30, 2010
Computation of Adjusted EBITDA (Restricted Group):						
Net income	$ 84,720	$ 95,497	$ 71,472	$ 50,830	$ 20,916	$ 41,558
Depreciation and amortization expense	187,973	190,856	195,281	145,069	140,838	191,050
Debt service:						
Net interest expense on project debt	51,208	46,184	42,327	32,699	27,646	37,274
Interest expense	67,104	46,804	38,116	27,291	32,250	43,075
Non-cash convertible debt related expense	15,377	17,979	24,290	14,562	29,760	39,488
Investment income	(10,578)	(5,717)	(4,007)	(3,136)	(1,669)	(2,540)
Subtotal debt service	123,111	105,250	100,726	71,416	87,987	117,297
Income tax expense	19,314	80,021	43,759	27,526	18,720	34,953
Other adjustments:						
Write-off of assets					32,321	32,321
Change in unbilled service receivables	19,403	14,020	18,620	13,656	23,574	28,538
Non-cash compensation expense	13,448	14,750	14,220	10,724	13,279	16,775
Transaction-related costs			6,289	5,952	1,349	1,686
Loss on extinguishment of debt	32,071					
Other	6,588	10,603	5,172	3,138	6,107	8,141
Subtotal other adjustments	71,510	39,373	44,301	33,470	76,630	87,461
Total adjustments	401,908	415,500	384,067	277,481	324,175	430,761
Adjusted EBITDA (Restricted Group)	**$ 486,628**	**$ 510,997**	**$ 455,539**	**$ 328,311**	**$ 345,091**	**$ 472,319**

Net cash provided by operating activities	$ 322,612	$ 357,468	$ 360,254	$ 222,455	$ 298,115	$ 435,914
Transaction-related costs			6,289	5,952	1,349	1,686
Debt service	120,101	106,882	102,935	73,126	89,814	119,623
Amortization of debt premium and deferred financing costs	11,016	7,023	3,265	2,791	576	1,050
Other	32,899	39,624	(17,204)	23,987	(44,763)	(85,954)
Adjusted EBITDA (Restricted Group)	**$ 486,628**	**$ 510,997**	**$ 455,539**	**$ 328,311**	**$ 345,091**	**$ 472,319**

Table of Contents

(4) For all periods presented, 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 the non-GAAP measure of Free Cash Flow as a criterion of liquidity and performance based components of employee compensation. 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. Free Cash Flow should not be considered as an alternative to cash flow provided by operating activities as an indicator of our liquidity or any other measure of liquidity in accordance with GAAP. The following is a summary reconciliation of net cash provided by operating activities to Free Cash Flow for the three years ended December 31, 2009, 2008 and 2007, the nine months ended September 30, 2010 and 2009 and the twelve months ended September 30, 2010:

(dollars in thousands)	Years ended December 31, 2007	2008	2009	Nine months ended September 30, 2009	2010	Twelve months ended September 30, 2010
Computation of Free Cash Flow:						
Net cash provided by operating activities	$ 363,591	$ 402,607	$ 397,238	$ 247,733	$ 328,107	$ 477,612
Less: Maintenance capital expenditures	(55,488)	(60,639)	(51,937)	(44,145)	(56,840)	(64,632)
Free Cash Flow	**$ 308,103**	**$ 341,968**	**$ 345,301**	**$ 203,588**	**$ 271,267**	**$ 412,980**
Maintenance capital expenditures	$ 55,488	$ 60,639	$ 51,937	$ 44,145	$ 56,840	$ 64,632
Capital expenditures associated with development projects		1,208	13,233	9,794	13,943	17,382
Capital expenditures associated with technology development		5,882	5,008	3,269	4,642	6,381
Capital expenditures associated with SEMASS fire	18,144	3,065	2,088	821		1,267
Capital expenditures associated with certain acquisitions/other	12,116	17,126	1,353	1,080	7,676	7,949
Total purchase of property, plant and equipment	**$ 85,748**	**$ 87,920**	**$ 73,619**	**$ 59,109**	**$ 83,101**	**$ 97,611**

(5) For all periods presented, Net Debt is calculated as total debt, less restricted funds held in trust for the express purpose of repayment of debt principal. The definition of Net Debt is consistent with that of Consolidated Indebtedness as defined in the indenture, which is used in the calculation of Combined Leverage Ratio in the

indenture. Net Debt should not be considered as an alternative to Total Debt as an indicator of our liquidity or any other measures of liquidity derived in accordance with GAAP. The following are reconciliations of Covanta Energy Debt to Covanta Energy Net Debt and Covanta Holding Debt to Covanta Holding Net Debt:

	September 30, 2010	
(dollars in thousands)	**Actual**	**As adjusted**
Computation of Net Debt:		
Covanta Energy Debt	$ 1,518,904	$ 1,518,904
Less: Restricted funds held in trust principal related	195,852	195,852
Covanta Energy Net Debt	**$ 1,323,052**	**$ 1,323,052**
Covanta Holding Debt	$ 2,319,652	$ 2,375,554
Less: Restricted funds held in trust principal related	195,852	195,852
Covanta Holding Net Debt	**$ 2,123,800**	**$ 2,179,702**

Risk factors

You should carefully consider the following factors and other information contained or incorporated by reference in this prospectus supplement before deciding to invest in the notes. Any of these risks or other risks and uncertainties not presently known to us or that we currently deem immaterial could materially adversely affect our business, financial condition, results of operations and cash flow, which could in turn materially adversely affect the price of the notes. If any of the following risks and uncertainties develop into actual events, our business, financial condition, results of operations or cash flows could be materially adversely affected. In that case, the trading price of the notes could decline and you may lose all or part of your investment.

This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks faced by us described below and elsewhere in this prospectus supplement and the documents incorporated by reference. Please see Cautionary statement regarding forward-looking statements.

Risks relating to our business

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 GHG 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, cash flow and our ability to grow our business.

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.

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.

Our results of operations may be adversely affected by market conditions existing at the time 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 transitioning into new or replacement contracts at pricing levels that may not generate comparable revenues. We cannot assure you that we will be able to enter into renewal or replacement contracts on favorable terms, or at all. Furthermore, as existing contracts entered into under Qualifying Facility (QF) historic avoided cost rates expire, a significant and increasing portion of our electricity output will be sold at rates determined through our participation in competitive energy markets. The expiration of existing energy sales contracts, if not renewed under similar terms, will require us to sell project energy output either in short-term transactions or on a spot basis or pursuant to new contracts, which may subject us to greater market risk in maintaining and enhancing revenue. We also expect that medium- and long-term contracts for sales of energy may be less available than in the past. As a result, following the expiration of our existing long-term contracts, we may have more exposure on a relative basis to market risk, and therefore revenue fluctuations, in energy markets than in waste markets.

Our revenue and cash flows may decline 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 in 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.

Our revenue and cash flows may be subject to greater volatility if we extend or renew our contracts under tip fee structures more often than service fee structures.

For facilities we own as well as those we operate for municipal clients, if we are successful in reaching agreement with our municipal clients on the terms under which they would extend

Table of Contents

our contracts, we may do so under tip fee structures more often than under service fee structures. If that were to occur, we may be exposed to greater performance and price risk on the energy we sell, which may increase the volatility of our revenue and cash flow. We cannot assure you that we will be able to enter into such contracts or that the structures of such contracts will not expose us to greater risks.

Exposure to commodity prices may affect our results of operations.

Some of the electricity and steam we sell and all of the recycled metals we sell, are subject to market price volatility. Changes in the market prices for electricity and steam in particular can be affected by changes in natural gas prices, while recycled metals prices are affected by general economic conditions and global demand for construction, goods and services. Similarly, the portion of waste disposal capacity which is not under contract may be subject to volatility, principally as a result of general economic activity and related waste generation, as well as the availability of alternative disposal sites. Volatility with respect to all of these revenues could adversely impact our businesses profitability and financial performance.

We may experience volatility in the market prices and availability of commodities we purchase, such as reagents we use in our operations, or fuel supplies for some of our international facilities and for our domestic 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 not be successful in our efforts to mitigate our exposure to supply and price swings.

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, the acquisition of projects or businesses and the refinancing of our existing debt.

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 and 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 2013 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.

Table of Contents

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 our development or ongoing 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:

- 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;

Table of Contents

weather interferences, catastrophic events including fires, explosions, earthquakes, droughts, pandemics and acts of terrorism; and

the exercise of the power of eminent domain.

We cannot predict the impact of these risks on our business or operations. One or more of these risks, if they were to occur, could prevent us from meeting our obligations under our operating contracts and have an adverse effect on our cash flows and 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. If world-wide demand for new infrastructure spending, including energy generating facilities and waste disposal facilities, increases, then prices for building materials such as steel

Table of Contents

may also rise sharply. In addition, this increased demand would affect 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 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

Table of Contents

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 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 could materially and adversely affect our cash flow and financial condition.

Table of Contents

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 Cash Convertible Notes (as defined herein) as 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.

Table of Contents

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,

Table of Contents

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;
- 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.

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, local and foreign 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 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, local 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.

Table of Contents

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, most of our facilities located in the United States are exempt from most provisions of the FPA and also from state rate regulation. Our facilities located in the United States that are making power sales not exempt from FPA rate regulation have been authorized by the Federal Energy Regulatory Commission (FERC) to make wholesale sales of electricity at market-based rates or otherwise make sales at rates on file with FERC. 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, including eliminating the obligation imposed on utilities to purchase power from QFs at an avoided cost rate if certain conditions are met. As a result, we may face increased competition after such expirations occur. If we are unable to extend or renew existing contracts (including contracts with favorable avoided cost or other rates) under similar terms, we would sell project energy output either in short-term transactions or on a spot basis or pursuant to new contracts, which may subject us to greater market risk in maintaining and enhancing revenue.

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 FERC with respect to our output of electricity, which could result in lower prices for sales of electricity and increased compliance costs. 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

Table of Contents

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, 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.

Covanta Energy s credit facilities and the indenture for the notes contain covenant restrictions that may limit our ability to operate our business.

Covanta Energy s credit facilities contain operating and financial restrictions and covenants that impose operating and financial restrictions on Covanta Energy and require Covanta Energy to meet certain financial tests. Additionally, the indenture for the notes will 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 its affiliates;
- selling certain assets, in excess of specified amounts;
- making cash distributions or paying dividends, in excess of specified amounts;
- redeeming capital stock or making other restricted payments, 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. In addition, the failure to comply with these covenants in Covanta Energy s credit facilities could result in a default thereunder and a default under the notes. Upon the occurrence of such an event of default, the lenders under Covanta Energy s credit facilities could

Table of Contents

elect to declare all amounts outstanding under such agreement, together with accrued interest, to be immediately due and payable. If the lenders accelerate the payment of the indebtedness under Covanta Energy s 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 notes, which could have a material and adverse effect 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.

Table of Contents

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on Covanta Holding s 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 its 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.

We depend on our senior management and key personnel and we may have difficulty attracting and retaining qualified professionals.

Our future operating results depend to a large extent upon the continued contributions of key senior managers and personnel. In addition, we are dependent on our ability to attract, train, retain and motivate highly skilled employees. However, there is significant competition for employees with the requisite level of experience and qualifications. If we cannot attract, train, retain and motivate qualified personnel, we may be unable to compete effectively and our growth may be limited, which could have a material adverse effect on our business, results of operations, financial condition and prospects and our ability to fulfill our obligations under the notes.

Risks relating to this offering

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, including the notes.

As of September 30, 2010, after giving effect to this offering and the completion of the tender offer (assuming that 100% of the holders tender their Debentures in the tender offer) with the net proceeds from this offering, we would have had approximately $2,375.5 million of total consolidated indebtedness (including the notes), of which $456.6 million would have ranked equally with the notes; of our total consolidated indebtedness, Covanta Energy would have had approximately $627.3 million of secured indebtedness under our senior credit facility (excluding an additional $294.5 million represented by letters of credit under the senior credit facility) to which the notes would have been effectively subordinated; Covanta Energy would have had commitments available to be borrowed under the senior credit facility of $325.5 million, after giving effect to $294.5 million of outstanding letters of credit; and our subsidiaries would have had $2,849.0 million of total liabilities (including trade payables), all of which would have been structurally senior to the notes.

Table of Contents

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 Covanta Energy s 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 the notes, the Cash Convertible Notes and our subsidiaries debt.

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, including the notes, depends on 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;

the continued availability of the benefits of our NOLs; 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 Covanta Energy s credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under our outstanding indebtedness, including the notes, 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, including the notes, 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, including the notes, which could have a material and adverse effect on our financial condition.

Table of Contents

We may not have access to the cash flow and other assets of our subsidiaries that may be needed to make payments on our indebtedness, including the notes.

All of our business is conducted through our subsidiaries. Our ability to make payments on the notes is dependent on the earnings of, and the distribution of funds to us from, our subsidiaries. Certain of our subsidiaries and affiliates are currently subject to project and other financing arrangements that restrict their ability to make dividends or distributions to us. While the indenture governing the notes and the agreements governing certain of our other existing indebtedness will limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make intercompany payments to us, these limitations are subject to qualifications and exceptions.

We derive our cash flow principally from our domestic and international project operations and businesses. A material portion of our domestic cash flows are expected to be derived from projects where financial tests and other covenants contained in respective debt arrangements must be satisfied in order for project subsidiaries to make cash distributions to our intermediate subsidiaries. We cannot assure you that our project subsidiaries will be able to satisfy such financial tests and covenants in the future, and that we will be able to receive cash distributions from such subsidiaries. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the notes.

The notes will be effectively subordinated to any of our existing and future secured indebtedness and to any existing and future indebtedness and other liabilities of our subsidiaries.

The notes will be our unsecured obligations and therefore will be effectively junior to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. Further, the indenture governing the notes will allow us to incur senior secured indebtedness in the future. As a result, in the event of our bankruptcy, liquidation, dissolution, reorganization, or similar proceeding, our assets will be available to satisfy obligations of our secured indebtedness before any payment may be made on the notes. To the extent that such assets cannot satisfy in full our secured indebtedness, the holders of such indebtedness would have a claim for any shortfall that would rank equally in right of payment with the notes. In such an event, we may not have sufficient assets remaining to pay amounts on any or all of the notes.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the notes or, subject to existing or future contractual obligations between us and our subsidiaries, to provide us with funds for our payment obligations on our indebtedness or guarantees, whether by dividends, distributions, loans or other payments. Our right to receive any assets of any of our subsidiaries upon liquidation or reorganization, and, as a result, the right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including lenders under Covanta Energy s credit facilities and lenders under the project level indebtedness. The notes do not restrict the ability of our subsidiaries to incur additional liabilities.

As of September 30, 2010, after giving effect to this offering and the completion of the tender offer (assuming that 100% of the holders tender their Debentures in the tender offer) with the net proceeds from this offering, we would have had approximately $2,375.5 million of total consolidated indebtedness (including the notes), of which $456.6 million would have ranked equally with the notes; of our total consolidated indebtedness, Covanta Energy would have had approximately $627.3 million of secured indebtedness under our senior credit facility (excluding an additional $294.5 million represented by letters of credit under the senior credit facility) to which the notes would have been effectively subordinated; Covanta Energy would have had commitments available to be borrowed under the senior credit facility of $325.5 million, after giving effect to $294.5 million of outstanding letters of credit; and our subsidiaries would have had $2,849.0 million of total liabilities (including trade payables), all of which would have been structurally senior to the notes.

Despite our current and anticipated indebtedness levels, we may still incur substantially more indebtedness or take other actions which would intensify the risks associated with our substantial indebtedness.

Despite our current and anticipated consolidated indebtedness levels, we may be able to incur substantial additional indebtedness in the future, in connection with acquisitions or otherwise. Under Covanta Energy s credit facilities, upon the request of Covanta Energy, and subject to the satisfaction of certain conditions, additional term loan facilities and/or additional revolving credit facility commitments and incremental funded letter of credit facilities up to an aggregate of $400 million may become available to Covanta Energy. Although the terms of Covanta Energy s credit facilities and the indenture that will govern the notes contain restrictions on the incurrence of additional indebtedness by us, Covanta Energy and certain of our subsidiaries, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, indebtedness incurred in compliance with these restrictions could be substantial. If new indebtedness is added to our current or anticipated indebtedness levels, the substantial risks described above would intensify. Our ability and Covanta Energy s and its project subsidiaries ability to recapitalize, incur additional debt, secure existing or future debt, and take a number of other actions that are not, to an extent, limited by the terms of the indenture for the notes could have the effect of diminishing our ability to make payments on the notes when due.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our senior credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Assuming all revolving loans are fully drawn, each quarter point change in interest rates would result in a $2.3 million change in annual interest expense on our indebtedness under our senior credit facility. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of their principal amount, plus accrued and unpaid interest to the purchase date. Additionally, under the senior credit facility, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the respective agreements and terminate their commitments to lend. The source of funds for any purchase of the notes and repayment of borrowings under our senior credit facility would be our available cash or cash generated from our subsidiaries operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the notes upon a change of control because we may not have sufficient financial resources to purchase all of the debt securities that are tendered upon a change of control and repay our other indebtedness that will become due. We may require additional financing from third parties to fund any such purchases, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase the notes may be limited by law. In order to avoid the obligations to repurchase the notes and events of default and potential breaches of the credit agreement governing our senior credit facility, we may have to avoid certain change of control transactions that would otherwise be beneficial to us.

In addition, some important corporate events, such as leveraged recapitalizations, may not, under the indenture that will govern the notes, constitute a change of control that would require us to repurchase the notes, even though those corporate events could increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings or the value of the notes. See Description of notes Change of control.

Holders of the notes may not be able to determine when a change of control giving rise to their right to have the notes repurchased has occurred following a sale of substantially all of our assets.

The definition of change of control in the indenture that will govern the notes includes a phrase relating to the sale of all or substantially all of our assets. There is no precise established definition of the phrase substantially all under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase its notes as a result of a sale of less than all our assets to another person may be uncertain.

Federal and state fraudulent transfer laws may permit a court to void the notes, and if that occurs, you may not receive any payments on the notes.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the notes. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the notes could be voided as a fraudulent transfer or conveyance if we (a) issued the notes with the intent of hindering, delaying or defrauding creditors or (b) received less than reasonably equivalent value or fair consideration in return for either issuing the notes and, in the case of (b) only, one of the following is also true at the time thereof:

we were insolvent or rendered insolvent by reason of the issuance of the notes;

the issuance of the notes left us with an unreasonably small amount of capital or assets to carry on the business;

we intended to, or believed that we would, incur debts beyond our ability to pay as they mature; or

- we were a defendant in an action for money damages, or had a judgment for money damages docketed against us the judgment is unsatisfied after final judgment.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is secured or satisfied. A court would likely find that we did not receive reasonably equivalent value or fair consideration for the notes to the extent we did not obtain a reasonably equivalent benefit directly or indirectly from the issuance of the notes.

We cannot be certain as to the standards a court would use to determine whether or not we were insolvent at the relevant time or, regardless of the standard that a court uses, whether the notes would be subordinated to our other debt. In general, however, a court would deem an entity insolvent if:

- the sum of its debts, including contingent and unliquidated liabilities, was greater than the fair saleable value of all of its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they became due.

If a court were to find that the issuance of the notes was a fraudulent transfer or conveyance, the court could void the payment obligations under the notes, could subordinate the notes to presently existing and future indebtedness of us. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any repayment on the notes. Further, the avoidance of the notes could result in an event of default with respect to our and our subsidiaries other debt that could result in acceleration of that debt.

Finally, as a court of equity, the bankruptcy court may subordinate the claims in respect of the notes to other claims against us under the principle of equitable subordination if the court determines that (1) the holder of notes engaged in some type of inequitable conduct, (2) the inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holders of notes and (3) equitable subordination is not inconsistent with the provisions of the bankruptcy code.

There is currently no public market for the notes, and an active trading market may not develop for the notes. The failure of a market to develop for the notes could adversely affect the liquidity and value of your notes.

The notes are a new issue of securities for which there is currently no active trading market. We do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes on any automated dealer quotation system. We have been advised by the underwriters that following the completion of this offering, certain of the underwriters intend to make a market in the notes. However, they are not obligated to do so and any market-making activities with respect to the notes may be discontinued by them at any time without notice. In addition, any market-making activity will be subject to limits imposed by law. A market may not develop for the notes, and there can be no assurance as to the liquidity of any market that may develop for the notes. If an active, liquid market does not develop for the notes, the market price and liquidity of the notes may be adversely affected. If any of the notes are traded after their initial issuance, they may trade at a discount from their initial offering price.

Table of Contents

The liquidity of the trading market, if any, and future trading prices of the notes will depend on many factors, including, among other things, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. It is possible that the market for the notes will be subject to disruptions which may have a negative effect on the holders of the notes, regardless of our operating results, financial performance or prospects.

The market price of the notes may be volatile.

The market price of the notes will depend on many factors that may vary over time and some of which are beyond our control including:

- our financial performance;
- the amount of indebtedness we have outstanding;
- market interest rates;
- the market for similar securities;
- competition;
- the size and liquidity of the market for the notes; and
- general economic conditions.

As a result of these factors, you may only be able to sell your notes at prices below those you believe to be appropriate, including prices below the price you paid for them.

An increase in interest rates could result in a decrease in the relative value of the notes.

In general, as market interest rates rise, notes bearing interest at a fixed rate generally decline in value. Consequently, if you purchase the notes and market interest rates increase, the market value of your notes may decline. We cannot predict the future level of market interest rates.

Any decline in the ratings of our corporate credit could adversely affect the value of the notes.

Any decline in the ratings of our corporate credit or any indications from the rating agencies that their ratings on our corporate credit are under surveillance or review with possible negative implications could adversely affect the value of the notes. In addition, a ratings downgrade could adversely affect our ability to access capital.

We will have broad discretion as to the use of any proceeds of this offering not used to fund the tender offer.

As described under the Use of proceeds section, we will have significant flexibility in allocating any of the net proceeds of this offering not used to fund the tender offer. We intend to use a portion of the net proceeds of this offering to finance our tender offer for any and all of the aggregate principal amount outstanding of our Debentures. Remaining proceeds will be used for general corporate purposes. If the tender offer is not consummated for any reason, all of the net proceeds of this offering will be used for general corporate purposes. Pending such uses, we intend to invest the net proceeds in short-term interest-bearing accounts, securities or similar investments. If we fail to spend these funds effectively, it could harm our financial condition and result in lost business opportunities.

Provisions of our certificate of incorporation, the Debentures, our senior credit facility, the Cash Convertible Notes and the indenture governing the notes could discourage an acquisition of us by a third party.

Certain provisions of the notes, the Cash Convertible Notes, the Debentures, our senior credit facility and the indenture governing the notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, the Cash Convertible Notes, the Debentures, our senior credit facility and the holders of the notes will have the right to require Covanta Holding or Covanta Energy, as the case may be, to repurchase their notes, Cash Convertible Notes or Debentures or repay the facility, as applicable. We may also be required to increase the conversion rate of the Cash Convertible Notes or the Debentures or, with respect to the Debentures, provide for conversion based on the acquirer s capital stock in the event of certain fundamental changes. In addition, provisions of our restated certificate of incorporation and amended and restated bylaws, each as amended, 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 requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. All these provisions could make it more difficult for a third party to acquire us or discourage a third party from acquiring us even if an acquisition might be in the best interest of our stockholders.

The notes will be initially held in book-entry form and therefore you must rely on the procedures of DTC to exercise any rights and remedies.

Unless and until definitive notes are issued in exchange for book-entry interests in the notes, owners of the book-entry interests will not be considered owners or holders of notes. Instead, a nominee of DTC will be the sole holder of the notes.

Payments of amounts owing in respect of the global notes will be made by us to the paying agent. The paying agent will, in turn, make such payments to DTC or its nominee, which will distribute such payments to participants in accordance with their respective procedures.

Unlike holders of the notes themselves, owners of book-entry interests will not have the direct right to act upon solicitations for consents or requests for waivers or other actions from holders of notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions on a timely basis.

The lack of physical certificates could also:

- result in payment delays to you because the trustee will be sending distributions on the notes to DTC instead of directly to you;

- make it difficult or impossible for you to pledge certificates if physical certificates are required by the party demanding the pledge; and

- hinder your ability to resell notes because some investors may be unwilling to buy notes that are not in physical form.

Table of Contents

Ratio of earnings to fixed charges

The following table sets forth our ratio of earnings to fixed charges for the periods indicated. For purposes of computing the ratio of earnings to fixed charges, earnings consists of income before income tax expense, equity in net income from unconsolidated investments and noncontrolling interests in subsidiaries less capitalized interest plus dividends from unconsolidated investments and fixed charges. Fixed charges consists of interest expense, capitalized interest and imputed interest on operating leases.

(dollars in thousands)	Nine months ended September 30, 2010	2009	2008	For the years ended December 31, 2007	2006	2005
Earnings						
Income before income tax expense, equity in net income from unconsolidated investments and non-controlling interests in subsidiaries	$ 50,473	$ 137,436	$ 196,899	$ 132,636	$ 122,228	$ 77,565
Capitalized interest		(508)	(346)			
Dividends from unconsolidated investments	10,910	11,310	19,459	24,250	19,375	19,287
Fixed charges	102,517	125,913	134,697	153,865	187,254	157,315
Total Earnings	$ 163,900	$ 274,151	$ 350,709	$ 310,751	$ 328,857	$ 254,167
Interest expense	$ 93,276	$ 110,797	$ 118,517	$ 137,060	$ 169,717	$ 142,404
Capitalized interest		508	346			
Imputed interest on operating leases	9,241	14,608	15,834	16,805	17,537	14,911
Total Fixed Charges	$ 102,517	$ 125,913	$ 134,697	$ 153,865	$ 187,254	$ 157,315
Ratio of Earnings to Fixed Charges	1.60x	2.18x	2.60x	2.02x	1.76x	1.62x

Table of Contents

Use of proceeds

We estimate that our net proceeds from this offering will be approximately $ million, after deducting discounts and commissions and estimated offering expenses.

We intend to use a portion of the net proceeds of this offering to finance our tender offer for any and all of the aggregate principal amount outstanding of our Debentures. Remaining proceeds will be used for general corporate purposes. If the tender offer is not consummated for any reason, all of the net proceeds of this offering will be used for general corporate purposes. Pending such uses, we intend to invest the net proceeds in short-term interest-bearing accounts, securities or similar investments.

Table of Contents

Capitalization

The following table sets forth (a) our cash and cash equivalents and restricted funds held in trust and (b) our capitalization as of September 30, 2010:

on an actual basis; and

as adjusted to give effect to the issuance of $400.0 million in aggregate principal amount of the notes in this offering, after deducting discounts and commissions and estimated offering expenses of $10.2 million, and the completion of the tender offer (assuming that 100% of the holders tender their Debentures in the tender offer).

This table should be read in conjunction with Summary historical consolidated financial information, Use of proceeds, and Management s discussion and analysis of financial conditions and results of operations and our consolidated financial statements and the notes thereto included elsewhere or incorporated by reference in this prospectus supplement.

(dollars in millions)	**As of September 30, 2010**			
		Actual		**As adjusted**
Cash and cash equivalents and restricted funds held in trust:				
Cash and cash equivalents	$	76.5	$	92.8
Restricted funds held in trust		337.7		337.7
Total cash and cash equivalents and restricted funds held in trust	$	414.2	$	430.5
Capitalization:				
Debt:				
Project debt(1)	$	877.4	$	877.4
Unamortized premium on project debt		13.6		13.6
Other long-term debt		0.6		0.6
Revolving credit facility(2)				
Covanta Energy s term loan facility (due 2014)		627.3		627.3
Notes offered hereby(3)				400.0
Debentures(4)		344.1		
Cash Convertible Notes(5)		456.6		456.6
Total debt	$	2,319.6	$	2,375.5
Equity:				
Stockholders equity:				

Preferred stock ($0.10 par value; authorized 10,000 shares; none issued on an actual or as adjusted basis)	$	$
Common stock ($0.10 par value; authorized 250,000 shares; issued 156,723 shares and outstanding 153,407 shares on an actual and as adjusted basis)(6)	15.6	15.6
Additional paid-in capital	885.6	876.2
Accumulated other comprehensive income	8.9	8.9
Accumulated earnings(7)	256.9	249.0
Treasury stock, at par	(0.3)	(0.3)
Stockholders equity	1,166.7	1,149.4
Noncontrolling interests in subsidiaries	33.8	33.8
Total equity	$ 1,200.5	$ 1,183.2
Total capitalization	$ 3,520.1	$ 3,558.7

S-46

Table of Contents

(1) Consists of project debt of subsidiaries.

(2) $300.0 million remains available to be drawn on the revolving credit facility. In addition, we have $294.5 million outstanding under our $320.0 million funded letter of credit facility, with remaining capacity of up to an additional $25.5 million.

(3) Consists of face value of the notes offered hereby of $400.0 million.

(4) Consists of face value of the Debentures of $373.75 million, net of debt discount of $29.6 million.

(5) Consists of face value of the Cash Convertible Notes of $460.0 million, net of debt discount of $96.7 million plus the fair value of the cash conversion feature of $93.3 million.

(6) The number of issued shares in the table above as of September 30, 2010 on an actual and as adjusted basis does not include (a) approximately 4.8 million shares of our common stock issuable upon exercise of outstanding stock options and upon vesting of restricted stock awards and units, (b) up to 27.2 million shares of our common stock that may be issued under the warrant transactions entered into in connection with the issuance of the Cash Convertible Notes and (c) solely on an actual basis, does not include up to approximately 14.6 million shares of our common stock issuable upon conversion of the Debentures.

(7) As adjusted accumulated earnings reflects an estimated after-tax loss in connection with the completion of the tender offer.

Table of Contents

Selected historical consolidated financial information

The following table sets forth our selected consolidated financial data as of and for the periods indicated. The selected consolidated financial data as of and for the nine months ended September 30, 2010 and 2009 was derived from our unaudited consolidated financial statements incorporated by reference herein. The selected consolidated financial data as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 was derived from our audited consolidated financial statements. The unaudited information as of and for the nine months ended September 30, 2010 and 2009 has been prepared on the same basis as the audited consolidated financial statements and, in management s opinion, includes all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for such periods. The financial data presented for the nine months ended September 30, 2010 and 2009, is not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or any future period. When you read this selected consolidated financial data, it is important that you also read our audited and unaudited financial statements and related notes thereto incorporated by reference in this prospectus supplement, as well as the section of this prospectus supplement entitled Management s discussion and analysis of financial condition and results of operations. Historical results are not necessarily indicative of future performance.

The summary financial information below contains the non-GAAP measures of Adjusted EBITDA and Free Cash Flow. For additional information on the calculations of Adjusted EBITDA and Free Cash Flow, see Management s discussion and analysis of financial condition and results of operations Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion) and Management s discussion and analysis of financial condition and results of operations Supplementary Financial Information Free Cash Flow (Non-GAAP Discussion), respectively.

Table of Contents

(dollars in thousands)	2005	2006	2007	Years ended December 31, 2008	2009	Nine months ended September 30, 2009	2010
Income statement data:							
Operating Revenues:							
Waste and service revenues	$ 638,503	$ 817,633	$ 864,396	$ 934,527	$ 919,604	$ 667,298	$ 768,433
Electricity and steam sales	322,770	433,834	498,877	660,616	580,248	439,751	438,005
Other operating revenues	17,490	17,069	69,814	69,110	50,615	36,206	82,545
Total operating revenues	978,763	1,268,536	1,433,087	1,664,253	1,550,467	1,143,255	1,288,983
Operating Expenses:							
Plant operating expenses	559,638	712,156	801,560	999,674	946,166	703,888	813,086
Other operating expenses	17,730	2,594	60,639	66,701	47,968	34,270	77,568
General and administrative expenses	67,481	73,599	82,729	97,016	109,235	81,366	77,401
Depreciation and amortization expense	124,925	193,217	196,970	199,488	202,872	150,717	146,527
Net interest expense on project debt	52,431	60,210	54,579	53,734	48,391	37,511	31,266
Write-down of assets							32,321
Insurance recoveries, net of write-down of assets				(8,325)			
California Grantor Trust Settlement	10,342						
Total operating expenses	832,547	1,041,776	1,196,477	1,408,288	1,354,632	1,007,752	1,178,169
Operating income	146,216	226,760	236,610	255,965	195,835	135,503	110,814
Other Income (Expense):							
Investment income	6,129	11,770	10,578	5,717	4,007	3,136	1,669

Interest expense	(89,973)	(109,507)	(67,104)	(46,804)	(38,116)	(27,291)	(32,250)
Non-cash convertible debt related expense			(15,377)	(17,979)	(24,290)	(14,562)	(29,760)
Loss on extinguishment of debt		(6,795)	(32,071)				
Gain on derivative instruments, ACL warrants	15,193						
Total other expenses	(68,651)	(104,532)	(103,974)	(59,066)	(58,399)	(38,717)	(60,341)
Income before income tax expense and equity in net income from unconsolidated investments	77,565	122,228	132,636	196,899	137,436	96,786	50,473
Income tax expense	(34,651)	(38,465)	(24,483)	(84,561)	(50,044)	(34,197)	(23,348)
Equity in net income from unconsolidated investments	25,609	28,636	22,196	23,583	23,036	17,091	18,024
Net Income	68,523	112,399	130,349	135,921	110,428	79,680	45,149
Less: Net income attributable to noncontrolling interest in subsidiaries	(9,197)	(6,610)	(8,656)	(6,961)	(8,783)	(6,312)	(6,436)
Net Income Attributable to Covanta Holding Corporation	$ 59,326	$ 105,789	121,693	$ 128,960	$ 101,645	$ 73,368	$ 38,713

Table of Contents

				Years ended December 31,		Nine months ended September 30,	
(dollars in thousands)	**2005**	**2006**	**2007**	**2008**	**2009**	**2009**	**2010**
Other financial data:							
Net cash provided by operating activities	208,259	$ 318,989	$ 363,591	$ 402,607	$ 397,238	$ 247,733	$ 328,107
Net cash used in investing activities	(676,879)	(66,904)	(179,910)	(189,308)	(387,240)	(329,624)	(247,573)
Net cash (used in) provided by financing activities	501,249	(147,420)	(268,335)	(170,242)	230,950	261,902	(437,395)
Acquisition of businesses, net of cash acquired	(684,990)		(110,465)	(73,393)	(265,644)	(251,734)	(128,254)
Purchase of property, plant and equipment	(23,527)	(54,267)	(85,748)	(87,920)	(73,619)	(59,109)	(83,101)

					December 31,		September 30,
(dollars in thousands)	**2005**	**2006**	**2007**	**2008**	**2009**	**2009**	**2010**
Balance sheet data:							
Cash and cash equivalents	$ 128,556	$ 233,442	$ 149,406	$ 192,393	$ 433,683	$ 372,600	$ 76,507
Restricted funds held in trust	447,432	407,921	379,864	324,911	277,752	335,204	337,721
Property, plant and equipment, net	2,724,843	2,637,923	2,620,507	2,530,035	2,582,841	2,612,304	2,526,291
Total assets	4,702,165	4,437,820	4,368,499	4,279,989	4,934,282	4,974,026	4,652,714
Total debt, including current portion:							
Covanta Energy debt	2,906,403	2,696,070	1,925,957	1,717,507	1,592,235	1,656,906	1,518,904
Covanta Holding debt	2,906,403	2,696,070	2,217,359	2,026,888	2,397,070	2,437,471	2,319,652
Total equity	599,241	739,152	1,114,066	1,224,051	1,417,169	1,395,623	1,200,536

Table of Contents

Management s discussion and analysis of financial condition and results of operations

The following discussion addresses our financial condition as of the date of the financial statements referred to herein and should be read in conjunction with our audited consolidated financial statements and notes thereto for the years ended December 31, 2009, 2008 and 2007 (our audited financial statements), and our interim unaudited financial statements and notes thereto for the nine months ended September 30, 2010 and 2009 (our interim financial statements), each of which is incorporated herein by reference.

The preparation of interim financial statements necessarily relies heavily on estimates. Due to the use of estimates and certain other factors, such as the seasonal nature of our waste and energy services business, as well as competitive and other market conditions, we do not believe that interim results of operations are indicative of full year results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and classification of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

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 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 own, have 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 are focusing our efforts on operating our existing business and pursuing strategic growth opportunities through development and acquisition with the goal of maximizing long-term shareholder return. We anticipate that a part of our future growth will come from investing in or acquiring additional energy-from-waste, waste disposal and renewable energy production businesses, primarily in the Americas and Europe. We are also exploring the sale of our fossil fuel independent power production facilities in the Philippines, India and Bangladesh. 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, we must be able to invest our funds, obtain equity and/or debt financing, and provide support to our operating subsidiaries. The timing and scale of our investment activity in growth opportunities is often unpredictable and uneven.

Table of Contents

We are committed to operate with an efficient capital structure by returning surplus capital to shareholders and funding high value development projects when they come to fruition. On June 17, 2010, the Board of Directors declared a special cash dividend of $1.50 per share (approximately $233 million) which was paid on July 20, 2010 and also increased the authorization to repurchase shares of outstanding common stock to $150 million. During the nine months ended September 30, 2010, we repurchased 2,499,500 shares of our common stock at a weighted average cost of $14.69 per share for an aggregate amount of approximately $36.7 million. For additional information on the special dividend or share repurchase plan see Liquidity and Capital Resources. Given our strong cash generation and the status of our various development efforts, we plan on making additional opportunistic share repurchases in the future.

The energy-from-waste solution

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 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 considering 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 CO_2 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, as well as narrower, renewable-only legislation. While legislation is far from final, we believe the direction of Congressional efforts could create additional growth opportunities for our business and increase energy revenue from existing facilities.

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. 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.

Market Pricing for Waste, Energy and Metal Global and regional economy activity, as well as technological advances, regulations and a variety of other factors, will affect market supply and demand and therefore prices for waste disposal services, energy (including electricity and steam) and other commodities such as scrap metal. As market prices for waste disposal, electricity, steam and recycled metal rise it benefits our existing business as well as our prospects for

Table of Contents

growth through expansions or new development. Conversely, market price declines for these services and commodities will adversely affect both our existing business and growth prospects.

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 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 often more extensive than scheduled maintenance conducted during the fall. As a result, we 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 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

Table of Contents

- 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.

Segment	Description
Americas	Our business in the Americas is comprised primarily of energy-from-waste projects. For all of these projects, we earn 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. 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 China. We earn revenue from operating fees, waste processing fees, electricity and steam sales, construction activities, and in some cases, we 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	27	We charge a fixed fee (which adjusts 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. (27 Americas segment Service Fee projects).	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	17	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. 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. (14 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.

S-57

Table of Contents

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 generally have long-term contracts to operate, or obtain waste supplies for, our energy-from-waste projects. 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 both our operating agreements and our agreements to sell energy output will subject us to greater market risk in maintaining and enhancing revenues. As contracts expire at projects we own, 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.

Growth and development

We are focusing our efforts on operating our existing business and pursuing strategic growth opportunities through development and acquisition with the goal of maximizing long-term

Table of Contents

shareholder return. We anticipate that a part of our future growth will come from investing in or acquiring additional energy-from-waste, waste disposal and renewable energy production businesses. We are pursuing additional growth 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. We are focusing on the United Kingdom, Ireland, Canada and the United States. Our growth opportunities include: new energy-from-waste and other renewable energy projects, existing project expansions, 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 have a robust growth pipeline and continue to pursue several billion dollars worth of energy-from-waste development opportunities. However, much remains to be done and there is substantial uncertainty relating to the bidding and permitting process for each project opportunity. If, or when, these development efforts are successful, we plan to invest in these projects to achieve an attractive return on capital particularly when leveraged with project debt which we intend to utilize for all of our development projects.

The following is a discussion of acquisitions and business development for 2010, 2009, 2008 and 2007. See Note 3 to our audited financial statements incorporated herein by reference for additional information.

ACQUISITIONS, BUSINESS DEVELOPMENT AND CONTRACT TRANSITIONS

Facility/operating contract	Location	Year	Transaction	Type	Summary
Wallingford	CT	2010	Contract	EfW	We entered into new tip fee contracts which commenced upon expiration of the existing service fee contract in June 2010. These contracts in total are expected to supply waste utilizing most or all of the facility s capacity through 2020.
Huntington	NY	2010	Acquisition	EfW	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.

Facility/operating contract	Location	Year	Transaction	Type	Summary
Dade	FL	2010	Acquisition	EfW	We acquired seven 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 9,600 tons per day (tpd). Each of the operations acquired includes a long-term operating contract with the respective municipal client. Six 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.
Long Beach	CA	2009		EfW	
Hudson Valley	NY	2009		EfW	
MacArthur	NY	2009		EfW	
Plymouth	PA	2009		EfW	
York	PA	2009		EfW	
Burnaby	Canada	2009		EfW	
Abington	PA	2009		Trans.St.	
Stanislaus County	CA	2009	Contract	EfW	The service fee contract with Stanislaus County was extended 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.

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 (185,000 pounds of steam generated per hour). 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 Energy-From-Waste Advanced Development or Construction Projects discussion below related to this facility.

Table of Contents

Facility/operating contract	Location	Year	Transaction	Type	Summary
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.
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.

Table of Contents

Facility/operating contract	Location	Year	Transaction	Type	Summary
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.
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
ADVANCED DEVELOPMENT OR CONSTRUCTION PROJECTS

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 purchases aggregated $4.4 million during the nine months ended September 30, 2010 and, $4.7 million and $6.5 million during the years ended December 31, 2009 and 2008, respectively.
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. Construction commenced at the end of 2009.

Table of Contents

Project/facility	Location	Summary
Harrisburg	PA	See operating contract discussion above. We have an agreement to provide construction management services and advance up to $25.5 million (of which $21.7 million has been advanced and $19.8 million is outstanding as of September 30, 2010) in funding for certain facility improvements required to enhance facility performance, which were substantially 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. Four repayment installments under this funding arrangement, which were due to us on April 1, 2010, July 1, 2010 August 1, 2010 and October 1, 2010, totaling an aggregate of $2.0 million, have not been paid. The City of Harrisburg requested a forbearance period in April 2010, but meaningful discussion of forbearance and of the City s related plan for financial recovery did not develop on a timely basis. On October 5, 2010, we filed suit against the City of Harrisburg in the Dauphin County Court of Common Pleas seeking to enforce our rights under the City s guaranty. We believe that the City of Harrisburg is in a precarious financial condition with substantial obligations, and it has reported both its inability to pay its obligations and consideration of various future options (including state oversight and seeking bankruptcy protection). We intend to pursue our lawsuit in parallel with efforts to work with the City of Harrisburg and other stakeholders to protect the full recovery of our advance and to maintain our position in the project. See discussion in Note 8 to our interim financial statements incorporated herein by reference for accounting information regarding the Harrisburg facility.
Hillsborough	FL	During the third quarter of 2009, we completed the expansion and commenced the operations of the expanded energy-from-waste facility 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 2029.
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.
INTERNATIONAL		
Dublin	Ireland	In 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. Dublin Waste to Energy Limited, which we control and co-own with DONG Energy Generation A/S, developed the project and has a 25 year tip fee type contract to provide

disposal service for 320,000 metric tons of waste annually, representing approximately 60% of the facility s processing capacity. The project is expected to sell electricity into the local electricity grid, at rates partially supported by a preferential renewable tariff. While the primary approvals and licenses for the project have been obtained, the longstop date for acquiring necessary property rights and achieving certain other conditions precedent under the project agreement expired on September 4, 2010. As a result, the parties will need to agree to proceed and are currently working toward that objective. See discussion in Note 8 to our interim financial statements incorporated herein by reference for accounting information for the Dublin project.

Table of Contents

Project/facility	Location	Summary
Taixing	China	Taixing Covanta Yanjiang Cogeneration Co., Ltd., in which we have an 85% economic interest, 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 an agreement 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. We also executed a 25 year waste concession agreement for this project. In connection with this project, we acquired a 49% equity interest in the project company. Construction of the facility has commenced and 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.

Table of Contents

Dispositions

Facility/operating contract	Location	Year	Transaction	Type	Summary
Detroit	MI	2009/2010	Contract	EfW	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 purchased an undivided 30% owner-participant interest in the Detroit Facility and entered into certain agreements for continued operation of the Detroit Facility for a term expiring June 30, 2010. During this one-year period, we were unable to secure an acceptable steam off-take arrangement. Effective June 30, 2010, we agreed to sell our entire interest in the Detroit Facility, subject to the buyer s due diligence and any required regulatory approvals, and to continue operating the Detroit Facility under commercial arrangements until the earlier of the closing of the sale transaction or September 30, 2010. The sale agreement did not close or extend on September 30, 2010, and the commercial arrangements expired on that date at which time we decided that it was in our best interest to shut down the Detroit Facility. Regardless of whether the Detroit Facility is permanently shut down, re-started or sold, we do not expect it to have a material effect on our condensed consolidated financial statements.

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 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

Nine months ended September 30, 2010 vs. nine months ended September 30, 2009

(unaudited, dollars in thousands)	2010	For the nine months ended September 30, 2009	Variance increase/(decrease) Nine month
Consolidated results of operations:			
Total operating revenues	$ 1,288,983	$ 1,143,255	$ 145,728
Total operating expenses	1,178,169	1,007,752	170,417
Operating income	110,814	135,503	(24,689)
Other income (expense):			
Investment income	1,669	3,136	(1,467)
Interest expense	(32,250)	(27,291)	4,959
Non cash convertible debt related expense	(29,760)	(14,562)	15,198
Total other expenses	(60,341)	(38,717)	21,624
Income before income tax expense and equity in net income from unconsolidated investments	50,473	96,786	(46,313)
Income tax expense	(23,348)	(34,197)	(10,849)
Equity in net income from unconsolidated investments	18,024	17,091	933
Net income	45,149	79,680	(34,531)
Less: Net income attributable to noncontrolling interests in subsidiaries	(6,436)	(6,312)	124
Net income attributable to Covanta Holding Corporation	$ 38,713	$ 73,368	(34,655)

The following general discussions should be read in conjunction with the above table, the condensed consolidated financial statements and the Notes thereto and other financial information appearing and referred to elsewhere in this prospectus supplement. 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.

Comparison of results for the nine months ended September 30, 2010 vs. results for the nine months ended September 30, 2009

Operating revenues increased by $145.7 million for the nine month comparative period primarily due to increased waste and services revenues in our Americas segment due to the acquisition of Veolia EfW businesses; increased recycled metal revenues due primarily to higher market prices; and increased construction revenue due to the Honolulu expansion projects. These increases were offset by the impact of contract transitions at our Hempstead, Union and Detroit facilities.

Operating expenses increased by $170.4 million for the nine month comparative period primarily due to increased operating costs related to the acquisition of Veolia EfW businesses; increased construction expenses due to the Honolulu expansion projects; and the non-cash write-down of assets related to a notes receivable from our Harrisburg EfW facility and the write-down of assets related to the Dublin project.

Operating income decreased by $24.7 million for the nine month comparative period primarily due to the non-cash write-down of assets noted above and the impact of contract transitions at our Hempstead, Union and Detroit facilities, offset by the benefits of the acquisition of Veolia EfW businesses. See Note 8 to our interim financial statements incorporated herein by reference for additional information.

Excluding the non-cash asset write-downs noted above, operating income in our Americas segment was increased slightly for the nine month comparative period primarily due to the benefit of the acquisition of Veolia businesses and higher market prices for recycled metals, which was offset by contract transitions at our Hempstead, Union and Detroit facilities. Excluding the non-cash asset write-downs noted above, in our International segment operating income declined for the nine month comparative period primarily due to lower profitability at our Indian facilities related to lower electricity sales and higher fuel prices.

Interest expense increased $5.0 million for the nine month comparative period primarily due to the issuance of the 3.25% Cash Convertible Senior Notes due 2014 (the Cash Convertible Notes) which were issued in 2009, offset by lower floating interest rates on the Term Loan Facility (as defined in the Liquidity section below). Non-cash convertible debt related expense increased by $15.2 million for the nine month comparative period primarily due to the amortization of the debt discount for the Cash Convertible Notes which were issued in 2009, offset by the net changes to the valuation of the derivatives associated with the Cash Convertible Notes.

Income tax expense decreased by $10.8 million for the nine month comparative period primarily due to lower pre-tax operating income, offset by lower production tax credits. No tax benefit is being recognized at this time associated with the non-cash impairment of the investment in Dublin. See Note 7 to our interim financial statements incorporated herein by reference for additional information.

On June 17, 2010, the Board of Directors declared a special cash dividend of $1.50 per share (approximately $233 million) which was paid on July 20, 2010. During the nine months ended September 30, 2010, we repurchased 2,499,500 shares of our common stock at a weighted average cost of $14.69 per share for an aggregate amount of approximately $36.7 million. For additional information, see Liquidity and Capital Resources below.

Americas segment results of operations comparison of results for the nine months ended September 30, 2010 vs. results for the nine months ended September 30, 2009

(unaudited, dollars in thousands)	**For the nine months ended September 30, 2010**	**2009**	**Variance increase/(decrease) Nine month**
Waste and service revenues	$ 765,431	$ 664,430	$ 101,001
Electricity and steam sales	300,200	301,831	(1,631)
Other operating revenues	68,072	22,010	46,062
Total operating revenues	1,133,703	988,271	145,432

Plant operating expenses	695,620	595,812	99,808
Other operating expense	62,603	18,800	43,803
General and administrative expenses	55,381	61,464	(6,083)

(unaudited, dollars in thousands)	For the nine months ended September 30, 2010	2009	Variance increase/(decrease) Nine month
Depreciation and amortization expense	140,652	144,816	(4,164)
Net interest expense on project debt	29,473	34,409	(4,936)
Write down of assets	9,191		9,191
Total operating expenses	992,920	855,301	137,619
Operating income	$ 140,783	$ 132,970	7,813

Operating revenues

Operating revenues for the Americas segment increased by $145.4 million for the nine month comparative period.

Revenues from Service Fee arrangements increased by $81.1 million for the nine month comparative period primarily due to the acquisition of Veolia EfW businesses and by the Hillsborough expansion coming on line plus service fee contract escalations, partially offset by the Detroit facility s contract transition and lower revenues earned explicitly to service project debt of $9.1 million.

Revenues from Tip Fee arrangements decreased by $0.6 million for the nine month comparative period primarily due to lower waste volumes and tip fee pricing, offset by the acquisition of Veolia EfW businesses and the Philadelphia Transfer Stations.

Recycled metal revenues increased by $20.5 million for the nine month comparative period primarily due to higher pricing. Historically, we have experienced volatile prices for recycled metal which has affected our recycled metal revenue as reflected in the table below:

Total recycled metal revenues (dollars in millions)	For the quarters ended 2010	2009	2008
March 31,	$ 12.6	$ 5.2	$ 11.4
June 30,	14.8	5.8	19.0
September 30,	13.3	9.1	17.3
December 31,		9.1	5.9
Total for the Year Ended December 31,	$ N/A	$ 29.2	$ 53.6

Electricity and steam sales decreased by $1.6 million for the nine month comparative period due to contract transitions at our Hempstead, Union and Detroit facilities and lower production primarily due to economically dispatching one of our biomass facilities offset by the acquisition of Veolia EfW businesses and higher pricing at other facilities primarily at our biomass facilities.

Other operating revenues for existing business increased primarily due to increased construction revenue related to the Honolulu expansion project.

Table of Contents

Operating Expenses

Plant operating expenses increased by $99.8 million for the nine month comparative period. This increase was primarily due to expense related to the Veolia EfW and Philadelphia transfer stations acquisitions. Other factors that cause the increase included the contract transition at the Hempstead facility as well as lower alternative fuel and renewable energy credits which was partially offset by a contract transition at the Detroit facility and lower costs related to a biomass facility being economically dispatched off line. Excluding the effect of the acquisitions, contract transitions, lower credits and the biomass dispatch, the remaining plant operating expenses increased 2.7% compared to the prior year.

Other operating expenses increased for the nine month comparative period primarily due to increased construction expense related to the Honolulu expansion project.

General and administrative expenses decreased for the nine month comparative period primarily due to transaction costs related to the Veolia EfW acquisition in 2009.

Operating income

Operating income increased by $7.8 million for the nine month comparative period primarily due to the benefit of the acquisition of Veolia EfW businesses, higher recycled metal revenues and improved performance at recently acquired facilities. These amounts were partially offset by the impact of contract transitions at our Hempstead, Union and Detroit facilities, and the write down of assets.

International segment results of operations comparison of results for the nine months ended September 30, 2010 vs. results for the nine months ended September 30, 2009

(unaudited, dollars in thousands)	For the nine months ended September 30, 2010	2009	Variance increase/(decrease) Nine month
Waste and service revenues	$ 3,002	$ 2,868	$ 134
Electricity and steam sales	137,805	137,920	(115)
Total operating revenues	140,807	140,788	19
Plant operating expenses	117,466	108,076	9,390
Other operating income	(382)	(54)	(328)
General and administrative expenses	20,458	18,064	2,394
Depreciation and amortization expense	5,798	5,819	(21)
Net interest expense on project debt	1,793	3,102	(1,309)
Write down of assets	23,130		23,130

Total operating expenses	168,263	135,007	33,256
Operating (loss) income	$ (27,456)	$ 5,781	(33,237)

Operating revenues for the International segment were flat for the nine month comparative period.

Plant operating expenses increased by $9.4 million for the nine month comparative period due primarily to higher fuel costs at both India facilities and at our coal-fired facility in China, partially offset by lower generation and lower foreign currency exchange gains.

General and administrative expenses increased by $2.4 million for the nine month comparative period primarily due to costs associated with staff reductions in our Shanghai office, additional business development spending in the United Kingdom, and normal wage and benefit escalations.

Operating income

Operating income declined by $33.2 million for the nine months comparative period primarily due to the non-cash impairment charge discussed above. Operating income for the nine months ended September 30, 2010 also declined due primarily to lower profitability at our Indian facilities related to lower electricity sales and higher fuel prices.

Year ended December 31, 2009 vs. year ended December 31, 2008

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. In the same prior year period, net income attributable to Covanta Holding Corporation was $129.0 million.

A more detailed discussion of our financial results and liquidity can be found in the 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.

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

Table of Contents

the prior year comparable period. The decreases in revenues and operating expenses resulted primarily from lower fuel costs at our Indian facilities.

In 2009, we issued $460 million aggregate principal amount of the Cash Convertible Notes due 2014. See Liquidity and Capital Resources for a more detailed discussion of this offering.

As of December 31, 2009, in addition to our ongoing cash flow, we had 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.

Our consolidated results of operations are presented in the table below:

(dollars in thousands)	**For the years ended December 31, 2009**	**2008**	**Increase (decrease) 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)

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 prospectus supplement. 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.

Table of Contents

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
- $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 and Capital Resources section below), offset by increased interest expense due to the issuance of the Cash Convertible 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 Cash Convertible Notes and the amortization of the debt discount for the Cash Convertible 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 Note 16 to our audited financial statements incorporated herein by reference 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:

(dollars in thousands)	For the years ended December 31, 2009	2008	Increase (decrease) 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 and the discussion of key variance drivers which follows:

(dollars in millions)	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.

Table of Contents

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 $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:

	For the quarters ended		
Total recycled metal revenues (dollars in millions)	**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:

	Americas segment plant operating expense variances		
(dollars in millions)	**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.

Table of Contents

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 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 Note 15 to our audited financial statements incorporated herein by reference for additional information.

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:

(dollars in thousands)	For the years ended December 31, 2009	For the years ended December 31, 2008	Increase (decrease) 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.

Table of Contents

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:

(dollars in thousands)	For the years ended December 31, 2008	2007	Increase (decrease) 2008 vs 2007
CONSOLIDATED RESULTS OF OPERATIONS:			
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

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 prospectus supplement. 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.

Table of Contents

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 Note 11 to our audited financial statements incorporated herein by reference 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 Note 16 to our audited financial statements incorporated herein by reference 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 Note 8 to our audited financial statements incorporated herein by reference for additional information.

Table of Contents

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:

	For the years ended December 31,		Increase (decrease)
(dollars in thousands)	**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

Operating revenues

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 and the discussion of key variance drivers which follows:

	Americas segment operating revenue variances		
(dollars in millions)	**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.

Table of Contents

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 had declined significantly during the fourth quarter of 2008. The impact these changes had on revenue is reflected in the table below:

	For the quarters ended	
Total recycled metal revenues (dollars in millions)	**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:

	Americas segment plant operating expense variances		
(dollars in millions)	**Existing business**	**New business(A)**	**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 production. Cost increases were partially offset by $5.2 million of business interruption insurance recoveries at our SEMASS facility as discussed below.

Table of Contents

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:

	Insurance recoveries recorded		Cash proceeds received	
	For the years ended December 31,			
(dollars in millions)	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 Note 15 to our audited financial statements incorporated herein by reference for additional information.

Table of Contents

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:

(dollars in thousands)	For the years ended December 31, 2008	2007	Increase (decrease) 2008 vs 2007
Waste and service revenues	$ 3,990	$ 4,144	$ (154)
Electricity and steam sales	275,976	173,073	102,903
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.

Supplementary financial information adjusted EBITDA (non-GAAP Discussion)

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.

Table of Contents

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 September 30, 2010. Failure to comply with such financial covenants could result in a default under these credit facilities, which default would have a material adverse effect 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 nine months ended September 30, 2010 and 2009 and for the year ended December 31, 2009 and 2008 and 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.

Table of Contents

The following is a reconciliation of net income to Adjusted EBITDA for the nine months ended September 30, 2010 and 2009:

(dollars in thousands)	Nine months ended September 30, 2010	2009
Computation of Adjusted EBITDA:		
Net Income attributable to Covanta Holding Corporation	$ 38,713	$ 73,368
Depreciation and amortization expense	146,527	150,717
Debt service:		
Net interest expense on project debt	31,266	37,511
Interest expense	32,250	27,291
Non-cash convertible debt related expense	29,760	14,562
Investment income	(1,669)	(3,136)
Subtotal debt service	91,607	76,228
Income tax expense	23,348	34,197
Other adjustments:		
Write-down of assets	32,321	
Change in unbilled service receivables	23,574	13,656
Non-cash compensation expense	13,279	10,724
Transaction-related costs(A)	1,349	5,952
Other(B)	6,640	3,955
Subtotal other adjustments	77,163	34,287
Net income attributable to noncontrolling interests in subsidiaries	6,436	6,312
Total adjustments	345,081	301,741
Adjusted EBITDA	**$ 383,794**	**$ 375,109**

(A) This amount relates primarily to transaction costs related to exploring the sale of our fossil fuel independent power production facilities in the Philippines, India and Bangladesh in 2010 and transaction costs associated with the acquisition of Veolia energy-from-waste businesses primarily in 2009.

(B) Includes certain non-cash items that are added back under the definition of Adjusted EBITDA in Covanta Energy s credit agreement.

The following is a reconciliation of cash flow provided by operating activities to Adjusted EBITDA for the nine months ended September 30, 2010 and 2009:

(dollars in thousands)	For the nine months ended September 30, 2010	2009
Cash flow provided by operating activities	$ 328,107	$ 247,733
Debt service	91,607	76,228
Change in working capital	(28,383)	27,511
Change in restricted funds held in trust	12,881	2,824
Non cash convertible debt related expense	(29,760)	(14,562)
Amortization of debt premium and deferred financing costs	576	2,791
Equity in net income from unconsolidated investments	18,024	17,091
Dividends from unconsolidated investments	(10,910)	(2,941)
Current tax provision	2,585	19,585
Other	(933)	(1,151)
Adjusted EBITDA	$ 383,794	$ 375,109

The following is a reconciliation of net income to Adjusted EBITDA for the years ended December 31, 2009 and 2008:

(dollars in thousands)	Years ended December 31, 2009	2008
Computation of Adjusted EBITDA:		
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
Other adjustments:		
Change in unbilled service receivables	18,620	14,020
Non-cash compensation expense	14,220	14,750
Transaction-related costs	6,289	
Other(A)	5,835	12,249
Subtotal other adjustments	44,964	41,019
Net income attributable to noncontrolling interests in subsidiaries	8,783	6,961
Total adjustments	413,453	444,829
Adjusted EBITDA(B)	**$ 515,098**	**$ 573,789**

(A) These items represent amounts that are non-cash in nature.

(B) 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.

Table of Contents

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 prices 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 for the years ended December 31, 2009 and 2008:

(dollars 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. As of September 30, 2010, 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 $76.5 million and the undrawn and available capacity of $300 million of our Revolving Credit Facility. In addition, we had restricted cash of $337.7 million, of which $195.9 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 segment 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. 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. The timing and scale of our investment activity in growth opportunities is often unpredictable and uneven. We are committed to operate with an efficient capital structure by returning surplus capital to shareholders and funding high value development projects when they come to fruition. Given our strong cash generation and the status of our various development efforts, we plan on making additional opportunistic share repurchases in future quarters generally consistent with our actions in the third quarter of 2010. See Overview Growth and Development above.

On June 17, 2010, the Board of Directors declared a special cash dividend of $1.50 per share (approximately $233 million) which was paid on July 20, 2010.

On June 17, 2010, the Board of Directors increased the authorization to repurchase shares of outstanding common stock to $150 million. Under the program, stock repurchases may be made in the open market, in privately negotiated transactions, or by other available methods, from time to time at management s discretion in accordance with applicable federal securities laws. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of our common stock and overall market conditions. During the nine months ended September 30, 2010, we repurchased 2,499,500 shares of our common stock at a weighted average cost of $14.69 per share for an aggregate amount of approximately $36.7 million. As of September 30, 2010, the amount remaining under our currently authorized share repurchase program was $113.3 million.

On November 9, 2010 we commenced a cash tender offer for any and all of our outstanding Debentures (the tender offer). We expect the tender offer to remain outstanding until December 8, 2010. Following completion of the tender offer, subject to the restrictions under the Exchange Act, we may purchase Debentures that remain outstanding following termination or expiration of the tender offer in the open market, in privately negotiated transactions, through tender offers, exchange offers, by redemption or otherwise. On the date of this prospectus supplement we commenced an offering of the notes. We intend to use a portion of the net proceeds of this offering to finance our tender offer. Remaining proceeds will be used for general corporate purposes. If the tender offer is not consummated for any reason, all of the net proceeds of this offering will be used for general corporate purposes. Pending such uses, we intend to invest the net proceeds in short-term interest-bearing accounts, securities or similar investments. See Use of proceeds. This offering is not contingent upon consummation of the tender offer.

Sources and uses of cash flow for the nine months ended September 30, 2010 and 2009

(unaudited, dollars in thousands)	For the nine months ended September 30, 2010	2009	Increase (decrease) 2010 vs 2009
Net cash provided by operating activities	$ 328,107	$ 247,733	$ 80,374
Net cash used in investing activities	(247,573)	(329,624)	(82,051)
Net cash (used in) provided by financing activities	(437,395)	261,902	(699,297)
Effect of exchange rate changes on cash and cash equivalents	(315)	196	(511)
Net (decrease) increase in cash and cash equivalents	$ (357,176)	$ 180,207	(537,383)

Table of Contents

Net cash provided by operating activities for the nine months ended September 30, 2010 was $328.1 million, an increase of $80.4 million from the prior year period. The increase was primarily due to the acquisition of Veolia s EfW businesses in the Americas segment and the timing of working capital.

Net cash used in investing activities for the nine months ended September 30, 2010 was $247.6 million, a decrease of $82.1 million from the prior year period. The decrease was primarily comprised of lower cash outflows of $123.5 million related to the acquisition of businesses, primarily the Veolia EfW businesses, offset by $24.0 million of higher cash outflows for increased capital expenditures largely related to the acquisition of Veolia EfW businesses and $18.5 million related to the acquisition of land use rights in the United Kingdom.

Net cash used in financing activities for the nine months ended September 30, 2010 was $437.4 million, a decrease of $699.3 million. The net change was primarily driven by the cash dividend paid of $232.7 million and repurchases of common stock of $36.7 million for the nine months ended September 30, 2010 as compared to proceeds received of $388.9 million related to the issuance of the Cash Convertible Notes and related transactions during the nine months ended September 30, 2009.

Sources and uses of cash flow for the years ended December 31, 2009, 2008 and 2007

	For the years ended December 31,			Increase (decrease)	
(dollars in thousands)	**2009**	**2008**	**2007**	**2009 vs 2008**	**2008 vs 2007**
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

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.

Table of Contents

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 Cash Convertible Notes more fully described below:

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

proceeds of $460.0 million from the sale of the Cash Convertible Notes;

proceeds of $54.0 million from the sale of Warrants (as defined below);

use of cash of $112.4 million to purchase the Note Hedge (as defined below); 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.

Table of Contents

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;
- $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 September 30, 2010, we had unrestricted cash and cash equivalents of $76.5 million (of which approximately $73.0 million was held by

Table of Contents

our insurance and international subsidiaries, which is not generally available for near-term liquidity in our domestic operations).

Short-term liquidity

We have credit facilities which are comprised of 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 September 30, 2010, we had available credit for liquidity as follows:

(dollars in thousands)	Total available under facility	Maturing	Outstanding letters of credit as of September 30, 2010	Available as of September 30, 2010
Revolving Loan Facility[1]	$ 300,000	2013	$	$ 300,000
Funded L/C Facility	$ 320,000	2014	$ 294,471	$ 25,529

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

Supplementary financial information free cash flow (non-GAAP discussion)

To supplement our results prepared in accordance with 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 Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion) above.

Free Cash Flow should not be considered as an alternative to cash flow provided by operating activities as an indicator of our liquidity or any other measure of liquidity in accordance with GAAP.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Free Cash Flow for the nine months ended September 30, 2010 and 2009 and for the year ended December 31, 2009 and 2008 and reconciled for each such period to cash flow provided by operating activities.

Table of Contents

The following is a summary of Free Cash Flow and its primary uses for the nine months ended September 30, 2010 and 2009:

(dollars in thousands)	For the nine months ended September 30, 2010	2009
Cash flow provided by operating activities	$ 328,107	$ 247,733
Less: Maintenance capital expenditures(A)	(56,840)	(44,145)
Free cash flow	$ 271,267	$ 203,588
Selected Uses of Free Cash Flow:		
Principal payments on long term debt	$ (4,999)	$ (5,009)
Principal payments on project debt, net of restricted funds used(B)	$ (149,054)	$ (89,113)
Distributions to partners of noncontrolling interests in subsidiaries	$ (7,098)	$ (9,596)
Acquisition of businesses, net of cash acquired	$ (128,254)	$ (251,734)
Acquisition of land use rights	$ (18,545)	$
Acquisition of noncontrolling interests in subsidiary	$ (2,000)	$
Purchase of equity interests	$	$ (8,938)
Other investment activities, net(C)	$ (15,673)	$ (9,843)
Cash dividends paid to shareholders	$ (232,671)	$
Common stock repurchased	$ (36,708)	$
Purchases of Property, Plant and Equipment:		
Maintenance capital expenditures(A)	$ (56,840)	$ (44,145)
Capital expenditures associated with development projects	(13,943)	(9,794)
Capital expenditures associated with technology development	(4,642)	(3,269)
Capital expenditures other	(7,676)	(1,901)
Total purchases of property, plant and equipment	$ (83,101)	$ (59,109)

(A) Capital Expenditures primarily to maintain existing facilities. Purchases of property, plant and equipment is also referred to as Capital Expenditures.

(B) Principal payments on project debt are net of changes in restricted funds held in trust used to pay debt principal of $(37.5) million and $31.0 million for the nine months ended September 30, 2010 and 2009, respectively. Principal payments on project debt excludes principal repayments on working capital borrowings relating to the operations of our Indian facilities of $11.8 million and $9.8 million for the nine months ended September 30, 2010 and 2009, respectively. Principal payments on project debt excludes a project debt refinancing transaction of $63.7 million related to a domestic energy-from-waste facility during the third quarter 2009.

(C) For the nine months ended September 30, 2010, other investing activities is primarily comprised of net payments from the purchase/sale of investment securities and business development expenses. For the nine months ended September 31, 2009, other investing activities is primarily comprised of a loan issued for the Harrisburg energy-from-waste facility to fund certain facility improvements, net of repayments.

Table of Contents

The following is a summary of Free Cash Flow and its primary uses for the year ended December 31, 2009 and 2008:

(dollars 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
Selected Uses of Free Cash Flow:		
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)
Purchases of Property, Plant and Equipment:		
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 rep