COVANTA HOLDING CORP
Form 10-K
February 15, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-06732

COVANTA HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-6021257**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employee Identification No.)*
445 South Street, Morristown, N.J.	**07960**
(Address of Principal Executive Offices)	*(Zip Code)*

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form10-K. þ

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

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

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

As of June 30, 2011, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $1.9 billion. The aggregate market value was computed by using the closing price of the common stock as of that date on the New York Stock Exchange. (For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.)

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

Class	January 27, 2012
Common Stock, $0.10 par value per share	136,074,609 shares

Documents Incorporated By Reference:

Part of Form 10-K of Covanta Holding Corporation	Documents Incorporated by Reference
Part III	Portions of the Proxy Statement to be filed with the Securities and Exchange Commission in connection with the 2012 Annual Meeting of Stockholders.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

AVAILABILITY OF INFORMATION

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

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PART I

Item 1. *BUSINESS*

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

About Covanta Holding Corporation

Covanta is one of the world s largest owners and operators of infrastructure for the conversion of waste to energy (known as energy-from-waste or EfW), as well as other waste disposal and renewable energy production businesses. We are organized as a holding company which was incorporated in Delaware on April 16, 1992. We conduct all of our operations through subsidiaries which are engaged predominantly in the businesses of waste and energy services.

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. In the Americas, we process approximately 19 million tons of solid waste annually, representing approximately 5% of the solid waste generation in the United States. In total, these assets produce over 10 million megawatt hours of baseload electricity annually, representing approximately 7% of the nation s non-hydroelectric renewable power. We operate and/or have ownership positions in 46 energy-from-waste facilities, which are primarily located in North America, and 15 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). We also operate a waste management infrastructure that is complementary to our core EfW business.

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

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

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. Additional information about our reportable segments is contained in *Item 8. Financial Statements And Supplementary Data Note 6. Financial Information by Business Segments*.

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 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. In addition to our mass-burn facilities, we own and/or operate additional facilities that use other processes or technologies, such as refuse-derived fuel facilities which process waste prior to combustion and a gasification technology, in which waste is heated to create gases which are then combusted. 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.

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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 (CO_2), 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 United States Environmental Protection Agency s (EPA) Decision Support Tool, approximately 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 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.

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:

Grow the value of our existing portfolio. We intend to maximize the long-term value of our existing portfolio by continuously improving safety, health and environmental performance, working in partnership with our client communities, continuing to operate at our historic production levels, maintaining our facilities in optimal condition, and managing our expenses. We also intend to effect organic growth through adding or extending waste and service contracts, seeking incremental revenue opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs and expanding our customer base and service offerings.

Expand through development and/or acquisitions in selected attractive markets. We seek to grow our portfolio primarily through the development of new facilities and acquisitions 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 United States and Canada, which we consider to be our core markets. In addition, we believe that there are numerous attractive opportunities in the United Kingdom, where national policies, such as a substantial tax on landfill use, are intended to achieve compliance with the European Union (EU) Landfill Directive.

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 substantial portion 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, gasification, 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.

Advocate for public policy favorable to energy-from-waste. We seek to educate policymakers and regulators about the environmental and economic benefits of energy-from-waste and advocate for policies and regulations 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.

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Allocate capital efficiently. We plan to allocate capital to maximize stockholder value by: investing in our existing businesses to maintain and enhance assets; effecting organic growth; investing in high value core business development projects and strategic acquisitions when available; and by returning surplus capital to our stockholders.

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 seek to achieve 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;
- adding complementary services to enhance existing processes and improve the local environmental profile of our operations; 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 general economic slowdown and related unemployment, policy makers are focused on themes of economic stimulus, job creation, and energy security. We believe that the construction and permanent jobs created by additional energy-from-waste development represent the type of green jobs that are consistent with this focus. The extent to which we are successful in growing our business will depend in part on our ability to effectively communicate the benefits of energy-from-waste to public planners seeking waste disposal solutions and to policy makers seeking to encourage renewable energy technologies (and the associated green jobs) as viable alternatives to reliance on fossil fuels as a source of energy.

The United States Congress has considered proposals designed to encourage two broad policy objectives: increased renewable energy generation and reduction of fossil fuel usage and related GHG emissions. Both the House of Representatives and the Senate have considered bills that address both policy objectives, by means of a phased-in national clean energy standard and a cap-and-trade system to reduce GHG emissions. Energy-from-waste and biomass have generally been included among the technologies that help to achieve both of these policy objectives. We believe Congress is unlikely in the near term to pursue cap-and-trade approaches to GHG reduction, and more likely to concentrate on encouraging a shift to cleaner energy generation through renewable technologies and other means. While legislation effecting new energy policy is far from certain and Congress is expected to focus instead on budget issues and election-year politics during 2012, we believe the continued direction of Congressional efforts regarding energy policies could create additional growth opportunities for our business and increase energy revenue from existing facilities.

Growth and Development

We intend to grow our business through expanding the capabilities of our existing business, and adding new projects through development and/or acquisition, all with the goal of maximizing long-term stockholder return. Our growth opportunities include: organic growth, 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 will effect organic growth through adding or extending waste and service contracts, seeking incremental revenue opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs in areas such as metals recovery, and expanding our customer base and service offerings.

We also have extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We intend to continue our efforts on pursuing acquisition-based growth in the United

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States, Canada, and the United Kingdom. We will also continue to pursue growth through development opportunities in the same markets, where the 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.

We have a project development pipeline and continue to pursue several billion dollars worth of energy-from-waste opportunities. However, there is substantial time and uncertainty involved in the bidding, permitting and development process for each project opportunity. If, and 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.

Additional details related to recent acquisitions and business development are described in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Growth and Development.*

AMERICAS SEGMENT

Energy-From-Waste Projects

Energy-from-waste projects have two essential purposes: to provide waste disposal services, typically to municipal clients who sponsor the projects, and to use that waste as a fuel source to generate renewable energy. The electricity or steam generated by the projects is generally sold to local utilities or industrial customers, and most of the resulting revenues reduce the overall cost of waste disposal services to the municipal clients. These projects are capable of providing waste disposal services and generating electricity or steam, if properly operated and maintained, for several decades. Generally, we provide these waste disposal services and sell the electricity and steam generated under contracts, which expire on various dates between 2012 and 2034. Many of our service contracts may be renewed for varying periods of time, at the option of the municipal client.

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 and special waste customers. 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 United States).

We also operate, and in some cases have ownership interests in, transfer stations and landfills which generate revenue from ash disposal fees or operating fees. In addition, we own, and in some cases operate, other renewable energy projects in the Americas segment which generate electricity from wood waste (biomass) and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities under contracts or into the regional power pool at short-term rates. For these projects, we receive revenue from sales of energy, capacity and/or cash from equity distributions and additional value from the sale of renewable energy credits.

Contract Structures

We currently operate energy-from-waste projects in 16 states and one Canadian province, and are constructing an energy-from-waste project in a second Canadian province. Most of our energy-from-waste projects were developed and structured contractually as part of competitive procurement processes conducted by municipal entities. As a result, many of these projects have common features. However, each service agreement is different, reflecting the specific needs and concerns of a client community, applicable regulatory requirements and/or other factors.

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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 revenue generated from 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 revenue generated from 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. The following summarizes the typical contractual and economic characteristics of the three project structures in the Americas segment:

	Tip Fee	Service Fee (Owned)	Service Fee (Operated)
Number of facilities:	14	11	16
Client(s):	Host community and municipal and commercial waste 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 explicitly as part of service fee	Client responsible for debt service
After service contract expiration:	N/A	Covanta owns the facility; clients have certain rights set forth in contracts	Client owns the facility; extend with Covanta or tender for new contract

The following describes features generally common to these agreements, as well as important distinctions among them:

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

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 mature at the same time the initial term of our service contract expires and are 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. For these facilities, the bond proceeds are loaned to us to pay for facility construction and to fund a debt service reserve for the project, which is generally sufficient to pay principal and interest for one year. Project-related debt is included as project debt and the debt service reserves are included as restricted funds held in trust in our consolidated financial statements. Generally, project debt is secured by the project s revenue, contracts and other assets of our project subsidiary. 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. We are not responsible for debt service for projects that we neither own nor lease.

Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating and maintaining projects or for processing waste received, and payments we receive for electricity and/or steam we sell.

We agree to operate the facility and meet minimum waste processing capacity and efficiency standards, energy production levels and environmental standards. Failure to meet these requirements or satisfy the other material terms of our agreement (unless the failure is caused by our client community or by events beyond our control), may result in damages charged to us or, if the breach is substantial, continuing and unremedied, termination of the applicable agreement. These damages could include amounts sufficient to repay project debt (as reduced by amounts held in trust and/or proceeds from sales of facilities securing project debt) and as such, these contingent obligations cannot readily be quantified. We have issued performance guarantees to our client communities and, in some cases other parties, which guarantee that our project subsidiaries will perform in accordance with

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contractual terms including, where required, the payment of such damages. If one or more contracts were terminated for our default, these contractual damages may be material to our cash flow and financial condition. To date, we have not incurred material liabilities under such performance guarantees.

The client community generally must deliver minimum quantities of municipal solid waste to the facility on a put-or-pay basis and is obligated to pay a fee for its disposal. A put-or-pay commitment means that the client community promises to deliver a stated quantity of waste and pay an agreed amount for its disposal, regardless of whether the full amount of waste is actually delivered. Client communities have consistently met their commitment to deliver the stated quantity of waste. Where a Service Fee structure exists, portions of the service fee escalate to reflect indices for inflation, and in many cases, the client community must also pay for other costs, such as insurance, taxes, and transportation and disposal of the ash residue to the disposal site. Generally, expenses resulting from the delivery of unacceptable and hazardous waste on the site are also borne by the client community. In addition, the contracts generally require the client community to pay increased expenses and capital costs resulting from unforeseen circumstances, subject to specified limits. At three publicly-owned facilities we operate, our client community may terminate the operating contract under certain circumstances without cause.

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

We generally sell the energy output from our projects to local utilities pursuant to long-term contracts. At several of our energy-from-waste projects, we sell energy output under short-term contracts or on a spot-basis to our customers.

Contracted and Merchant Capacity

Our service and waste disposal agreements, as well as our energy contracts, expire at various times. The extent to which any such expiration will affect us will depend upon a variety of factors, including whether we own the project, market conditions then prevailing, and whether the municipal client exercises options it may have to extend the contract term. As our contracts expire, we will become subject to greater market risk in maintaining and enhancing our revenues. As service agreements at municipally-owned facilities expire, we intend to seek to enter into renewal or replacement contracts to operate such facilities. We will also seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. As our service and waste disposal agreements at facilities we own or lease expire, we intend to seek replacement or additional contracts, and because project debt on these facilities will be paid off at such time, we expect to be able to offer rates that will attract sufficient quantities of waste while providing acceptable revenues to us. At facilities we own, the expiration of existing energy contracts will require us to sell our output either into the local electricity grid at prevailing rates or pursuant to new contracts.

To date, we have been successful in extending a majority of our existing contracts to operate energy-from-waste facilities owned by municipal clients where market conditions and other factors make it attractive for both us and our municipal clients to do so. See discussion under *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Growth and Development* for additional information. The extent to which additional extensions will be attractive to us and to our municipal clients who own their projects will depend upon the market and other factors noted above. However, we do not believe that either our success or lack of success in entering into additional negotiated extensions to operate such facilities will have a material impact on our overall cash flow and profitability in next several years. See *Item 1A. Risk Factors Our results of operations may be adversely affected by market conditions existing at the time our contracts expire.*

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As we seek to enter into extended or new contracts, we expect that medium- and long-term contracts for waste supply, at least for a substantial portion of facility capacity, will be available on acceptable terms in the marketplace. We also expect that medium- and long-term contracts for sales of electricity will be less available than in the past, while medium- and long-term contracts for sales of other energy products may be more attainable. As a result, following the expiration of these long-term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets. We have entered into contractual arrangements in order to mitigate our exposure to revenue fluctuations in energy markets through a variety of hedging techniques, and we expect to continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading.

In conjunction with our energy-from-waste business, we also own and/or operate 13 transfer stations and four ash landfills in the northeast United States, which we utilize to supplement and manage more efficiently the fuel and ash disposal requirements at our energy-from-waste operations. We provide waste procurement services to our waste disposal and transfer facilities which have available capacity to receive waste. With these services, we seek to maximize our revenue and ensure that our energy-from-waste facilities are being utilized most efficiently, taking into account maintenance schedules and operating restrictions that may exist from time to time at each facility. We also provide management and marketing of ferrous and non-ferrous metals recovered from energy-from-waste operations, as well as services related to non-hazardous special waste destruction and ash residue management for our energy-from-waste projects.

Biomass Projects

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

At all of these projects, we purchase fuel pursuant to short-term contracts or other arrangements, in each case at prevailing market rates which exposes us to fuel price risk. The price of fuel varies depending upon the time of year, local supply, and price of energy. As such, and unlike our energy-from-waste businesses, we earn income at our biomass facilities based on the margin between our cost of fuel and our revenue from selling the related output. Since 2009, this margin has been negative at certain of our biomass facilities. At our biomass facilities, lower energy prices combined with higher fuel prices have caused us to economically dispatch operations off-line where continued operations are not currently profitable. We will continue to consider this practice as we study forward energy curves, fuel price forecasts, and the profitability of these facilities. In 2011, 2010 and 2009, revenue from our biomass projects represented approximately 4%, 5% and 6%, respectively, of our Americas segment revenue.

Hydroelectric

We own a 50% equity interest in two small run-of-river hydroelectric facilities located in the State of Washington which sell energy and capacity to Puget Sound Energy under long-term energy contracts. We have a nominal equity investment in two hydroelectric facilities in Costa Rica.

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Summary information with respect to our Americas segment projects as of December 31, 2011 is provided in the following table:

			Design Capacity			Contract Expiration Dates	
		Location	Waste Disposal (TPD)	Gross Electric (MW)	Nature of Interest	Service/ Waste Disposal	Energy
A.	**ENERGY-FROM-WASTE PROJECTS**						
	TIP FEE STRUCTURES						
1.	Southeast Massachusetts [1]	Massachusetts	2,700	78.0	Owner/Operator	N/A	2015
2.	Delaware Valley	Pennsylvania	2,688	87.0	Lessee/Operator	2017	2016
3.	Hempstead	New York	2,505	72.0	Owner/Operator	2034	N/A
4.	Indianapolis [2]	Indiana	2,362	6.5	Owner/Operator	2018	2028
5.	Niagara [2]	New York	2,250	50.0	Owner/Operator	N/A	2013-2024
6.	Haverhill	Massachusetts	1,650	44.6	Owner/Operator	N/A	2019
7.	Union County [3][4]	New Jersey	1,440	42.1	Lessee/Operator	2031	N/A
8.	Tulsa [2]	Oklahoma	1,125	16.5	Owner/Operator	2012	2019
9.	Alexandria/Arlington [5]	Virginia	975	22.0	Owner/Operator	2019	2023
10.	Kent County	Michigan	625	16.8	Operator	2023	2023
11.	Warren County	New Jersey	450	13.5	Owner/Operator	N/A	2013
12.	Wallingford [3]	Connecticut	420	11.0	Owner/Operator	2020	N/A
13.	Springfield	Massachusetts	400	9.4	Owner/Operator	2014	N/A
14.	Pittsfield	Massachusetts	240	8.6	Owner/Operator	2015	2015
	SERVICE FEE (OWNED) STRUCTURES						
15.	Fairfax County	Virginia	3,000	93.0	Owner/Operator	2016	2015
16.	Essex County [3]	New Jersey	2,277	66.0	Owner/Operator	2020	2020
17.	Plymouth	Pennsylvania	1,216	32.0	Owner/Operator	2014	2012
18.	Onondaga County	New York	990	39.2	Owner/Operator	2015	2025
19.	Stanislaus County	California	800	22.4	Owner/Operator	2016	2012
20.	Huntington [6]	New York	750	24.3	Owner/Operator	2019	2012
21.	Babylon	New York	750	16.8	Owner/Operator	2019	2018
22.	Southeast Connecticut	Connecticut	689	17.0	Owner/Operator	2015	2017
23.	Bristol	Connecticut	650	16.3	Owner/Operator	2014	2014
24.	Marion County	Oregon	550	13.1	Owner/Operator	2014	2014
25.	Lake County	Florida	528	14.5	Owner/Operator	2014	2014
	SERVICE FEE (OPERATED) STRUCTURES						
26.	Dade [1]	Florida	3,000	77.0	Operator	2023	2013
27.	Honolulu [1][7]	Hawaii	2,160	90.0	Operator	2032	2015
28.	Hartford [1][8]	Connecticut	2,000	68.5	Operator	2012	2012
29.	Lee County	Florida	1,836	57.3	Operator	2024	2028
30.	Montgomery County [7]	Maryland	1,800	63.4	Operator	2016	2012
31.	Hillsborough County	Florida	1,800	46.5	Operator	2029	2025
32.	Long Beach	California	1,380	36.0	Operator	2018	2018
33.	York	Pennsylvania	1,344	42.0	Operator	2015	2016
34.	Hennepin County [2]	Minnesota	1,212	38.7	Operator	2018	2018
35.	Lancaster County	Pennsylvania	1,200	33.1	Operator	2016	2016
36.	Pasco County	Florida	1,050	29.7	Operator	2016	2024
37.	Harrisburg [3]	Pennsylvania	800	20.8	Operator	2018	N/A
38.	Burnaby	British Columbia	800	23.9	Operator	2025	2013
39.	Huntsville [2][7]	Alabama	690		Operator	2016	2014

40.	MacArthur [3]	New York	486	12.0	Operator	2015	N/A
41.	Hudson Valley	New York	450	9.8	Operator	2014	2014
		SUBTOTAL	54,038	1,481.3			

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		Location	Design Capacity Waste Disposal (TPD)	Design Capacity Gross Electric (MW)	Nature of Interest	Contract Expiration Dates Service/ Waste Disposal	Contract Expiration Dates Energy
B.	**ANCILLARY WASTE PROJECTS**						
	ASH LANDFILLS						
42.	CMW - Semass	Massachusetts	1,700	N/A	Operator	2020	N/A
43.	Peabody	Massachusetts	700	N/A	Owner/Operator	N/A	N/A
44.	Haverhill	Massachusetts	555	N/A	Lessee/Operator	N/A	N/A
45.	Springfield	Massachusetts	175	N/A	Owner/Operator	N/A	N/A
		SUBTOTAL	3,130				
	TRANSFER STATIONS						
46.	Derwood	Maryland	2,500	N/A	Operator	2016	N/A
47.	Girard Point	Pennsylvania	2,500	N/A	Owner/Operator	2012	N/A
48.	58th Street	Pennsylvania	2,000	N/A	Owner/Operator	2012	N/A
49.	Braintree	Massachusetts	1,200	N/A	Owner/Operator	2030	N/A
50.	Abington	Pennsylvania	940	N/A	Operator	2014	N/A
51.	Lynn	Massachusetts	885	N/A	Owner/Operator	N/A	N/A
52.	Mamaroneck	New York	800	N/A	Lessee/Operator	N/A	N/A
53.	Holliston	Massachusetts	700	N/A	Owner/Operator	N/A	N/A
54.	Canaan	New York	600	N/A	Owner/Operator	N/A	N/A
55.	Springfield	Massachusetts	500	N/A	Owner/Operator	N/A	N/A
56.	Mt. Kisco	New York	350	N/A	Lessee/Operator	N/A	N/A
57.	Danvers	Massachusetts	250	N/A	Operator	2014	N/A
58.	Essex	Massachusetts	6	N/A	Operator	2015	N/A
		SUBTOTAL	13,231				
C.	**OTHER RENEWABLE ENERGY PROJECTS**						
	BIOMASS						
59.	Delano	California	N/A	49.5	Owner/Operator	N/A	2017
60.	Pacific Ultrapower Chinese Station (9)	California	N/A	25.6	Part Owner	N/A	2017
61.	Mendota	California	N/A	25.0	Owner/Operator	N/A	2014
62.	Jonesboro (3)	Maine	N/A	24.5	Owner/Operator	N/A	N/A
63.	West Enfield (3)	Maine	N/A	24.5	Owner/Operator	N/A	N/A
64.	Pacific Oroville	California	N/A	18.7	Owner/Operator	N/A	2016
65.	Burney Mountain	California	N/A	11.4	Owner/Operator	N/A	2015
66.	Mount Lassen	California	N/A	11.4	Owner/Operator	N/A	2015
		SUBTOTAL		190.6			
	HYDROELECTRIC						
67.	Rio Volcan (10)	Costa Rica	N/A	17.0	Part Owner	N/A	N/A
68.	Don Pedro (10)	Costa Rica	N/A	14.0	Part Owner	N/A	N/A
69.	Koma Kulshan (11)	Washington	N/A	12.0	Part Owner/Operator	N/A	2037
70.	South Fork (11)	Washington	N/A	5.0	Part Owner	N/A	2022
		SUBTOTAL		48.0			
	LANDFILL GAS						
71.	Haverhill (3)	Massachusetts	N/A	1.6	Lessee/Operator	N/A	N/A

(1) These facilities use a refuse-derived fuel technology.

(2) These facilities have been designed to export steam for sale.
(3) These facilities sell electricity into the regional power pool at prevailing rates.
(4) We amended the waste disposal agreement and facility site lease with the Union County Utilities Authority to extend their terms from 2023 to 2031 and to increase the Union County Utilities Authority s waste disposal commitment.

(5) We entered into a new tip fee contract with the City of Alexandria and Arlington County to provide for continued waste supply to our Alexandria energy-from-waste facility through 2025. Both parties have the option to terminate the agreement in 2019. The agreement also provides the City of Alexandria and Arlington County with the option to extend the agreement to 2038.
(6) Owned by a limited partnership in which the limited partners are not affiliated with us.
(7) These facilities have termination rights after 2016.
(8) We operate only the boilers and turbines for this facility until May 31, 2012 under contracts with the Connecticut Resource Recovery Authority (CRRA). In 2010, the CRRA selected a new vendor to operate this facility beyond the May 31, 2012 expiration date if certain conditions are satisfied.
(9) We have a 55% ownership interest in this project.
(10) We have nominal ownership interests in these projects.
(11) We have a 50% ownership interest in these projects.

OTHER PROJECTS

Outside the Americas segment, we presently have interests in international power projects in China and Italy, almost all of which are EfW projects. We intend to develop or participate in additional international projects, particularly energy-from-waste projects, where the regulatory and market environments are attractive. With respect to some international energy-from-waste projects, ownership transfer to the sponsoring municipality (for nominal consideration) is required following expiration of the project s long-term operating contract. The ownership and operation of facilities in foreign countries potentially entails significant political and financial uncertainties that typically are not encountered in such activities in the United States, as described below and discussed in *Item 1A. Risk Factors*.

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. In 2011, we completed the following sales: our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon); our majority equity interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Samalpatti); and our majority equity interests in our 106 MW (gross) heavy fuel-oil fired electric power generation facility, also in Tamil Nadu, India (Madurai). The remaining asset held for sale was our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. For additional information see *Item 8. Financial Statements And Supplementary Data Note 3. Business Development, Acquisitions and Dispositions* and *Note 4. Assets Held for Sale*.

Energy-From-Waste

We and Chongqing Iron & Steel Company (Group) Ltd. entered into an agreement to build, own, and operate a 1,800 metric ton per day (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 commenced in 2009 and the facility began processing waste during the third quarter of 2011. The project company has obtained Rmb 480 million (approximately $76 million as of December 31, 2011) in project financing, of which 49% is guaranteed by us and 51% is guaranteed by Chongqing Iron & Steel Company (Group) Ltd. for one year after operations fully commence. The electrical output from these projects is sold at governmentally established preferential rates under short-term arrangements with local power bureaus.

We currently own 85% of Taixing Covanta Yanjiang Cogeneration Co., Ltd. which, in 2009, 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 was built on the site of our existing coal-fired facility in Taixing, supplies 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 (approximately $26 million as of December 31, 2011) in project financing which, together with available cash from existing operations, funded construction costs. Following completion of construction, the facility began processing waste during the second quarter of 2011.

We own a 40% equity interest in Chongqing Sanfeng Covanta Environmental Industry Co., Ltd. (Sanfeng), a company located in Chongqing Municipality, People s Republic of China. Sanfeng is engaged in the business of owning and operating energy-from-waste projects, providing design and engineering, procurement, construction services and equipment sales for energy-from-waste facilities in China. Sanfeng currently owns minority equity interests in two 1,200 metric tpd, 24 MW mass-burn energy-from-waste projects (Fuzhou project and Tongqing project), and has a contract to operate the Chengdu project discussed above. Chongqing Iron & Steel Group

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Environmental Investment Co. Ltd., a wholly owned subsidiary of Chongqing Iron & Steel Company (Group) Ltd., holds the remaining 60% equity interest in Sanfeng. The solid waste supply for the projects comes from municipalities under long-term contracts. The municipalities also have the obligation to coordinate the purchase of power from the facilities as part of the long-term contracts for waste disposal. The electrical output from these projects is sold at governmentally established preferential rates under short-term arrangements with local power bureaus.

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

Summary information with respect to our other energy-from-waste projects as of December 31, 2011 is provided in the following table:

			Design Capacity			Contract Expiration Dates	
		Location	Waste Disposal (Metric TPD)	Gross Electric (MW)	Nature of Interest	Service/ Waste Disposal	Energy
A.	**ENERGY-FROM-WASTE**						
	TIP FEE STRUCTURES						
1.	Chengdu (1)	China	1,800	36	Part Owner/Operator	2033	N/A
2.	Fuzhou (2)	China	1,200	24	Part Owner/Operator	2032	N/A
3.	Tongqing (2)	China	1,200	24	Part Owner/Operator	2027	N/A
4.	Trezzo	Italy	500	18	Part Owner	2023	2023
5.	Taixing (3)	China	350	30	Part Owner/Operator	2034	2014
		SUBTOTAL	5,050	132			

(1) We have a 49% ownership interest in this project. The expiration dates for the waste disposal contract and energy contract are renewed annually.

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

(3) We have an 85% ownership interest in this project.

Independent Power Projects

We have a majority equity interest in a 24 MW (gross) coal-fired cogeneration facility in Taixing City, Jiangsu Province, People s Republic of China. The project entity, in which we hold a majority interest, operates this project. The party holding a minority position in the project is an affiliate of the local municipal government. While the steam produced at this project is intended to be sold under a long-term contract to its industrial host, in practice, steam has been sold on a short-term basis to either local industries or the industrial host, in each case at varying rates and quantities. The electric power is sold at an average grid rate to a subsidiary of the provincial power bureau.

MARKETS, COMPETITION AND BUSINESS CONDITIONS

Waste disposal

The United States generates approximately 390 million tons of waste annually (over 1.2 tons for every person), which is approximately 15% of the world s total. Of that amount, approximately 24% is recycled, 69% is landfilled, and 7% is processed by energy-from-waste (of which approximately two-thirds is processed by us). While in the United States, waste generation has declined over the past three years, reflecting the downward trend in the Gross Domestic Product, over the past 19 years it has steadily increased, growing at an average rate of 1.3%. At the same time, the number of landfills in the United States has decreased dramatically, from over 7,500 in 1986 to fewer than 2,000 today. We believe that these longer-term trends and the fact that waste disposal is an essential service, will provide meaningful long-term opportunities for our industry.

Energy-from-waste is an important part of the waste management infrastructure of the United States, with approximately 86 facilities currently in operation, processing over 25 million tons and serving the needs of over 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. Over 2,000 energy-from-waste facilities are in use today around the world, processing approximately 200 million tons of waste per year. In the waste management hierarchies of the United States EPA and the European Union, energy-from-waste is designated as a superior solution to landfilling.

Renewable energy

Public policy in the United States, 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 United States, approximately 11% 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. Unlike most 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.

General Business Conditions

As global populations and consequent economic activity increase, we expect that demand for energy and effective waste management technologies will increase. We expect this to create generally favorable long-term conditions for our existing business and for our efforts to grow our business. We expect that any cyclical or structural downturns in general economic activity may adversely affect both our existing businesses and our ability to grow through development or acquisitions.

Our business can be adversely affected by general economic conditions, war, inflation, adverse competitive conditions, governmental restrictions and controls, changes in laws, natural disasters, energy shortages, fuel costs, weather, the adverse financial condition of customers and suppliers, various technological changes and other factors over which we have no control.

Factors Affecting Business Conditions and Financial Results

Economic - The economic slowdown reduced demand for goods and services generally, which reduced overall volumes of waste requiring disposal and the pricing at which we can attract waste to fill available capacity. We receive the majority of our revenue under short- and long-term contracts, with little or no exposure to price volatility, but with adjustments intended to reflect changes in our costs. Where our revenue is received under other arrangements and depending upon the revenue source, we have varying amounts of exposure to price volatility.

The largest component of our revenue is waste revenue, which has generally been subject to less price volatility than our revenue derived from the sale of energy and metals. However, the downturn in economic activity that began in 2008 has reduced waste generation rates in the northeast United States which subsequently caused market waste disposal prices to decline modestly. Furthermore, global demand and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities has been materially affected by economic activity. Pricing for recycled metals reached historically high levels during 2008, declined materially during 2009 and has rebounded substantially during 2010 and 2011.

At the same time, the declines in United States natural gas prices have pushed electricity and steam pricing generally lower, which causes lower revenue for the portion of the energy we sell which is not under fixed-price contracts. During 2008, gas pricing reached historically high levels and has subsequently declined materially during 2009 while showing minor improvement in 2010. The 2011 gas prices were lower than 2010 which caused our energy revenue to decline. The decline in gas prices in 2011 is attributed to several factors such as increased gas supply from shale formations, generally mild weather conditions, the delay in the implementation of certain environmental regulations and the continued sluggish economy and associated economic uncertainty.

At our biomass facilities, lower energy prices combined with higher fuel prices have caused us to economically dispatch operations where continued operations are not currently profitable. We will continue to consider this practice until we experience increased energy revenue, or decreased fuel costs or both.

The downturn in economic activity has also affected many municipalities and public authorities, some of which are our customers. Many local and central governments are seeking to reduce expenses in order to address declining tax

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revenues. We work closely with these municipal customers, with many of whom we have shared a long-term relationship, to effectively counter some of these economic challenges.

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 ferrous and non-ferrous metals. As market prices for waste disposal, electricity, steam and recycled metal rise it benefits our existing business as well as our prospects for 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 within the same fiscal year typically differs substantially due to seasonal factors, primarily as a result of the timing of scheduled plant maintenance. We typically conduct scheduled maintenance periodically each year, which requires that individual boiler and/or turbine units temporarily cease operations. During these scheduled maintenance periods, we incur material repair and maintenance expenses and receive less revenue until the boiler and/or turbine units resume operations. This scheduled maintenance typically occurs during periods of off-peak electric demand and/or lower waste volumes, which are our first, second and fourth fiscal quarters. The first half of the year scheduled maintenance period is typically the most extensive. The third quarter scheduled maintenance period is typically the least extensive. Given these factors, we typically experience our lowest operating income from our projects during our first half 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.

Performance - We have historically performed our operating obligations without experiencing material unexpected service interruptions or incurring material increases in costs. In addition, with respect to many of our contracts, we generally have limited our exposure for risks not within our control. For additional information about such risks and damages that we may owe for unexcused operating performance failures, see *Item 1A. Risk Factors.* In monitoring and assessing the ongoing operating and financial performance of our businesses, we focus on certain key factors: tons of waste processed, electricity and steam sold, and boiler availability.

Our ability to meet or exceed historical levels of performance at projects, and our general financial performance, is affected by the following:

- Seasonal or long-term changes in market prices for waste, energy, or ferrous and non-ferrous metals for projects where we sell into those markets;
- Seasonal or geographic changes in the price and availability of wood waste as fuel for our biomass facilities;
- Seasonal, geographic and other variations in the heat content of waste processed, and thereby the amount of waste that can be processed by an energy-from-waste facility;
- Our ability to avoid unexpected increases in operating and maintenance costs while ensuring that adequate facility maintenance is conducted so that historic levels of operating performance can be sustained;
- Contract counterparties ability to fulfill their obligations, including the ability of our various municipal customers to supply waste in contractually committed amounts, and the availability of alternate or additional sources of waste if excess processing capacity exists at our facilities; and
- The availability and adequacy of insurance to cover losses from business interruption in the event of casualty or other insured events.

General financial performance at our international projects is also affected by the financial condition and creditworthiness of our international customers and partners, fluctuations in the value of the domestic currency against the value of the U.S. dollar, and political risks inherent to the international business.

Additional Conditions Affecting Our Existing Business

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

regional population and overall waste production rates;

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

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

If a long-term contract expires and is not renewed or extended by a client community, our percentage of contracted disposal capacity will decrease and we will need to compete in the regional market for waste disposal at the facilities we own. At that point, we will compete on price with landfills, transfer stations, other energy-from-waste facilities and other waste disposal technologies that are then offering disposal service in the region. At projects we own, we generally have access to or ownership of all real estate rights necessary to conduct our business following any expiration of waste disposal or service contracts, subject to certain rights of the client community.

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

As our existing contracts expire, and as energy prices continue to fluctuate in the United States and other countries, we may sell our output pursuant to short-term agreements or directly into regional electricity grids, in which case we would have relatively greater exposure to energy market fluctuations. See discussion under *Item 1A. Risk Factors Our results of operations may be adversely affected by market conditions existing at the time our contracts expire* for additional information concerning the expiration of existing contracts. We have entered into contractual arrangements in order to mitigate our exposure to this volatility through a variety of hedging techniques, and we expect to continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading.

As we seek to enter into extended or new contracts, we expect that medium- and long-term contracts for waste supply, at least for a substantial portion of facility capacity, will be less available on attractive terms in the marketplace. We also expect that medium- and long-term contracts for the sale of electricity will be less available than in the past, while medium- and long-term contracts for sales of other energy products may be more attainable. As a result, following the expiration of these long-term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets.

Additional Conditions Affecting Our Organic Growth

Our business offers diverse solutions to energy and environmental problems, and our corporate culture is increasingly focused on themes of innovation in all of its forms to provide these solutions. For many years, we have focused on continuous improvement in existing processes and initiating creative solutions to expand the capabilities of our existing business, all with the goal of maximizing long-term stockholder return. These efforts are yielding organic growth opportunities which we believe will grow earnings even in the absence of large capital intensive development and/or acquisition projects, and include:

- contract extensions,
- investing in enhanced metals recycling processes and technologies,
- expanding our specialty waste disposal services,
- expanding our services to businesses for whom a zero landfill alternative is attractive, and
- small acquisitions of other 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. For example, in 2011, along with a development partner, we were awarded a contract to site, build, and operate a compressed natural gas (CNG) fueling station for use by public and private municipal waste haulers who have converted their diesel vehicle fleets to cleaner, more economical and more efficient compressed natural gas vehicles. Under our Covanta 4Recovery offerings, we provide waste procurement and logistics, environmental services, metals recycling, e-waste recycling, energy recovery initiatives to reach zero landfill status, and secure destruction services.

These efforts are each designed to be consistent with our mission to be the world s leading energy-from-waste company and represent an investment in our future that we believe will create additional opportunities and enhance stockholder value.

Additional Conditions Affecting Our Growth through Acquisitions and Development

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

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

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

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

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

Once a contract is awarded or a project is financed, our business can be impacted by a variety of risk factors which can affect profitability during the construction period (which may extend over several years, depending upon the size

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and nature of the project), and subsequently over the life of a project. Some of these risks are at least partially within our control, such as successful operation in compliance with laws and the presence or absence of labor difficulties or disturbances. Other risk factors are largely out of our control and may have an adverse impact on a project over a long-term. See *Item 1A. Risk Factors* for more information on these types of risks.

Technology, Research and Development

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

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

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

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

REGULATION OF BUSINESS

Regulations Affecting Our Americas Segment

Environmental Regulations General

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

Other federal, state and local laws, such as the Comprehensive Environmental Response Compensation and Liability Act, commonly known as CERCLA and collectively referred to with such other laws as the Environmental Remediation Laws, make us potentially liable on a joint and several basis for any onsite or offsite environmental contamination which may be associated with our activities and the activities at our sites. These include landfills we have owned, operated or leased, or at which there has been disposal of residue or other waste generated, handled or processed by our facilities. Some state and local laws also impose liabilities for injury to persons or property caused by site contamination. Some service agreements provide us with indemnification from certain liabilities.

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

Although our operations are occasionally subject to proceedings and orders pertaining to emissions into the environment and other environmental violations, which may result in fines, penalties, damages or other sanctions, we believe that we are in substantial compliance with existing Environmental Regulatory Laws. We may be identified, along with other entities, as being among parties potentially responsible for contribution to costs associated with the correction and remediation of environmental conditions at disposal sites subject to CERCLA and/or analogous state Environmental Remediation Laws. Our ultimate liability in connection with such environmental claims will depend on many factors, including our volumetric share of waste, the total cost of remediation, and the financial viability of other companies that have also sent waste to a given site and, in the case of divested operations, our contractual arrangement with the purchaser of such operations.

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

Environmental Regulations Recent Developments

MACT Rules EPA is authorized under the Clean Air Act to issue rules periodically which tighten air emission requirements to achievable standards, as measured under a specified analytical framework. EPA is required to establish these rules (referred to as the MACT Rules for a variety of industries, including new and existing municipal waste combustion (MWC) units. Our facilities comply with all current MACT Rules. During 2011, EPA issued MACT Rules for several industries, including those applicable to our biomass facilities, and it is expected to issue MWC MACT Rules during 2012 or 2013. The MWC MACT Rules are expected to lower the emission limits for most of the regulated air pollutants emitted by our facilities, and may require capital improvements and/or increased operating costs. We are unable at this time to estimate the magnitude of such costs, which may be material, or to determine the potential impact on the profitability of our facilities.

In the context of MACT Rules previously issued for other industries, the EPA s analytical framework for setting new emission limitations has been challenged in courts, thus far unsuccessfully, and the rules have been the subject of political pressure from various industry groups and members of Congress sensitive to impacts on jobs and economic growth prospects. We are actively engaged in the discussion with EPA regarding these issues, both in the context of MACT Rules that are applicable to our biomass facilities, and those which are expected to be issued and applicable to our EfW facilities.

Revised PM2.5 Rule In 2006, EPA issued a final rule to implement the revised National Ambient Air Quality Standards for fine particulate matter, or PM2.5 (Revised PM2.5 Rule). Unlike the Revised MACT Rule discussed above, the Revised PM2.5 Rule is not specific to energy-from-waste facilities, but instead is a nationwide standard for ambient air quality. The primary impact of the Revised PM2.5 Rule will be on those areas in certain states that are designated by EPA as non-attainment with respect to those standards. EPA s Revised PM2.5 Rule will guide state implementation plan (SIP) revisions and could result in more stringent regulation of certain energy-from-waste facility emissions that already are regulated by the Revised MACT Rule. In October 2009, EPA issued non-attainment designations pursuant to the Revised PM2.5 Rule for 211 counties in 25 states, including 8 states in which we operate. SIP revisions to meet the Revised PM2.5 Rule presently are not due until April 2013. At this time, however, we do not anticipate any new PM2.5 emission control requirements for existing MWCs which would be implemented as a result of this regulatory activity.

In some cases, the costs incurred to meet the Revised MACT Rule at facilities may be recovered from municipal clients and other users of our facilities through increased fees permitted to be charged under applicable contracts;

however, to the extent we incur costs at our biomass facilities to meet the CISWI and Boiler MACT Rules, such costs are not subject to contractual recovery and instead will be borne directly by the affected facilities.

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

Energy Regulations

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

Federal Power Act The FPA gives FERC exclusive rate-making jurisdiction over the wholesale sale of electricity and transmission of electricity in interstate commerce. Under the FPA, FERC, with certain exceptions, regulates the owners of facilities used for the wholesale sale of electricity or transmission of electricity in interstate commerce as public utilities. The FPA also gives FERC jurisdiction to review certain transactions and numerous other activities of public utilities. Most of our QFs are currently exempt from FERC s rate regulation under Sections 205 and 206 of the FPA because (i) the QF is 20 MW or smaller, (ii) its sales are made pursuant to a state regulatory authority s implementation of PURPA or (iii) its sales are made pursuant to a contract executed on or before March 17, 2006. Our QFs that are not exempt, or that lose these exemptions from rate regulation, are or would be required to obtain market-based rate authority from FERC or otherwise make sales pursuant to rates on file with FERC.

Under Section 205 of the FPA, public utilities are required to obtain FERC s acceptance of their rate schedules for the wholesale sale of electricity. Our generating companies in the United States that are not otherwise exempt from FERC s rate regulation have sales of electricity pursuant to market-based rates or other rates authorized by FERC. With respect to our generating companies with market-based rate authorization, FERC has the right to suspend, revoke or revise that authority and require our sales of energy to be made on a cost-of-service basis if FERC subsequently determines that we can exercise market power, create barriers to entry, or engage in abusive affiliate transactions. In addition, amongst other requirements, our market-based rate sellers are subject to certain market behavior and market manipulation rules and, if any of our subsidiaries were deemed to have violated any one of those rules, such subsidiary could be subject to potential disgorgement of profits associated with the violation and/or suspension or revocation of market-based rate authority, as well as criminal and civil penalties. If the market-based rate authority for one (or more) of our subsidiaries was revoked or it was not able to obtain market-based rate authority when necessary, and it was required to sell energy on a cost-of-service basis, it could become subject to the full accounting, record keeping and reporting requirements of FERC. Even where FERC has granted market-based rate authority, FERC may impose various market mitigation measures, including price caps, bidding rules and operating restrictions where it determines that potential market power might exist and that the public interest requires such potential market power to be mitigated. A loss of, or an inability to obtain, market-based rate authority could have a material adverse impact on our business. We can offer no assurance that FERC will not revisit its policies at some future time with the effect of limiting market-based rate authority, regulatory waivers, and blanket authorizations.

In compliance with Section 215 of the Energy Policy Act of 2005 (EPAct 2005), FERC has approved the North American Electric Reliability Corporation, or NERC, as the National Energy Reliability Organization, or ERO . As the ERO, NERC is responsible for the development and enforcement of mandatory reliability standards for the wholesale electric power system. Certain of our subsidiaries are responsible for complying with the standards in the regions in which we operate. NERC also has the ability to assess financial penalties for non-compliance. In addition to complying with NERC requirements, certain of our subsidiaries must comply with the requirements of the regional reliability council for the region in which that entity is located. Compliance with these reliability standards may require significant additional costs, and noncompliance could subject us to regulatory enforcement actions, fines, and increased compliance costs.

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

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

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

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

Recent Policy Debate Regarding Climate Change and Renewable Energy

While public and political debate has subsided recently over the need for additional regulation of GHG emissions (principally carbon dioxide (CO_2) and methane) as a contributor to climate change, we expect the debate to resume and any resulting regulations could in the future affect our business. As is the case with all combustion, our facilities do emit CO_2, however energy-from-waste is internationally recognized as creating net reductions in GHG emissions and is otherwise environmentally beneficial, because it:

- Avoids CO_2 emissions from fossil fuel power plants;
- Avoids methane emissions from landfills; and
- Avoids GHG emissions from mining and processing metal because it recovers and recycles scrap metals from waste.

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

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

The United States Congress continues to focus attention on proposals designed to encourage increased renewable energy generation and reduced fossil fuel usage. However, Congress has shifted its focus away from comprehensive greenhouse gas emission reduction policies. Previously, the House of Representatives and the Senate have considered bills that address 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 among technologies that help to achieve both of these policy objectives. In the near term, we believe, Congress is unlikely to pursue cap-and-trade approaches to GHG reduction, and more likely to concentrate on encouraging a shift to cleaner energy generation through renewable technologies and other means.

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While we believe that budget issues and election year politics will dominate the legislative agenda during 2012, Congress is expected to continue to debate energy policy and ultimately enact some form of legislation regarding the need to encourage clean, renewable electricity generation. Given the recent economic challenges and related unemployment, policy makers are also expected to focus on economic growth, job creation, and energy security. We believe that the construction and permanent jobs created by additional energy-from-waste development represents the type of green jobs that will be consistent with this focus.

Many of these same policy considerations apply equally to other renewable technologies, especially with respect to our biomass business. The extent to which such potential legislation and policy initiatives will affect our business will depend in part on whether energy-from-waste and our other renewable technologies are included within the range of clean technologies that could benefit from such legislation.

In the absence of new legislative efforts, EPA is continuing to move forward with its regulation of GHGs under the Clean Air Act (CAA). During 2009, the EPA issued its finding that current and projected atmospheric concentrations of GHGs threaten the public health and welfare of current and future generations. In 2011, GHG emissions became subject to the Prevention of Significant Deterioration (PSD) and Title V programs of the CAA. While the inclusion of GHGs under the Title V program does not introduce new requirements for existing facilities other than additional reporting requirements, the inclusion of GHGs under PSD will impact new facilities and potentially expansions of existing facilities. In 2011, the EPA also finalized a three year deferral of CAA requirements for biogenic CO_2 emissions. During the deferral, EPA has committed to a scientific study of the climate impacts of biogenic CO_2 emissions in response to growing questions regarding the carbon neutrality of certain types of biomass, for example, the use of standing timber for energy generation. In contrast, Covanta s biogenic fuel sources, predominately the biogenic portion of municipal solid waste and forestry and agricultural residues, are widely recognized as sustainable sources of biogenic carbon that can play an important role in reducing overall GHG emissions. We cannot predict at this time the potential impact to our business of the EPA s regulatory initiatives under the CAA, or whether EPA s regulation will be impacted or superseded by any future climate change legislation. We continue to closely follow developments in this area.

While the political discussion in Congress, as well as at the state and regional levels, has not been aimed specifically at waste or energy-from-waste businesses, regulatory initiatives developed to date have been broad in scope and designed generally to promote renewable energy, develop a certified GHG inventory, and ultimately reduce GHG emissions. Many of these more developed initiatives have been at the state or regional levels, and some initiatives exist in regions where we have projects. For example, the Regional Greenhouse Gas Initiative (RGGI), is a regional cap-and-trade program focused on fossil fuel-fired electric generators. RGGI does not directly affect energy-from-waste facilities; however, we continue to monitor developments with respect to state implementation of RGGI.

In 2006, the California legislature enacted Assembly Bill 32 (AB 32), the Global Warming Solutions Act of 2006, which seeks to reduce GHG emissions in California to 1990 levels by 2020. AB 32 includes an economy-wide cap-and-trade program, which, beginning with its commencement in 2012, could impose additional costs on our California energy-from-waste facilities, but not our biomass facilities. While the majority of costs associated with compliance with AB32 are generally borne by our client communities in California, we are working to mitigate any cost impact on our business.

Efforts also are underway, through the Western Climate Initiative (WCI), to reduce GHG emission through a regional cap-and-trade program. As currently envisioned, WCI would operate in California and four Canadian provinces, including British Columbia and Ontario. Unlike RGGI, WCI is not limited in scope to fossil electric generation and may subject our energy-from-waste facilities in covered states and provinces to additional regulatory requirements, although we cannot predict the outcome of the program or its associated rulemaking at this time. We continue to monitor developments with respect to the developing WCI and intend to participate in the rulemaking process.

We expect that initiatives intended to reduce GHG emissions, such as RGGI, WCI and any federal legislation that would impose similar cap-and-trade programs, may cause electricity prices to rise, thus potentially affecting the prices at which we sell electricity from our facilities which sell into the market. Many states have shifted their focus away from developing comprehensive cap and trade programs. Additionally, New Jersey has ended its participation in the RGGI program, and six states have pulled out of the WCI. However, some states are incorporating climate considerations into smaller, more targeted policies, and we continue to be engaged in those debates to advocate recognition of EfW s climate benefits.

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Other Regulations

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

We provide waste and energy services through environmentally-protective project designs, regardless of the location of a particular project. Compliance with environmental standards comparable to those of the United States are often conditions to credit agreements by multilateral banking agencies, as well as other lenders or credit providers. The laws of various countries include pervasive regulation of emissions into the environment and provide governmental entities with the authority to impose sanctions for violations, although these requirements are generally different from those applicable in the United States. See *Item 1A. Risk Factors Exposure to international economic and political factors may materially and adversely affect our international businesses* and *Compliance with environmental laws could adversely affect our results of operations.*

International Climate Change Policies

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

The European Union

The European Union has adopted regulations which require member states to reduce the utilization of and reliance upon landfill disposal. The legislation emanating from the European Union is primarily in the form of Directives, which are binding on the member states but must be transposed through national enabling legislation to implement their practical requirements, a process which can result in significant variance between the legislative schemes introduced by member states. Certain Directives notably affect the regulation of energy-from-waste facilities across the European Union. These include (1) Directive 96/61/EC concerning integrated pollution prevention and control (known as the IPPC Directive) which governs emissions to air, land and water from certain large industrial installations, (2) Directive 1999/31/EC concerning the landfill of waste (known as the Landfill Directive) which imposes operational and technical controls on landfills and restricts, on a reducing scale either to the year 2016 (as is the case in Ireland) or where a derogation has been granted (as is the case in the United Kingdom) to 2020, the amount of biodegradable municipal waste which member countries may dispose of to a landfill, (3) Directive 2008/98/EC on waste (known as the revised Waste Framework Directive) which enshrines the waste hierarchy to divert waste from landfill and underpins a preference for efficient energy-from-waste for the recovery of value from residual wastes, and (4) Directive 2000/76/EC concerning the incineration of waste (known as the Waste Incineration Directive or WID), which imposes limits on air emissions from the incineration and co-incineration of waste. The United Kingdom and Ireland, the two primary European Union member states in which we currently compete, are both subject to the Directives above.

In response to these Directives and in furtherance of its policies to reduce GHG emissions, the United Kingdom now imposes taxes on landfilling of waste: £48/metric ton in the 2010/11 tax year, increasing annually by £8/metric ton to £80/metric ton in 2014/15. The government has made a commitment that this will be a floor level for the tax at least until 2020 and has indicated that further increases have not been ruled out. Through the Waste and Emissions Trading Act 2003, each waste disposal authority in the United Kingdom has been constrained in the amount of biodegradable waste it may landfill each year through a system of declining annual landfill allowances. In England, this mechanism is the Landfill Allowance Trading Scheme (known as LATS). LATS is structured as a cap-and-trade program which reduces the capped amount of waste that can be landfilled each year through 2020 when capped amounts will be fixed at 35% of 1995 levels. LATS allowances are tradable with other waste disposal authorities and substantial penalties (£150 per excess metric ton) are levied against authorities not in compliance. However, largely as a result of the success of the recent increases in landfill tax in diverting waste from landfills, the Department for Environment, Food and Rural Affairs 2011 review of waste policy in England concluded that LATS is no longer required to secure compliance with European Union requirements. LATS will be discontinued from April 2013. Wales, Scotland and Northern Ireland have different implementation schemes, increasingly underpinned by binding zero waste to landfill targets. Energy-from-waste facilities in the United Kingdom with combined heat and power may also be eligible for various green certificates which are designed to promote the contribution of renewable sources to electricity production. These include (1) Renewables Obligation (RO) Certificates, which are tradable certificates issued in respect of eligible renewable source electricity generated within the United Kingdom and supplied to customers in the United Kingdom by a licensed supplier, (2) tradable Levy Exemption Certificates, which exempt the holder from the United Kingdom Climate Change Levy, and (3) Renewable Energy Guarantees of Origin (REGOs), which constitute evidence that electricity was generated from a renewable source. A Renewable Heat Incentive (in effect mirroring the

RO in relation to the provision of renewable heat) was introduced during 2011, for which steam for heating and cooling supplied from qualifying energy-from-waste projects is eligible. In addition, the government has committed to the introduction of a Carbon Price Floor (CPF) mechanism to guarantee a long-term minimum price for carbon. The CPF will sit on top of the carbon price set within the European Union Emission Trading Scheme (known as ETS) to give a minimum carbon price of £16/tonne when the mechanism is introduced in 2013, rising to £70 in 2030. Energy-from-waste generating stations will be exempt from the CPF.

Similarly in Ireland, the obligation to divert biodegradable waste from landfill, in accordance with the Landfill Directive, has led to policies that promote energy-from-waste facilities over landfill, including a per metric ton landfill levy and proposed conditions in the operating permits for landfilling that, when adopted, will restrict disposal to landfills of this source of GHG. In order to disincentivise further landfill and encourage the movement of waste up the waste hierarchy, the Irish government took powers through the Environment (Miscellaneous Provisions) Act 2011 to increase substantially the landfill levy. It increased the current rate from 30 per metric ton to 50 per metric ton and announced that the rate will rise to 75 per metric ton in 2013. In addition, the biodegradable fraction of waste treated in energy-from-waste facilities in Ireland is eligible for renewable support designed to enable Ireland to meet its targets under Directives 2009/28/EC of 16% of gross final consumption of energy from renewable sources in 2020 and government targets of 40% of electricity consumption from renewable sources by 2020. The Renewable Energy Feed-in-Tariff (REFIT) Scheme launched in 2006 and extended in 2009 also supports the construction of renewable generation from, amongst other things, biomass. Energy-from-waste facilities may also be eligible for REGOs in respect of the energy generated from the biodegradable fraction of the waste that is thermally treated in Ireland, although the extent to which REGOs will be tradable has not yet been determined.

China

China currently has a favorable regulatory environment for the development of energy-from-waste projects. The Ministry of Housing and Urban-Rural Development of the People s Republic of China has set a goal to increase the volume of waste disposed of by energy-from-waste facilities from 1% (2005 estimate) to 30% by 2030. The Chinese central government has further called for an increase in energy-from-waste output generation from 200 MW (2005 estimate) to three gigawatts by 2020. Energy-from-waste and municipal waste disposal services are designated by the Chinese central government as encouraged industries for foreign investment. According to the new Catalogue of Industries for Guiding Foreign Investment issued on December 24, 2011, the energy-from-waste industry remains within the encouraged industries for foreign investment. China also has various promotional laws and policies in place to promote energy-from-waste and municipal waste disposal projects including exemptions and reductions of corporate income tax, value added tax refunds, prioritized commercial bank loans, state subsidies for loan interest, and a guaranteed subsidized price for the sale of electricity.

EMPLOYEES

As of December 31, 2011, we employed approximately 3,700 full-time employees worldwide, the majority of which were employed in the United States. Of our employees in the United States and Canada, approximately 10% are represented by organized labor. Currently, we are party to eight collective bargaining agreements: one expires in 2012, five expire in 2013 and two expire in 2014. We consider relations with our employees to be good.

EXECUTIVE OFFICERS OF THE REGISTRANT

A list of our executive officers and their business experience follows. Ages shown are as of February 1, 2012.

Anthony J. Orlando was named President and Chief Executive Officer in October 2004. Mr. Orlando was elected as one of our directors in September 2005 and is a member of the Technology Committee, Public Policy Committee and the Finance Committee. Previously, he had been President and Chief Executive Officer of Covanta Energy since November 2003. From March 2003 to November 2003, he served as Senior Vice President, Business and Financial Management of Covanta Energy. From January 2001 until March 2003, Mr. Orlando served as Covanta Energy s Senior Vice President, Waste-to-Energy. Mr. Orlando joined Covanta Energy in 1987. Age: 52.

Sanjiv Khattri was appointed as Executive Vice President and Chief Financial Officer in August 2010. Mr. Khattri was a financial and strategic consultant working with major global corporations, private equity firms and hedge funds from 2008 to joining Covanta in August 2010. From 2004 to 2008, Mr. Khattri was a part of the General Motors Acceptance Corporation leadership team where he served in various capacities including Chief Financial Officer and Executive Vice President of Corporate Development. Prior to that, Mr. Khattri held a variety of increasingly responsible positions over a 15 year period working for General Motors with his last position there being Assistant Treasurer. Age: 47.

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John M. Klett was appointed as Executive Vice President and Chief Operating Officer in December 2007. Mr. Klett served as Senior Vice President and Chief Operating Officer of Covanta Energy from May 2006 to December 2007 and as Covanta Energy s Senior Vice President, Operations from March 2003 to December 2007. Prior thereto, he served as Executive Vice President of Covanta Waste to Energy, Inc. for more than five years. Mr. Klett joined Covanta Energy in 1986. Mr. Klett has been in the energy-from-waste business since 1977. He has been in the power business since 1965. Age: 65.

Seth Myones was appointed as Covanta Energy s President, Americas, in November 2007, which is comprised principally of Covanta Energy s domestic business. Mr. Myones served as Covanta Energy s Senior Vice President, Business Management, from January 2004 to November 2007. From September 2001 until January 2004, Mr. Myones served as Vice President, Waste-to-Energy Business Management for Covanta Projects, Inc., a wholly-owned subsidiary of Covanta Energy. Mr. Myones joined Covanta Energy in 1989. Age: 53.

Timothy J. Simpson was appointed as Executive Vice President, General Counsel and Secretary in December 2007. Mr. Simpson served as Senior Vice President, General Counsel and Secretary from October 2004 to December 2007. Previously, he served as Senior Vice President, General Counsel and Secretary of Covanta Energy since March 2004. From June 2001 to March 2004, Mr. Simpson served as Vice President, Associate General Counsel and Assistant Secretary of Covanta Energy. Mr. Simpson joined Covanta Energy in 1992. Age: 53.

Thomas E. Bucks has served as Vice President and Chief Accounting Officer since April 2005. Mr. Bucks served as Controller from February 2005 to April 2005. Previously, Mr. Bucks served as Senior Vice President Controller of Centennial Communications Corp., a leading provider of regional wireless and integrated communications services in the United States and the Caribbean, from March 1995 through February 2005, where he was the principal accounting officer and was responsible for accounting operations and external financial reporting. Age: 55.

Item 1A. *RISK FACTORS*

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

Weakness in the economy may have an adverse effect on our revenue, cash flow and our ability to grow our business.

When we experience an economic slowdown and general reduction in demand for goods and services, it is likely to reduce overall demand for waste disposal, recycled metal and energy production. Under such conditions, the pricing we are able to charge for our waste disposal services, and for our energy and recycled metals, may decline and/or experience increased volatility. In addition, many of our customers are municipalities and public authorities which may be adversely affected in an economic downturn. Consequently our clients may seek to reduce expenses which could adversely affect our profitability.

Furthermore, lower prices for waste disposal and energy production, particularly in the absence of energy policies which encourage renewable technologies such as energy-from-waste, may also make it more difficult for us to sell waste and energy services at prices sufficient to allow us to grow our business through developing and building new projects. These factors could have a material adverse effect on our profitability and cash flow.

Exposure to energy, waste disposal, scrap metal and 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, weather conditions and other market variables, 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 waste generation rates, as well as the availability of alternative disposal sites and the cost to transport waste to alternative disposal. 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, chemicals and fuel. Any price increase, delivery disruption or reduction in the availability of such supplies could affect our ability to operate the facilities and impair our cash flow and profitability. We may not be successful in our efforts to mitigate our exposure to supply and price swings.

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Compliance with environmental laws, including changes to such laws, could adversely affect our results of operations.

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. Costs of compliance with federal, state, local and foreign existing and future environmental regulations could adversely affect our cash flow and profitability. Our businesses may incur significant additional costs to comply with these requirements as they change over time. 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 laws and regulations have been and could be revised or reinterpreted, and future changes in environmental laws and regulations are expected to 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.

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 is designed to increase the proportion of the nation s electricity that is generated from technologies considered clean or renewable , through mandatory generation levels, tax incentives, and other means. 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 . For those sources of greenhouse gas emissions that are unable to meet the required limitations, such legislation could impose substantial financial burdens. Our business and future prospects could be adversely affected if renewable technologies we use were not included among those technologies identified in any final law as being clean or renewable or greenhouse gas reducing, and therefore not entitled to the benefits of such laws.

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 2012 and 2034. Expiration of these contracts will subject us to greater market risk in entering 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 retaining rights to operate facilities which we do not own.

We operate some facilities owned by municipal clients, under long-term contracts and we have historically been successful extending the majority of 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.

At a limited number of facilities we operate that are owned by municipal clients, our clients have certain rights to terminate such contracts without cause. If any such terminations were to occur, this may adversely affect our revenue, cash flow and profitability. While we have historically been successful in retaining clients and none of our contracts have been terminated in this manner, we cannot assure you that such contract terminations will not occur in the future.

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 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.

Dislocations in credit and capital markets and increased capital constraints on banks may make it more difficult for us to borrow money or raise capital needed to finance the construction of new projects, the expansion of our existing projects, and the acquisition of certain 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, and increased capital constraints on banks, 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 existing credit facilities. 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.

Prolonged instability or worsening of the credit or capital markets may adversely affect our ability to obtain refinancing of debt on favorable terms, or at all. Such circumstances could adversely affect our business, financial condition, and/or the share price of our common stock.

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

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

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

Research and development activities are ongoing to provide alternative and more efficient technologies to dispose of waste, produce by-products from waste, or to produce power. We and many other companies are pursuing these technologies, and 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.

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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;
- weather interferences and 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 affect on our cash flows and results of operations.

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.

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

The development and construction of new energy-from-waste 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 and catastrophic events including fires, explosions, earthquakes, droughts, pandemics 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 facilities 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 may also rise sharply. In addition, this increased demand would affect not only the cost of obtaining the services

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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.

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. The National Labor Relations Board has recently advanced some of these initiatives by rulemaking. 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 or such rulemaking may affect our relationship with our employees, the cost of operating our facilities and our operating discretion.

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. We have and may continue to capitalize some of these expenses. 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 and have potential liability. In addition, we may not recover all costs if we are not successful with the development efforts.

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

We have experienced 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 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.

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.

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 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.

Our ability to optimize our operations depends in part on our ability to compete for and obtain fuel for our facilities, and our failure to do so may adversely affect our financial results.

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, which could materially and adversely affect our results of operations.

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

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

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

Following the expiration of our initial contracts to sell electricity from our projects, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets. Consequently, we may enter into futures, forward contracts, swaps or options with financial institutions to hedge our exposure to market risk in energy markets. We can provide no assurances as to the financial stability or viability of these financial and other institutions.

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

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

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

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

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

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

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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.

The financing, development and operation of projects outside the United States can entail significant political and financial risks, which vary by country, including:

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

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 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.

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

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

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

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

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

Our ability to meet our obligations under our indebtedness depends on our ability to 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 net operating loss carryforwards; and

general economic, financial, competitive, legislative, regulatory and other factors.

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

The recently enacted United States federal legislation on healthcare reform and proposed amendments thereto could impact the healthcare benefits we provide to our employees and cause our compensation costs to increase, potentially reducing our net income and adversely affecting our cash flows.

The United States federal healthcare legislation enacted in 2010 and proposed amendments thereto contain provisions which could materially impact our future healthcare costs. While the legislation s ultimate impact is not yet known, it is possible that these changes could significantly increase our compensation costs which would reduce our net income and adversely affect our cash flows.

Our credit facilities and the indenture for the 7.25% Senior Notes contain covenant restrictions that may limit our ability to operate our business.

Our credit facilities contain operating and financial restrictions and covenants that impose operating and financial restrictions on us and require us to meet certain financial tests. Additionally, the indenture for the 7.25% Senior Notes contains operating and financial restrictions and covenants that impose operating and financial restrictions on us and require us to meet certain financial tests. Complying with these covenant restrictions may have a negative impact on our business, results of operations and financial condition by limiting our ability to engage in certain transactions or activities, including:

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

Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, the failure to comply with these covenants in our credit facilities could result in a default thereunder and a default under the 7.25% Senior Notes. Upon the occurrence of such an event of default, the lenders under our credit facilities could 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 our credit facilities, we cannot assure you that the assets securing such indebtedness would be sufficient to repay in full that indebtedness and our other indebtedness, which could have a material and adverse affect on our financial condition.

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

Our net operating loss carryforwards (NOLs), which offset our consolidated taxable income, will expire in various amounts, if not used, between 2023 and 2030. The Internal Revenue Service (IRS) is currently auditing our tax returns for 2004 to 2009, which includes years during the carryforward period including returns in which some of the losses giving rise to the NOLs were reported. We cannot guarantee that we would prevail if the IRS were to propose adjustments that could impact 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 consolidated taxable income, and/or that we could be required to pay federal income taxes (and potentially interest and penalties) for prior years.

As of December 31, 2011, we had approximately $427 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.

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

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

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the Securities and Exchange Commission to implement Section 404, we are required to furnish a report by our management to include in our annual report on Form 10-K regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

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

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 debt obligations.

Provisions of our certificate of incorporation, our senior credit facility, the 3.25% Cash Convertible Senior Notes and the 7.25% Senior Notes could discourage an acquisition of us by a third party.

Certain provisions of the 3.25% Cash Convertible Senior Notes, our senior credit facility and the 7.25% Senior 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, holders of the 3.25% Cash Convertible Senior Notes, our senior credit facility and the 7.25% Senior Notes will have the right to require Covanta Holding or Covanta Energy, as the case may be, to repurchase their 3.25% Cash Convertible Senior Notes, 7.25% Senior Notes or repay the facility, as applicable. We may also be required to increase the conversion rate of the 3.25% Cash Convertible Senior Notes 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

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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.

Item 1B. ***UNRESOLVED STAFF COMMENTS***

None.

Item 2. ***PROPERTIES***

We lease approximately 104,000 square feet of office space in Morristown, New Jersey. In addition, we lease various office facilities in California aggregating approximately 22,306 square feet and we own 83 acres of undeveloped land in California. As of December 31, 2011, we owned, had equity investments in and/or operated 71 projects in the Americas segment consisting primarily of 41 energy-from-waste operations, four ash landfills, 13 transfer stations, eight wood waste (biomass) energy projects and four water (hydroelectric) energy projects. Principal projects are described above under *Item 1. Business Americas Segment*. Projects in the Americas segment which we own or lease are conducted at properties, which we also own or lease, aggregating approximately 1,717 acres, of which approximately 1,360 acres are owned and approximately 357 acres are leased.

We operate our projects outside of our Americas segment through a network of offices located in Shanghai, China; and Birmingham, England, where we lease office space aggregating approximately 18,262 square feet. We hold a long-term lease for 23 acres of undeveloped land in Cheshire, England. As of December 31, 2011, we are the part owner/operator of five international projects with businesses conducted at properties which are either leased or have land rights aggregating approximately 104 acres. Principal projects are described above under *Item 1. Business Other Projects*.

Item 3. ***LEGAL PROCEEDINGS***

For information regarding legal proceedings, see *Item 8. Financial Statements And Supplementary Data Note 20. Commitments and Contingencies*, which information is incorporated herein by reference.

Item 4. ***REMOVED AND RESERVED***

None.

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PART II

Item 5. ***MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Our common stock is traded on the New York Stock Exchange under the symbol CVA . On January 27, 2012, there were approximately 1,301 holders of record of our common stock. On January 27, 2012, the closing price of our common stock on the New York Stock Exchange was $14.27 per share. The following table sets forth the high and low stock prices of our common stock for the last two years. We did not pay dividends on our common stock in years prior to 2010.

	000000	000000	000000	000000	000000	000000
		2011			2010	
			Dividend			Dividend
	High	Low	Declared	High	Low	Declared
First Quarter	$ 17.61	$ 16.30	$ 0.075	$ 19.69	$ 16.28	$
Second Quarter	$ 17.78	$ 15.97	$ 0.075	$ 18.87	$ 14.43	$ 1.50
Third Quarter	$ 17.72	$ 13.29	$ 0.075	$ 16.95	$ 13.38	$
Fourth Quarter	$ 15.56	$ 12.87	$ 0.075	$ 17.66	$ 15.22	$

Under current financing arrangements, there are restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances that could limit the future payment of dividends on our common stock. However, given our strong cash generation and the status of our various development efforts, we anticipate returning additional capital to our stockholders in 2012. See *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources* and *Item 8. Financial Statements And Supplementary Data Note 5. Earnings Per Share and Equity* for additional information on the special dividend or share repurchase plan. See *Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* regarding securities authorized for issuance under equity compensation plans.

Share Repurchases

Under the program, common stock repurchases may be made in the open market, in privately negotiated transactions from time to time, or by other available methods, at management s discretion in accordance with applicable federal securities laws. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of our common stock and overall market conditions. The following is a summary of activity under our stock repurchase programs for each year presented (in millions, expect per share amounts):

	00000	00000
	For the Years Ended December 31,	
	2011	2010
Total repurchases	$ 230	$ 95
Shares repurchased	14.4	6.1
Weighted average cost per share	$ 15.99	$ 15.56

The following table provides information as of December 31, 2011 with respect to shares of common stock we repurchased during the fourth quarter of fiscal 2011:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share [(a)]	Total Number of Shares Purchased as Part of Publicly	Maximum Approximate Dollar Value of Shares that

			Announced Program	May Yet Be Purchased Under the Program
		(in millions, except per share amounts)		
October 1 - October 31	0.6	$ 14.52	0.6	$ 92
November 1 - November 30	0.6	$ 14.35	0.6	$ 84
December 1 - December 31	0.6	$ 13.81	0.6	$ 75
Total:	1.8	$ 14.22	1.8	

(a) This amount represents the weighted average price paid per common share. This price includes a per share commission paid for all repurchases.

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During the year ended December 31, 2011, we repurchased 0.2 million shares of our common stock in connection with tax withholdings for vested stock awards.

Item 6. ***SELECTED FINANCIAL DATA***

	00000	00000	00000	00000	00000
		For the Years Ended December 31,			
	2011	**2010**	**2009**	**2008**	**2007**
		(In millions, except per share amounts)			
Statements of Operations Data					
Operating revenues	$ 1,650	$ 1,583	$ 1,384	$ 1,402	$ 1,273
Operating expenses	$ (1,432)	$ (1,428)	$ (1,220)	$ (1,169)	$ (1,067)
Write-down of assets, net of insurance recoveries	$	$ (34)	$	$ 8	$
Operating income	$ 218	$ 155	$ 164	$ 233	$ 206
Loss on extinguishment of debt	$ (1)	$ (15)	$	$	$ (32)
Income from continuing operations	$ 84	$ 35	$ 65	$ 92	$ 85
Income from discontinued operations, net of taxes	$ 143	$ 36	$ 46	$ 44	$ 45
Net income	$ 227	$ 71	$ 111	$ 136	$ 130
Net income from continuing operations attributable to noncontrolling interests	$ (5)	$ (5)	$ (4)	$ (3)	$ (3)
Net income from discontinued operations attributable to noncontrolling interests	$ (3)	$ (4)	$ (5)	$ (4)	$ (5)
Net income attributable to Covanta Holding Corporation	$ 219	$ 62	$ 102	$ 129	$ 122
Amounts attributable to Covanta Holding Corporation stockholders:					
Income from continuing operations	$ 79	$ 30	$ 61	$ 89	$ 82
Income from discontinued operations, net of taxes	140	32	41	40	40
Net income	$ 219	$ 62	$ 102	$ 129	$ 122
Basic Earnings per share attributable to Covanta Holding Corporation:					
Continuing operations	$ 0.56	$ 0.19	$ 0.39	$ 0.58	$ 0.54
Discontinued operations	0.99	0.21	0.27	0.26	0.26
Covanta Holding Corporation	$ 1.55	$ 0.40	$ 0.66	$ 0.84	$ 0.80
Diluted Earnings per share attributable to Covanta Holding Corporation:					
Continuing operations	$ 0.56	$ 0.19	$ 0.39	$ 0.57	$ 0.53
Discontinued operations	0.98	0.21	0.27	0.26	0.26
Covanta Holding Corporation	$ 1.54	$ 0.40	$ 0.66	$ 0.83	$ 0.79
Cash dividend paid per share	$ 0.30	$ 1.50	$	$	$
Weighted average common shares outstanding:					
Basic	141	153	154	153	153
Diluted	142	154	155	155	154

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	00000	00000	00000	00000	00000
	As of December 31,				
	2011	2010	2009	2008	2007
	(In millions, except per share amounts)				
Balance Sheet Data					
Cash and cash equivalents	$ 232	$ 126	$ 418	$ 168	$ 127
Restricted funds held in trust	$ 191	$ 233	$ 240	$ 281	$ 343
Assets held for sale	$ 18	$ 191	$ 200	$ 205	$ 228
Property, plant and equipment, net	$ 2,423	$ 2,478	$ 2,541	$ 2,485	$ 2,556
Total assets	$ 4,385	$ 4,676	$ 4,934	$ 4,280	$ 4,368
Long-term debt	$ 1,486	$ 1,565	$ 1,438	$ 949	$ 937
Project debt	$ 680	$ 803	$ 928	$ 1,026	$ 1,209
Liabilities held for sale	$ 3	$ 34	$ 52	$ 68	$ 89
Total Covanta Holding Corporation stockholders equity	$ 1,083	$ 1,126	$ 1,383	$ 1,189	$ 1,073
Book value per share of common stock (A)	$ 7.96	$ 7.52	$ 8.93	$ 7.71	$ 6.97
Shares of common stock outstanding	136	150	155	154	154

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

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

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

OVERVIEW

Covanta is one of the world s largest owners and operators of infrastructure for the conversion of waste to energy (known as energy-from-waste or EfW), as well as other waste disposal and renewable energy production businesses. Energy-from-waste serves two key markets as both a sustainable waste disposal solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service. For a discussion of the energy-from-waste process and the environmental benefits of energy-from waste, see *Item. 1. Business.*

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 the solid waste generation in the United States, and produce over 10 million megawatt (MW) hours of baseload electricity annually, representing approximately 7% of the nation s non-hydroelectric renewable power. We operate and/or have ownership positions in 46 energy-from-waste facilities, which are primarily located in North America, and 15 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). We also operate a waste management infrastructure that is complementary to our core EfW business.

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

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

We plan to allocate capital to maximize stockholder value by investing in: our existing businesses to maintain and enhance assets, high value core business development projects and strategic acquisitions when available, and by returning surplus capital to our stockholders. In 2011, we declared quarterly cash dividends totaling $0.30 per share and we repurchased 14.4 million shares of our common stock at a weighted average cost of $15.99 per share for an aggregate amount of approximately $230 million. For additional information, see *Liquidity and Capital Resources* below.

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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:

- Grow the value of our existing portfolio;
- Grow through development and/or acquisitions in selected attractive markets;
- Develop and commercialize new technology;
- Advocate for public policy favorable to energy-from-waste; and
- Allocate capital efficiently.

For a discussion of each of these strategies, see *Item. 1. Business.*

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. For a discussion of our Clean World Initiative, see *Item. 1. Business.*

General Business Conditions

As global populations and consequent economic activity increase, we expect that demand for energy and effective waste management technologies will increase. We expect this to create generally favorable long-term conditions for our existing business and for our efforts to grow our business. See *Item. 1. Business General Business Conditions* for a discussion of factors affecting business conditions and financial results.

Business Segments

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. Additional information about our reportable segments is contained in *Item 8. Financial Statements And Supplementary Data Note 6. Financial Information by Business Segments*.

The Americas segment 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. We sell, recover and recycle materials, principally ferrous metals, under short-term arrangements from most of our energy-from-waste projects in the Americas segment. Revenue from these materials is included within our waste services revenues in our consolidated statements of income. 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) and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities under contracts or into the regional power pool at short-term rates. For these projects, we receive revenue from sales of energy, capacity and/or cash from equity distributions and additional value from the sale of renewable energy credits. We may receive additional revenue from construction activity during periods when we are constructing new facilities or expanding existing facilities.

Growth and Business Development

We intend to grow our business through expanding the capabilities of our existing business, and adding new projects through development and/or acquisition, all with the goal of maximizing long-term stockholder return. Our growth opportunities include: organic growth, new energy-from-waste and other renewable energy projects, existing project expansions, 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 will effect organic growth through adding or extending waste and service contracts, seeking incremental revenue opportunities by investing in and enhancing the capabilities of our existing assets, deploying new or improved technologies targeted at increasing revenue or reducing costs in areas such as metals recovery, and expanding our customer base and service offerings.

We also have extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We intend to continue our efforts on pursuing acquisition-based growth in the United States, Canada, and the United Kingdom. We will also continue to pursue growth through development opportunities in the same markets, where the 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.

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We have a project development pipeline and continue to pursue several billion dollars worth of energy-from-waste opportunities. However, there is substantial time and uncertainty involved in the bidding and permitting process for each project opportunity. If, and 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 business development, contract transitions, acquisitions and dispositions, for 2011, 2010, and 2009. See *Item 8. Financial Statements And Supplementary Data Note 3. Business Development, Acquisitions and Dispositions* and *Note 4. Assets Held for Sale* for additional information.

NEWLY CONSTRUCTED ENERGY-FROM-WASTE FACILITIES

Facility/Operating Contract	Year	Summary
Chengdu EfW Facility	2011	We and Chongqing Iron & Steel Company (Group) Ltd. entered into an agreement to build, own, and operate an 1,800 metric tons per day (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 commenced in 2009 and the facility began processing waste during the third quarter of 2011. The project company has obtained Rmb 480 million (approximately $76 million as of December 31, 2011) in project financing, of which 49% is guaranteed by us and 51% is guaranteed by Chongqing Iron & Steel Company (Group) Ltd. until the project has been constructed and for one year after operations fully commence.
Taixing EfW Facility	2011	We currently own 85% of Taixing Covanta Yanjiang Cogeneration Co., Ltd. which, in 2009, 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 was 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 (approximately $26 million as of December 31, 2011) in project financing which, together with available cash from existing operations, will fund construction costs. The facility began processing waste during the second quarter of 2011.

PROJECTS UNDER CONSTRUCTION

Facility/Operating Contract	Year	Summary
Durham-York EfW Facility	2011	During 2011, we received the notice to proceed with design, construction and operation of a municipally-owned 140,000 tonne-per-year greenfield energy-from-waste facility to be built in Clarington, Ontario, located in Durham Region, Canada. The facility will process waste from the Regions of Durham and York. The fixed-price construction contract for the project is for approximately C$250 million. The project will be funded and owned by the Durham and York Regions. The project is expected to begin operations during 2014, after which we will operate the facility under a 20 year contract.
Honolulu EfW Facility	2009	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 gross electricity capacity from 57 MW to 90 MW. The agreements also extend the contract term by 20 years. The $302 million expansion project is a fixed-price construction contract which is funded and owned by the City and County of Honolulu. The project is expected to begin operations in 2012.

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WASTE CONTRACT EXTENSIONS

Facility/Operating Contract	**Location**	**Year**	**Summary**
Alexandria/Arlington County	VA	2012	We entered into a new tip fee contract with the City of Alexandria and Arlington County to provide for continued waste supply to our Alexandria energy-from-waste facility through 2025. Both parties have the option to terminate the agreement in 2019. The agreement also provides the City of Alexandria and Arlington County with the option to extend the agreement to 2038.
Union County	NJ	2011	We amended the waste disposal agreement with the Union County Utilities Authority to extend the terms from 2023 to 2031 and to increase the Union County Utilities Authority s waste disposal commitment.
Fairfax County	VA	2010	Our service fee contract with Fairfax County was extended from 2011 to 2016 pursuant to a unilateral option held by the County. The terms of the contract remain unchanged under the extension; however, the project debt on the facility was repaid in February 2011, and since Fairfax County had previously paid debt service as a component of the service fee during the term of the original contract, the County will effectively retain the benefit of the debt repayment during the five year extension period.
Huntington	NY	2010	The service fee contract with the Town of Huntington was extended from 2012 to 2019.
Wallingford	CT	2010	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.
Stanislaus County	CA	2009	The service fee contract with Stanislaus County was extended from 2010 to 2016.
Tulsa	OK	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.
Hempstead	NY	2009	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 on various dates prior to December 2014. These contracts utilize an additional 40% of the facility s capacity.

ENERGY CONTRACT EXTENSIONS

Facility/Operating Contract	**Location**	**Year**	**Summary**
Niagara	NY	2011	We extended an existing steam sale contract until 2021 and entered into a new steam sale contract that will run from 2011 to 2024; together these contracts represent 35% of the historical steam sold at the facility.

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ACQUISITIONS

Facility/Operating Contract	Year	Summary
Dade Metals Recycling Facility	2011	In May 2011, we acquired a metals processing facility located on our Dade energy-from-waste facility site. This facility shreds and processes recovered ferrous scrap metal to enhance marketability and price.
EfW Portfolio (Burnaby, Dade, Hudson Valley, Long Beach, MacArthur, Plymouth, York)	2010/2009	In 2009, we acquired six energy-from-waste businesses and one transfer station business and in 2010, we completed the transaction and acquired the seventh energy-from-waste business. The acquired businesses have a combined capacity of approximately 9,600 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.
Philadelphia Transfer Stations	2009	We acquired two waste transfer stations with combined capacity of 4,500 tpd in Philadelphia, Pennsylvania.

DISPOSITIONS

Facility/Operating Contract	Year	Summary
Landfill Gas Projects	2011	We sold two landfill gas projects located in California and received cash proceeds of approximately $12 million.
IPP Projects	2011	In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. During 2011, we completed the sale of our majority equity interests in two 106 MW (gross) heavy fuel-oil fired electric power generation facilities in Tamil Nadu, India (Samalpatti and Madurai) and we completed the sale of our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon). The Quezon assets sold consisted of our entire interest in Covanta Philippines Operating, Inc., which provided operation and maintenance services to the facility, as well as our 26% ownership interest in the project company, Quezon Power, Inc. During 2011, we received a combined total of cash proceeds of $255 million, net of transaction costs, for our interests in the three fossil fuel independent power production facilities that we have sold.
Detroit EfW Facility	2009/2010	In June 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. In June 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. In November 2010, we completed the sale of our entire interest in the Detroit Facility and received consideration of approximately $9 million.

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RESULTS OF OPERATIONS

The comparability of the information provided below with respect to our revenues, expenses and certain other items for periods during each of the years presented was affected by several factors. As outlined above under *Overview Growth and Development,* our business development initiatives, contract transitions, acquisitions, and dispositions in 2011, 2010, and 2009 resulted in various transactions which are reflected in comparative revenues and expenses. These factors must be taken into account in developing meaningful comparisons between the periods compared below.

RESULTS OF OPERATIONS Year Ended December 31, 2011 vs. Year Ended December 31, 2010

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

	000000	000000	000000
	For the Years Ended December 31,		**Increase (Decrease)**
	2011	**2010**	**2011 vs 2010**
CONSOLIDATED RESULTS OF OPERATIONS:			
Total operating revenues	$ 1,650	$ 1,583	$ 67
Total operating expenses	1,432	1,428	4
Operating income	218	155	63
Other income (expense):			
Investment income	1	1	
Interest expense	(67)	(45)	22
Non-cash convertible debt related expense	(25)	(39)	(14)
Loss on extinguishment of debt	(1)	(15)	(14)
Other expenses, net	(19)		19
Total other expenses	(111)	(98)	13
Income from continuing operations before income tax expense and equity in net income from unconsolidated investments	107	57	50
Income tax expense	(28)	(24)	4
Equity in net income from unconsolidated investments	5	2	3
Income from continuing operations	84	35	49
Income from discontinued operations, net of income tax expense of $3 and $8, respectively	143	36	107
NET INCOME	227	71	156
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(5)	(5)	
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries	(3)	(4)	(1)
Total Net income attributable to noncontrolling interests in subsidiaries	(8)	(9)	(1)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$ 219	$ 62	157

Amounts Attributable to Covanta Holding Corporation stockholders:

Continuing operations	$	79	$	30	49
Discontinued operations, net of tax expense		140		32	108
Covanta Holding Corporation	$	219	$	62	157
Earnings Per Share Attributable to Covanta Holding Corporation stockholders:					
Basic:					
Continuing operations	$	0.56	$	0.19	0.37
Discontinued operations		0.99		0.21	0.78
Covanta Holding Corporation	$	1.55	$	0.40	1.15
Weighted Average Shares		141		153	(12)
Diluted:					
Continuing operations	$	0.56	$	0.19	0.37
Discontinued operations		0.98		0.21	0.77
Covanta Holding Corporation	$	1.54	$	0.40	1.14
Weighted Average Shares		142		154	(12)
Cash Dividend Paid Per Share	$	0.30	$	1.50	(1.20)
Adjusted EPS Non-GAAP: (A)	$	0.52	$	0.42	0.10

(A) See *Supplementary Financial Information Adjusted EPS (Non-GAAP Discussion)*

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The following general discussions should be read in conjunction with the above table, the consolidated financial statements, the notes to the consolidated financial statements and other financial information appearing and referred to elsewhere in this report. Additional detail relating to changes in operating revenues and operating expenses, and the quantification of specific factors affecting or causing such changes, is provided in the segment discussion below.

Consolidated Results of Operations Comparison of Results for the Year Ended December 31, 2011 vs. Results for the Year Ended December 31, 2010

Operating revenues increased by $67 million primarily due to: $19 million increased recycled metals revenues from higher pricing, increased volume and increased quality of metal as a result of the processing facility we acquired in 2011 located on our Dade energy-from-waste facility site; $37 million increased waste and service revenues primarily driven by service fee contract escalations, increased tip fee pricing and increased volume; and $44 million increased construction revenue related to the Honolulu expansion and Durham-York EfW projects. These increases were offset by: $15 million of lower electricity sales related to our biomass facilities; $13 million of lower debt service pass through revenue resulting from project debt repayments, and $5 million due to lower energy pricing at our EfW facilities.

Excluding the non-cash write-down of assets of $34 million for the year ended December 31, 2010 discussed below, operating expenses increased by $38 million primarily due to normal cost escalations; higher fuel related costs; lower Renewable Energy Credits; and increased construction expense related to the Honolulu expansion project. These increases were partially offset by lower costs at certain biomass facilities that were economically dispatched off-line.

Excluding the write-down of assets of $34 million for the year ended December 31, 2010 discussed below, operating income increased by $29 million or 15% primarily due to higher recycled metal revenues and various operational improvements, partially offset by lower debt service pass through revenue and lower contribution from our biomass facilities.

Interest expense increased by $22 million primarily due to the issuance of the 7.25% Senior Notes in December 2010, offset by lower interest expense for the Debentures, the majority of which were tendered during the fourth quarter of 2010. Non-cash convertible debt related expense decreased by $14 million primarily due to lower amortization of the debt discount for the Debentures and the net changes to the valuation of the derivatives associated with the 3.25% Cash Convertible Senior Notes. For a discussion of the Loss on extinguishment of debt, see the *Results of Operations Year Ended December 31, 2010 vs. Results for the Year Ended December 31, 2009 below*.

Other expense increased by $19 million primarily due to a $15 million recorded contractual liability to pay pre-petition claimants from restricted funds and foreign currency exchange losses related to intercompany loans. The contractual obligation to pre-petition claimants was triggered by the release of uncertain tax positions resulting from the expiration of related statutes of limitations and was reflected as tax benefit of $24 million as discussed below. For additional information, see income tax expense discussion below and see *Item 8. Financial Statements And Supplementary Data Note 16. Income Taxes*.

Income tax expense increased by $4 million primarily due to an increase in pre-tax operating income, net of a tax benefit resulting from the reversal of uncertain tax positions related to pre-emergence tax matters in the Covanta Energy bankruptcy that were subject to an expiration of the applicable statutes of limitations. For additional information, see *Item 8. Financial Statements And Supplementary Data Note 16. Income Taxes* of the Notes.

In 2010, our disposal groups, which included our non-controlling interests in the Quezon and Haripur projects, the related operation and maintenance companies, and our controlling equity interests in the India projects met the criteria for classification as Assets Held for Sale and Discontinued Operations. See *Item 8. Financial Statements And Supplementary Data Note 3. Business Development, Acquisitions and Dispositions* and *Note 4. Assets Held for Sale* for additional information.

In 2011, we declared quarterly cash dividends totaling $0.30 per share and we repurchased 14.4 million shares of our common stock at a weighted average cost of $15.99 per share for an aggregate amount of approximately $230 million. In 2010, we declared a special cash dividend of $1.50 per share and we repurchased 6.1 million shares of our common stock at a weighted average cost of $15.56 per share for an aggregate amount of approximately $95 million.

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Americas Segment Results of Operations Comparison of Results for the Year Ended December 31, 2011 vs. Results for the Year Ended December 31, 2010

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

	000000	000000	000000
	For the Years Ended December 31, 2011	2010	Increase (Decrease) 2011 vs 2010
Waste and service revenues	$ 1,080	$ 1,035	$ 45
Electricity and steam sales	376	398	(22)
Other operating revenues	152	108	44
Total operating revenues	1,608	1,541	67
Plant operating expenses	934	917	17
Other operating expenses	128	99	29
General and administrative expenses	75	75	
Depreciation and amortization expense	191	188	3
Net interest expense on project debt	31	38	(7)
Write-down of assets		11	(11)
Total operating expenses	1,359	1,328	31
Operating income	$ 249	$ 213	36

Operating Revenues

Operating revenues for the Americas segment increased by $67 million.

Waste and service revenues, excluding recycled metals revenues, increased by $26 million primarily due to service fee contract escalations, increases in tip fee volume, higher special waste revenue, and higher earned Additional Waste Service Fee, offset by lower revenues earned explicitly to service project debt.

Recycled metal revenues increased by $19 million primarily due to higher pricing, increased volume and increased quality of metal as a result of the processing facility we acquired in 2011 located on our Dade energy-from-waste facility site.

	000000	000000	000000
Total Recycled Metal Revenues (in millions)	**2011**	**For the Quarters Ended 2010**	**2009**
March 31,	$ 17	$ 13	$ 5
June 30,	18	15	6
September 30,	20	13	9
December 31,	19	14	9
Total for the Year Ended December 31,	$ 74	$ 55	$ 29

Electricity and steam sales decreased by $22 million due to lower pricing and lower energy revenue related to our biomass facilities.

Other operating revenues increased primarily due to increased construction revenue related to the Honolulu expansion and Durham York construction projects.

Operating Expenses

Plant operating expenses increased by $17 million primarily due to normal cost escalations, higher fuel related costs, and lower Renewable Energy Credits, partially offset by lower costs related to certain biomass facilities being economically dispatched off-line.

Other operating expenses increased by $29 million primarily due to increased construction expense related to the Honolulu expansion and Durham York construction projects.

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For a discussion of the Write-down of assets for the year ended December 31, 2010, see the *Americas Segment Results of Operations Comparison of Results for the Year Ended December 31, 2010 vs. Results for the Year Ended December 31, 2009 below*.

Operating Income

Excluding the write-down of assets of $11 million for the year ended December 31, 2010, operating income increased by $25 million or 11% primarily due to higher recycled metal revenues, service fee contract escalation, higher tip fee volume, and various operational improvements, partially offset by lower debt service pass through revenue, lower operating income at our biomass facilities, and lower energy pricing.

RESULTS OF OPERATIONS Year Ended December 31, 2010 vs. Year Ended December 31, 2009

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

	000000	000000	000000
	For the Years Ended December 31,		**Increase (Decrease)**
	2010	**2009**	**2010 vs 2009**
CONSOLIDATED RESULTS OF OPERATIONS:			
Total operating revenues	$ 1,583	$ 1,384	$ 199
Total operating expenses	1,428	1,220	208
Operating income	155	164	(9)
Other income (expense):			
Investment income	1	2	(1)
Interest expense	(45)	(38)	7
Non-cash convertible debt related expense	(39)	(24)	15
Loss on extinguishment of debt	(15)		15
Total other expenses	(98)	(60)	38
Income from continuing operations before income tax expense and equity in net income from unconsolidated investments	57	104	(47)
Income tax expense	(24)	(42)	(18)
Equity in net income from unconsolidated investments	2	3	(1)
Income from continuing operations	35	65	(30)
Income from discontinued operations, net of income tax expense of $8 and $7, respectively	36	46	(10)
NET INCOME	71	111	(40)
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(5)	(4)	1
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries	(4)	(5)	(1)
Total Net income attributable to noncontrolling interests in subsidiaries	(9)	(9)	
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$ 62	$ 102	(40)
Amounts Attributable to Covanta Holding Corporation stockholders:			
Continuing operations	$ 30	$ 61	(31)

Discontinued operations, net of tax expense		32		41	(9)
Covanta Holding Corporation	$	62	$	102	(40)
Earnings Per Share Attributable to Covanta Holding Corporation stockholders:					
Basic:					
Continuing operations	$	0.19	$	0.39	(0.20)
Discontinued operations		0.21		0.27	(0.06)
Covanta Holding Corporation	$	0.40	$	0.66	(0.26)
Weighted Average Shares		153		154	(1)
Diluted:					
Continuing operations	$	0.19	$	0.39	(0.20)
Discontinued operations		0.21		0.27	(0.06)
Covanta Holding Corporation	$	0.40	$	0.66	(0.26)
Weighted Average Shares		154		155	(1)
Cash Dividend Paid Per Share	$	1.50	$		1.50

The following general discussions should be read in conjunction with the above table, the consolidated financial statements, the notes to the consolidated financial statements and other financial information appearing and referred to elsewhere in this report. Additional detail relating to changes in operating revenues and operating expenses, and the quantification of specific factors affecting or causing such changes, is provided in the segment discussion below.

Consolidated Results of Operations — Comparison of Results for the Year Ended December 31, 2010 vs. Results for the Year Ended December 31, 2009

Operating revenues increased by $199 million primarily due to increased waste and services revenues due to the acquisition of EfW businesses in 2009; increased recycled metal revenues due primarily to higher market prices; and increased construction revenue due to the Honolulu expansion project. These increases were offset by the impact of contract transitions at our Hempstead, Union and Detroit facilities.

Operating expenses increased by $208 million primarily due to increased operating costs related to the acquisition of EfW businesses in 2009; increased construction expenses due to the Honolulu expansion project; and the non-cash write-down of certain assets. See *Item 8. Financial Statements And Supplementary Data — Note 15. Supplementary Information* for additional information.

Excluding the write-downs noted above, operating income increased by $25 million or 15% primarily due to the benefit of the acquisition of EfW businesses in 2009 and higher market prices for recycled metals, which was offset by contract transitions at our Hempstead, Union and Detroit facilities.

Interest expense increased by $7 million primarily due to the issuance of the 3.25% Cash Convertible Senior Notes which were issued in May 2009 and the 7.25% Senior Notes which were issued in December 2010, 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 million primarily due to the amortization of the debt discount for the 3.25% Cash Convertible Senior Notes which were issued in mid 2009, offset by the net changes to the valuation of the derivatives associated with the 3.25% Cash Convertible Senior Notes.

During 2010, we recorded a loss on extinguishment of debt of $15 million, pre-tax, resulting from the tender offer to purchase outstanding Debentures. The loss on extinguishment of debt is comprised of the difference between the fair value and carrying value of the liability component of the Debentures tendered, deferred financing costs and fees incurred in conjunction with the tender offer.

Income tax expense decreased by $18 million primarily due to lower pre-tax operating income. No tax benefit is being recognized at this time associated with the non-cash impairment of the investment in Dublin. See *Item 8. Financial Statements And Supplementary Data — Note 16. Income Taxes* for additional information.

During the fourth quarter of 2010, our disposal groups, which included our non-controlling interests in the Quezon and Haripur projects, the related operation and maintenance companies, and our controlling equity interests in the India projects met the criteria for classification as Assets Held for Sale and Discontinued Operations. See *Item 8. Financial Statements And Supplementary Data — Note 3. Business Development, Acquisitions and Dispositions* and *Note 4. Assets Held for Sale* for additional information.

In 2010, we declared a special cash dividend of $1.50 per share (approximately $233 million in aggregate). In 2010, we repurchased 6.1 million shares of our common stock at a weighted average cost of $15.56 per share for an aggregate amount of approximately $95 million. For additional information, see *Liquidity* below.

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Americas Segment Results of Operations Comparison of Results for the Year Ended December 31, 2010 vs. Results for the Year Ended December 31, 2009

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

	0000	0000	0000
	For the Years Ended December 31,		**Increase (Decrease) 2010 vs 2009**
	2010	**2009**	
Waste and service revenues	$ 1,035	$ 915	$ 120
Electricity and steam sales	398	400	(2)
Other operating revenues	108	31	77
Total operating revenues	1,541	1,346	195
Plant operating expenses	917	803	114
Other operating expenses	99	27	72
General and administrative expenses	75	82	(7)
Depreciation and amortization expense	188	195	(7)
Net interest expense on project debt	38	44	(6)
Write-down of assets	11		11
Total operating expenses	1,328	1,151	177
Operating income	$ 213	$ 195	18

Operating Revenues

Operating revenues for the Americas segment increased by $195 million.

Revenues from waste disposal and facility operations increased by $91 million primarily due to the acquisition of EfW businesses in 2009 and service fee contract increases.

Recycled metal revenues increased by $25 million primarily due to higher pricing and the acquisition of the EFW businesses in 2009. Historically, we have experienced volatile prices for recycled metal which has affected our recycled metal revenue as reflected in the table as follows (in millions):

Total Recycled Metal Revenues	**2010**	**For the Quarters Ended 2009**	**2008**
March 31,	$ 13	$ 5	$ 12
June 30,	15	6	19
September 30,	13	9	17
December 31,	14	9	6
Total for the Year Ended December 31,	$ 55	$ 29	$ 54

Electricity and steam sales decreased by $1 million due to contract transitions at our Hempstead, Union and Detroit facilities and lower production primarily due to economically dispatching some of our biomass facilities offset by the acquisition of EfW businesses in 2009 and higher pricing at other facilities.

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

Operating Expenses

Plant operating expenses increased by $114 million primarily due to the acquisition of EfW businesses in 2009 and the Philadelphia Transfer Stations, normal cost escalations, and higher costs related to the Hempstead facility s contract transition, partially offset by the Detroit facility s contract transition and lower costs related to some biomass facilities being economically dispatched off-line.

Other operating expenses increased primarily due to increased construction expense related to the Honolulu expansion project.

General and administrative expenses decreased primarily due to transaction costs related to the acquisition of EfW businesses in 2009 and lower growth spending.

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During the year ended December 31, 2010, we recorded a non-cash impairment of $7 million related to funds advanced for certain facility improvements required to enhance facility performance at the Harrisburg EfW facility and a non-cash impairment of $5 million related to the write-down to fair value for corporate real estate and certain other project assets. See *Item 8. Financial Statements And Supplementary Data Note 15. Supplementary Information for additional information.*

Operating Income

Excluding the write-down of assets of $11 million for the year ended December 31, 2010, operating income increased by $29 million or 15% primarily due to the benefit of the acquisition of 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, the write-down of assets and normal cost escalations.

Supplementary Financial Information Adjusted Earnings Per Share (Adjusted EPS) (Non-GAAP Discussion)

We use a number of different financial measures, both United States generally accepted accounting principles (GAAP) and non-GAAP, in assessing the overall performance of our business. To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EPS, which is a non-GAAP financial measure as defined by the Securities and Exchange Commission (SEC). The non-GAAP financial measure of Adjusted EPS is not intended as a substitute or as an alternative to diluted earnings (loss) per share, as an indicator of our performance or any other measure of performance derived in accordance with GAAP. In addition, our non-GAAP financial measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes.

Adjusted EPS excludes certain income and expense items that are not representative of our ongoing business and operations, which are included in the calculation of diluted earnings (loss) per share in accordance with GAAP. The following items are not all-inclusive, but are examples of reconciling items in prior comparative and future periods. They would include write-down of assets, the effect of derivative instruments not designated as hedging instruments, significant gains or losses from the disposition or restructuring of businesses, gains and losses on assets held for sale, transaction-related costs, income and loss on the extinguishment of debt and other significant items that would not be representative of our ongoing business.

We use the non-GAAP financial measure of Adjusted EPS to enhance the usefulness of our financial information by providing a measure which management internally uses to assess and evaluate the overall performance and highlight trends in the ongoing business.

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In order to provide a meaningful basis for comparison, we are providing information with respect to our Adjusted EPS for the years ended December 31, 2011 and 2010, reconciled for each such period to diluted earnings (loss) per share from continuing operations, which is believed to be the most directly comparable measure under GAAP (in millions, except per share amounts and percentages):

	00000	00000
	Twelve Months Ended December 31,	
	2011	**2010**
Diluted Earnings Per Share from Continuing Operations	$ 0.56	$ 0.19
Reconciling Items (A)	(0.04)	0.23
Adjusted EPS	$ 0.52	$ 0.42

(A) Additional information is provided in the Reconciling Items table below.

	Twelve Months Ended December 31,	
Reconciling Items	**2011**	**2010**
Loss on extinguishment of debt (A)	$ 1	$ 15
Effect on income of derivative instruments not designated as hedging instruments	(2)	(1)
Effect of foreign exchange loss on indebtedness	4	
Gain on sale of business (B)	(9)	
Development costs	5	
Contractual liability to pre-petition creditors (C)	15	
Non-cash write-down of loan issued for the Harrisburg EfW facility to fund certain facility improvements (D)		7
Non-cash write-down of capitalized costs related to the Dublin development project (D)		23
Non-cash write-down of other assets (D)		3
Total reconciling items, pre-tax	14	47
Proforma income tax impact (E)	3	(9)
Grantor trust activity	1	(2)
Reversal of uncertain tax positions related to pre-emergence matters (C)	(24)	
Total reconciling items, net of tax	$ (6)	$ 36
Diluted Earnings Per Share Impact	$ (0.04)	$ 0.23
Weighted Average Diluted Shares Outstanding	142	154

(A) As a result of the purchase of outstanding Debentures, we recorded a loss on extinguishment of debt which is comprised of the difference between the fair value and carrying value of the liability component of the Debentures tendered the write-off of financing costs and fees incurred in conjunction with the tender offer.

(B) In 2011, we recorded a $9 million gain on the sale of two landfill gas projects. We received cash proceeds of approximately $12 million.

(C) For the year ended December 31, 2011, the income tax provision includes a $24 million benefit due to the reversal of uncertain tax positions, following the expiration of applicable statutes of limitations related to pre-emergence tax matters in the Covanta Energy bankruptcy. Since March 2004, we had held $20 million in restricted funds intended to cover those uncertain tax positions. The restricted funds were included in other assets on our consolidated balance sheet. The expiration of the statutes of limitations triggered a liability to pre-petition claimants of approximately 73% of the restricted fund balance. Therefore, we recorded approximately $15 million as other expense during the year ended December 31, 2011. As of December 31, 2011, $12 million was paid to pre-petition claimants and $3 million of the non-current restricted funds was reclassified to other current assets on our consolidated balance sheet and is expected to be paid to third party claimants in the first half of 2012. The remaining $5 million was reclassified to cash and cash equivalents on our consolidated balance sheet as of December 31, 2011. For additional information, see *Item 8. Financial Statements And Supplementary Data Note 16. Income Taxes* of the Notes.

(D) See discussion in *Management Discussion and Analysis Results of Operations* above.

(E) There is minimal tax benefit from the contractual liability to pre-petition creditors and the non-cash write-down related to the Dublin assets. Accordingly, we are presenting this pro forma calculation of the income tax effect on all reconciling items for each period to illustrate the pro forma impact on income tax expense and net income. The pro forma income tax impact represents the tax provision amount related to the overall tax provision calculated without the reconciling items when compared to the tax provision reported under GAAP in the consolidated statement of income.

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Effective Tax Rate	00000 Twelve Months Ended December 31, 2011	00000 2010
Effective Tax Rate [(A)]	26.8%	41.3%

(A) Our full year estimated effective tax rate decreased for 2011 primarily due to the reversal of uncertain tax positions related to pre-emergence tax matters.

Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion)

To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EBITDA, which is a non-GAAP financial measure as defined by the SEC. This non-GAAP financial measure is described below and 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 financial measures used by other companies, limiting their usefulness for comparison purposes. The presentation of Adjusted EBITDA is intended to enhance the usefulness of our financial information by providing a measure which management internally uses to assess and evaluate the overall performance of its business and those of possible acquisition candidates, and highlight trends in the overall business.

We use Adjusted EBITDA to provide further information that is useful to an understanding of the financial covenants contained in the credit facilities of our most significant subsidiary, Covanta Energy, and as 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, 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 measured on a consolidated basis. Under these credit facilities, Covanta Energy is required to satisfy certain financial covenants, including certain ratios of which Adjusted EBITDA is an important component. Compliance with such financial covenants is expected to be the principal limiting factor which will affect our ability to engage in a broad range of activities in furtherance of our business, including making certain investments, acquiring businesses and incurring additional debt. Covanta Energy was in compliance with these covenants as of December 31, 2011. Failure to comply with such financial covenants could result in a default under these credit facilities, which default would have a material adverse affect on our financial condition and liquidity.

Adjusted EBITDA should not be considered as an alternative to net income or cash flow provided by operating activities as indicators of our performance or liquidity or any other measures of performance or liquidity derived in accordance with GAAP.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Adjusted EBITDA for the years ended December 31, 2011 and 2010, 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.

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The following is a reconciliation of net income to Continuing Operations Adjusted EBITDA (in millions):

	Twelve Months Ended December 31, 2011	2010
Net Income Attributable to Covanta Holding Corporation Continuing Operations	$ 79	$ 30
Depreciation and amortization expense	193	190
Debt service:		
Net interest expense on project debt	31	38
Interest expense	67	45
Non-cash convertible debt related expense	25	39
Investment income	(1)	(1)
Subtotal debt service	122	121
Income tax expense (adjusted for reversal of uncertain tax positions related to pre-emergence tax matters) (A)	52	24
Reversal of uncertain tax positions related to pre-emergence tax matters (A)	(24)	
Contractual liability to pre-petition creditors (A)	15	
Write-down of assets (A)		34
Loss on extinguishment of debt (A)	1	15
Development costs (A)	5	
Gain on sale of business (A)	(9)	
Net income attributable to noncontrolling interests in subsidiaries	5	5
Other adjustments:		
Debt service billing in excess of revenue recognized (B)	22	29
Non-cash compensation expense	18	17
Other non-cash items (C)	13	5
Subtotal other adjustments	53	51
Total adjustments	413	440
Adjusted EBITDA Continuing Operations	$ 492	$ 470

(A) See *Adjusted EPS* above.

(B) Formally labeled Decrease in Unbilled Service Receivables. This amount represents a true-up between (a) revenue recognized in the period for client payments of project debt principal under service fee contract structures, which is accounted for on a straight-line basis over the term of the project debt, and (b) actual billings to clients for debt principal payments in the period. As a result of this adjustment, Adjusted EBITDA reflects the actual amounts billed to clients for debt service principal, not the straight-lined revenue as recognized.

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

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The following is a reconciliation of cash flow provided by operating activities from continuing operations to Adjusted EBITDA (in millions):

	0000	0000
	For the Years Ended December 31,	
	2011	**2010**
Cash flow provided by operating activities from continuing operations	$ 360	$ 392
Debt service	122	121
Change in working capital	(5)	(21)
Change in restricted funds held in trust	(4)	(11)
Non-cash convertible debt related expense	(25)	(39)
Equity in net income from unconsolidated investments	5	2
Dividends from unconsolidated investments	(8)	(5)
Current tax provision	(2)	4
Reversal of uncertain tax positions related to pre-emergence tax matters (A)	24	
Contractual liability to pre-petition creditors (A)	(15)	
Change in restricted funds other related to contractual liability to pre-petition creditors (A)	(5)	
Other	45	27
Sub-total:	$ 10	$ (43)
Adjusted EBITDA Continuing Operations	$ 492	$ 470

(A) See *Adjusted EPS* above.

For additional discussion related to management s use of non-GAAP measures, see *Liquidity and Capital Resources Supplementary Financial Information Free Cash Flow (Non-GAAP Discussion)* below.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are our cash and cash equivalents, as well as the substantial cash flow from our ongoing business, which we believe will allow us to meet our liquidity needs. As of December 31, 2011, 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 $232 million and the undrawn and available capacity of $300 million of our Revolving Credit Facility. In addition, as of December 31, 2011, we had restricted cash of $191 million, of which $113 million was designated for future payment of project debt principal.

We derive our cash flows principally from our operations, 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. 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, grow our business through organic growth, acquisitions and business development, and return surplus capital to stockholders. 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 plan to allocate capital to maximize stockholder value by investing in: our existing businesses to maintain and enhance assets, high value core business development projects and strategic acquisitions when available, and by returning surplus capital to our stockholders through dividends and share repurchases. In 2011, we declared quarterly cash dividends totaling $0.30 per share and we repurchased 14.4 million shares of our common stock at a weighted average cost of $15.99 per share for an aggregate amount of approximately $230 million. In 2010, we declared a special cash dividend of $1.50 per share and we repurchased 6.1 million shares of our common stock at a weighted average cost of $15.56 per share for an aggregate amount of approximately $95 million.

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Under our share repurchase program, common stock repurchases may be made in the open market, in privately negotiated transactions from time to time, or by other available methods, at management s discretion in accordance with applicable federal securities laws. The timing and amounts of any repurchases will depend on many factors, including our capital structure, the market price of our common stock and overall market conditions, and whether any restrictions then exist under our policies relating to trading in compliance with securities laws.

Sources and Uses of Cash Flow from Continuing Operations

	0000	0000	0000	0000	0000
	For the Years Ended December 31,			Increase (Decrease)	
	2011	2010	2009	2011 vs 2010	2010 vs 2009
			(In millions)		
Net cash provided by operating activities	$ 360	$ 392	$ 352	$ (32)	$ 40
Net cash used in investing activities	(136)	(275)	(387)	(139)	(112)
Net cash (used in) provided by financing activities	(381)	(409)	285	(28)	(694)
Effect of exchange rate changes on cash and cash equivalents	1			1	
Net (decrease) increase in cash and cash equivalents	$ (156)	$ (292)	$ 250	(136)	(542)

Year Ended December 31, 2011 vs. Year Ended December 31, 2010

Net cash provided by operating activities from continuing operations for the year ended December 31, 2011 was $360 million, a decrease of $32 million from the prior year period. The decrease was primarily due to the interest payments for the 7.25% Senior Notes that were issued in December 2010.

Net cash used in investing activities from continuing operations for the year ended December 31, 2011 was $136 million, a decrease of $139 million from the prior year period. The decrease was primarily comprised of lower cash outflows of $128 million related to the acquisition of the Dade energy-from-waste facility in 2010.

Net cash used in financing activities from continuing operations for the year ended December 31, 2011 was $381 million, a net decrease of $28 million from the prior year period. The net change was primarily driven by lower cash dividends of $201 million in 2011, offset by the increased use of cash paid for common stock repurchases of $134 million.

Year Ended December 31, 2010 vs. Year Ended December 31, 2009

Net cash provided by operating activities from continuing operations for the year ended December 31, 2010 was $392 million, an increase of $40 million from the prior year period. The increase was primarily due to the acquisition of EfW businesses in 2009 in the Americas segment and the timing of working capital.

Net cash used in investing activities from continuing operations for the year ended December 31, 2010 was $275 million, a decrease of $112 million from the prior year period. The decrease was primarily comprised of lower cash outflows of $135 million related to the acquisition of businesses offset by $41 million of higher cash outflows for increased capital expenditures largely related to businesses acquired.

Net cash used in financing activities from continuing operations for the year ended December 31, 2010 was $409 million, a net increase of $694 million. Net cash used in financing activities from continuing operations for the year ended December 31, 2010 was primarily comprised of cash dividends paid of $233 million, repurchases of common stock of $95 million and principal payments on project debt, net of proceeds of borrowings on project debt and restricted funds, of $161 million. These uses of cash were partially offset by net proceeds received of $390 million from the issuance of the 7.25% Notes, less $313 million paid to purchase 85% of the outstanding Debentures and $2 million in fees paid in connection with the tender offer.

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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 SEC. 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 financial 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, make principal payments on debt, or return capital to our stockholders through dividends and/or stock repurchases. For additional discussion related to management s use of non-GAAP measures, see *Results of Operations   Supplementary Financial Information   Adjusted EBITDA (Non-GAAP Discussion)* above.

In order to provide a meaningful basis for comparison, we are providing information with respect to our Free Cash Flow for the year ended December 31, 2011 and 2010, reconciled for each such period to cash flow provided by operating activities, which is believed to be the most directly comparable measure under GAAP.

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

	0000	0000
	For the Years Ended December 31,	
	2011	2010
Cash flow provided by operating activities of continuing operations	$ 360	$ 392
Less: Maintenance capital expenditures (A)	(80)	(74)
Continuing Operations Free Cash Flow	$ 280	$ 318
Weighted Average Diluted Shares Outstanding	*142*	*154*
Uses of Continuing Operations Free Cash Flow		
Investments:		
Acquisition of businesses, net of cash acquired	$ (10)	$ (130)
Non-maintenance capital expenditures	(38)	(41)
Acquisition of land use rights	(8)	(19)
Acquisition of noncontrolling interests in subsidiaries		(2)
Other investment activities, net (B)	(12)	(21)
Total investments	$ (68)	$ (213)
Return of capital to stockholders:		
Cash dividends paid to stockholders	$ (32)	$ (233)
Common stock repurchased	(229)	(95)
Total return of capital to stockholders	$ (261)	$ (328)
Capital raising activities:		
Net proceeds from issuance of corporate debt (C)	$	$ 390
Net proceeds from issuance of project debt (D)	15	10
Net proceeds from asset sales	12	12

Other financing activities, net	(1)	27
Net proceeds from capital raising activities	$ 26	$ 439
Debt repayments:		
Net cash used for principal payments on project debt [E]	$ (99)	$ (170)
Net cash used for principal payments on long-term debt	(7)	(7)
Optional repayment of corporate debt	(32)	(313)
Fees incurred for debt redemption		(2)
Total debt repayments	$ (138)	$ (492)

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	0000	0000
	For the Years Ended December 31,	
	2011	**2010**
Short-term borrowing activities - Financing of insurance premiums, net	$ 10	$ (10)
Distribution to partners of noncontrolling interests in subsidiaries	$ (6)	$ (6)
Effect of exchange rate changes on cash and cash equivalents	$ 1	$
Net change in cash and cash equivalents from continuing operations	$ (156)	$ (292)

(A) Purchases of property, plant and equipment are also referred to as capital expenditures. Capital expenditures that primarily maintain existing facilities are classified as maintenance capital expenditures. The following table provides the components of total purchases of property, plant and equipment:

	0000	0000
Maintenance capital expenditures	$ (80)	$ (74)
Capital expenditures associated with construction	(16)	(21)
Capital expenditures associated with technology development	(6)	(6)
Capital expenditures associated with organic growth initiatives	(4)	
Capital expenditures - other	(12)	(14)
Total purchases of property, plant and equipment	$ (118)	$ (115)

(B) Other investing activities were primarily comprised of net payments from the purchase/sale of investment securities and business development expenses.

(C) Excludes borrowings under Revolving Credit Facility. Calculated as follows:

	0000	0000
Proceeds from borrowings on long-term debt	$	$ 400
Less: Financing costs related to issuance of long-term debt		(10)
Net proceeds from issuance of corporate debt	$	$ 390

(D) Excludes borrowings under project working capital facilities. Calculated as follows:

	0000	0000
Proceeds from issuance of project debt	$ 15	$ 39
Less: Proceeds used to repay project debt (refinancing)		(29)
Net proceeds from issuance of project debt	$ 15	$ 10

(E) Calculated as follows:

	0000	0000
Total principal payments on project debt	$ (137)	$ (202)
Decrease in related restricted funds held in trust	38	3
Less: Repayments from cash prior to scheduled amortization, final maturity or investor put		29
Net cash used for principal payments on project debt	$ (99)	$ (170)

<u>Available Sources of Liquidity</u>

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments having maturities of three months or less from the date of purchase. These short-term investments are stated at cost, which approximates market value. As of December 31, 2011, we had unrestricted cash and cash equivalents of $232 million (of which approximately $174 million and $9 million was held by our international and insurance subsidiaries, respectively, which are not generally available for near-term liquidity in our domestic operations). A substantial majority of our cash held outside the United States is denominated in US dollars.

Short-Term Liquidity

We have credit facilities which are comprised of a $300 million revolving credit facility (the Revolving Credit 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).

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As of December 31, 2011, we had available credit for liquidity as follows (in millions):

	Total Available Under Facility	Maturing	Outstanding Letters of Credit as of December 31, 2011	Available as of December 31, 2011
Revolving Credit Facility (A)	$ 300	2013	$	$ 300
Funded L/C Facility	$ 320	2014	$ 277	$ 43

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

The Revolving Credit Facility matures in February 2013, therefore we intend to refinance the facility in 2012.

Credit Agreement Financial Covenants

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants as discussed in *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*. As of December 31, 2011, we were in compliance with the covenants under the Credit Facilities. The maximum Covanta Energy capital expenditures that could be incurred in 2011 to maintain existing operating businesses was approximately $230 million as of December 31, 2011.

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

- maximum Covanta Energy leverage ratio of 3.50 to 1.00 for the four quarter period ended December 31, 2011 and thereafter, which measures Covanta Energy s principal amount of consolidated debt less certain restricted funds dedicated to repayment of project debt principal and construction costs (Consolidated Adjusted Debt) to its adjusted earnings before interest, taxes, depreciation and amortization, as calculated under the Credit Facilities (Adjusted EBITDA). The definition of Adjusted EBITDA in the Credit Facilities excludes certain non-cash charges, and for purposes of calculating the leverage ratio and interest coverage ratios is adjusted on a pro forma basis for acquisitions and dispositions made during the relevant period.
- maximum Covanta Energy capital expenditures incurred to maintain existing operating businesses of $100 million per fiscal year, subject to adjustment due to an acquisition by Covanta Energy; and
- minimum Covanta Energy interest coverage ratio of 3.00 to 1.00, which measures Covanta Energy s Adjusted EBITDA to its consolidated interest expense plus certain interest expense of ours, to the extent paid by Covanta Energy.

For additional information on the calculation of Adjusted EBITDA, see *Results of Operations Supplementary Financial Information Adjusted EBITDA (Non-GAAP Discussion)* above.

Long-Term Debt

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

	As of December 31, 2011	As of December 31, 2010
7.25% Senior Notes due 2020	$ 400	$ 400
3.25% Cash Convertible Senior Notes due 2014	460	460
Debt discount related to 3.25% Cash Convertible Senior Notes	(67)	(91)

Cash conversion option derivative at fair value	49	116
3.25% Cash Convertible Senior Notes, net	442	485
1.00% Senior Convertible Debentures due 2027	25	57
Debt discount related to 1.00% Senior Convertible Debentures		(3)
1.00% Senior Convertible Debentures, net [(A)]	25	54
Term Loan Facility due 2014	619	626
Total	1,486	1,565
Less: current portion	(32)	(7)
Total long-term debt	$ 1,454	$ 1,558

(A) On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012. See additional information below under *1.00% Senior Convertible Debentures*.

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

In 2010, we sold $400 million aggregate principal amount of 7.25% Senior Notes due 2020. Interest on the 7.25% Notes is payable semi-annually on June 1 and December 1 of each year, commencing on June 1, 2011 and the 7.25% Notes will mature on December 1, 2020 unless earlier redeemed or repurchased. In 2010, we used $317 million of the net proceeds of the 7.25% Notes offering to purchase 85% of the total outstanding 1.00% Senior Convertible Debentures due 2027 (described below), for an aggregate purchase price of $313 million plus $1 million in accrued and unpaid interest. The remaining net proceeds were used for general corporate purposes. Net proceeds from the sale of the 7.25% Notes were $390 million, consisting of gross proceeds of $400 million net of $10 million in offering expenses.

The 7.25% Notes are 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 7.25% Notes are 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. None of our subsidiaries guarantee the 7.25% Notes.

At our option, the 7.25% Notes are subject to redemption at any time on or after December 1, 2015 at the redemption prices set forth in the indenture, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to December 1, 2013, we may redeem up to 35% of the original principal amount of the 7.25% Notes with the proceeds of certain equity offerings at a redemption price of 107.25% of the principal amount of the 7.25% Notes, together with accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to December 1, 2015, we may redeem some or all of the 7.25% 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 7.25% Notes.

For a detailed description of the terms of the 7.25% Notes see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*.

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

In 2009, we issued $460 million aggregate principal amount of 3.25% Cash Convertible Senior Notes due 2014 in a private transaction exempt from registration under the Securities Act of 1933, as amended. Under limited circumstances and subject to certain customary adjustments as provided in the indenture for the 3.25% Notes, the 3.25% Notes are convertible by the holders thereof into cash only (the Cash Conversion Option), based on a conversion rate of 60.3521 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.57 per share) and became effective on December 19, 2011. We will not deliver common stock (or any other securities) upon conversion under any circumstances. The Cash Conversion Option is an embedded derivative and is recorded at fair value quarterly in our consolidated balance sheets as a component of our long-term debt.

In order to reduce our exposure to potential cash payments in excess of the principal amount of the 3.25% Notes resulting from the Cash Conversion Option, we entered into two separate privately negotiated transactions with affiliates of certain of the initial purchasers of the 3.25% Notes (the Option Counterparties) for a net cash outflow of $58 million.

We purchased, for $112 million, cash-settled call options on our common stock (the Note Hedge) initially correlating to the same number of shares as those initially underlying the 3.25% Notes subject to generally similar customary adjustments, which have economic characteristics similar to those of the Cash Conversion Option embedded in the 3.25% Notes. The Note Hedge is a derivative which is recorded at fair value quarterly and is recorded in other noncurrent assets in our consolidated balance sheets. The strike price of the call options is approximately $16.57 per share ($18.55 prior to the adjustment made on July 8, 2010 in connection with the special cash dividend declared on June 17, 2010) and is subject to customary adjustments.

We sold, for $54 million, warrants (the Warrants) correlating to the same number of shares as those initially underlying the 3.25% Notes, which are net share settled and could have a dilutive effect to the extent that the market price of our common stock exceeds the then effective strike price of the Warrants. The strike price of the Warrants is approximately $22.99 per share ($25.74 prior to July 8, 2010) and is subject to customary adjustments. The Warrants are recorded at the amounts received net of expenses within additional paid-in capital in our consolidated balance sheets.

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When combined with the Note Hedge and the Warrants, we believe that the net financial impact upon maturity of the 3.25% Notes will consist of cash payments of the face value of $460 million 3.25% Notes and net share settlement of the Warrants to the extent that the stock price exceeds $22.99 at that time.

Net proceeds from the above transactions were $387 million, consisting of gross proceeds of $460 million from the 3.25% Notes and $54 million of proceeds from the Warrants, less the $112 million purchase price for the Note Hedge and $14 million of purchase discounts and other offering expenses.

The net proceeds from the offering were used for general corporate purposes, including capital expenditures, permitted investments or permitted acquisitions.

The 3.25% Notes constitute general unsecured senior obligations and rank equally in right of payment with our existing and future senior unsecured indebtedness. The 3.25% Notes are effectively junior to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The 3.25% Notes are not guaranteed by any of our subsidiaries and are effectively subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries.

For a detailed description of the terms of the 3.25% Notes, the Note Hedge, the Cash Conversion Option, and the Warrants, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt, Note 13. Financial Instruments and Note 14. Derivative Instruments*.

1.00% Senior Convertible Debentures due 2027 (the Debentures)

In November 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027. We offered to purchase the Debentures at a purchase price of $990 for each $1,000 principal amount of Debentures, plus accrued and unpaid interest. During the year ended December 31, 2011 and 2010, $32 million and $317 million, respectively, of the Debentures were purchased. We used a portion of the net proceeds of the 7.25% Note offering discussed above to fund the purchase price and accrued and unpaid interest of the Debentures. As of December 31, 2011, there were $25 million aggregate principal amount of the Debentures outstanding. On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012.

As a result of the tender offer to purchase outstanding Debentures, we recorded a loss on extinguishment of debt of $1 million and $15 million, pre-tax, for the year ended December 31, 2011 and 2010, respectively, which was comprised of the difference between the fair value and carrying value of the liability component of the Debentures tendered, a write off of deferred financing costs and fees incurred in conjunction with the tender offer. In 2010, we also reduced additional paid-in-capital by $8 million, pre-tax, which represented the difference between the amount paid in the tender offer and the fair value of the liability.

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

Project Debt

Americas Project Debt

Financing for the energy-from-waste projects is generally accomplished through tax-exempt and taxable municipal revenue bonds issued by or on behalf of the municipal client. For such facilities that are owned by a subsidiary of ours, the municipal issuers of the bond loan the bond proceeds to our subsidiary to pay for facility construction. For such facilities, project-related debt is included as Project debt (short- and long-term) in our consolidated financial statements. Generally, such project debt is secured by the revenues generated by the project and other project assets including the related facility. The only potential recourse to us with respect to project debt arises under the operating performance guarantees described below under *Other Commitments.*

Certain subsidiaries had recourse liability for project debt which is recourse to certain Covanta ARC Holdings, Inc. subsidiaries, but is non-recourse to us and as of December 31, 2011 was as follows (in millions):

Covanta Niagara, L.P. Series 2001 Bonds	$	165

Covanta Southeastern Connecticut Company Corporate Credit Bonds		44
Total	$	209

On December 1, 2010, one of our client communities refinanced project debt ($30 million outstanding) with the proceeds from new bonds and cash on hand. As a result of the refinancing, the client community issued $28 million tax exempt bonds bearing interest from 2% to 4% due 2015 in order to pay down the existing project debt. Consistent with other private, non-tip fee structures, the client community will pay us debt service revenue equivalent to the principal and interest on the bonds.

On June 1, 2010, we elected to repurchase $43 million of project bonds (issued in connection with our Hempstead facility) under a mandatory tender. The bonds were simultaneously amended to extend their final maturity from December 1, 2010 to June 1, 2015. As a result of this transaction, the bonds have been reflected as repaid in the consolidated financial statements, but may be remarketed to third party investors at any time. In the event we effect such a remarketing, the aggregate amount of our project debt would be increased accordingly.

Project Debt - Other

Financing for projects in which we have an ownership or operating interest is generally accomplished through commercial loans from local lenders or financing arranged through international banks, bonds issued to institutional investors and from multilateral lending institutions based in the United States. Such debt is generally secured by the revenues generated by the project and other project assets and is without recourse to us. In most projects, the instruments defining the rights of debt holders generally provide that the project subsidiary may not make distributions to its parent until periodic debt service obligations are satisfied and other financial covenants are complied with.

Restricted Funds Held in Trust

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

	000000	000000	000000	000000
	As of December 31,			
	2011		**2010**	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Debt service funds - principal	$ 56	$ 57	$ 85	$ 72
Debt service funds - interest	8		6	
Total debt service funds	64	57	91	72
Revenue funds	16		18	
Other funds	21	33	17	35
Total	$ 101	$ 90	$ 126	$ 107

Of the $191 million in total restricted funds as of December 31, 2011, approximately $113 million was designated for future payment of project debt principal. For a discussion of debt service funds under some of our service arrangements, see *Item 8. Financial Statements And Supplementary Data Note 15. Supplementary Information.*

Investments

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

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

Item 8. Financial Statements And Supplementary Data Note 13. Financial Instruments.

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The investment portfolio for our insurance business was as follows as of December 31, 2011 (in millions):

	Amortized Cost	Fair Value
Investments by grade:		
Fixed maturities:		
U.S. government obligations and agencies	$ 8	$ 8
Residential mortgage-backed securities	7	7
Corporate investments (AAA to A)	13	13
Corporate investments (B)		
Other government obligations	3	3
Total fixed maturities	31	31
Equity securities	1	1
Total	$ 32	$ 32

Capital Requirements

The following table summarizes our gross contractual obligations including project debt, leases and other obligations as of December 31, 2011 (in millions; references to Notes in the table are references to the Notes in *Item 8. Financial Statements And Supplementary Data*):

		Payments Due by Period			
	Total	2012	2013 and 2014	2015 and 2016	2017 and Beyond
Project debt (Note 12)	$ 673	$ 144	$ 249	$ 137	$ 143
Term Loan Facility (Note 11)	619	7	612		
7.25% Senior Notes (Note 11) [(A)]	400				400
3.25% Cash Convertible Senior Notes (Note 11) [(B)]	460		460		
1.00% Senior Convertible Debentures (Note 11) [(C)]	25	25			
Total debt obligations [(D)]	2,177	176	1,321	137	543
Less: Non-recourse debt [(E)]	(672)	(144)	(249)	(137)	(142)
Total recourse debt	$ 1,505	$ 32	$ 1,072	$	$ 401
Operating leases	273	35	51	48	139
Less: Non-recourse rental payments	(164)	(21)	(24)	(23)	(96)
Total recourse rental payments	$ 109	$ 14	$ 27	$ 25	$ 43
Interest payments [(F)]	495	98	151	71	175
Less: Non-recourse interest payments	(136)	(34)	(47)	(23)	(32)
Total recourse interest payments	$ 359	$ 64	$ 104	$ 48	$ 143
Retirement plan obligations [(G)]	$ 19	$ 1	$ 10	$ 2	$ 6
Uncertainty in income tax obligations [(H)]	$ 121	$ 1	$ 2	$ 8	$ 110

Total obligations	$ 2,113	$ 112	$ 1,215	$ 83	$ 703

(A) Interest on the 7.25% Notes is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on June 1, 2011 and will mature on December 1, 2020 unless earlier redeemed or repurchased. *See Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*.

(B) Interest on the 3.25% Notes is payable semi-annually in arrears, on June 1 and December 1 of each year, commencing on December 1, 2009, and will mature on June 1, 2014. Under limited circumstances, the 3.25% Notes are convertible by the holders thereof, at any time prior to March 1, 2014, into cash only, based on a conversion rate of 60.3521 shares of our common stock per $1,000 principal amount of the 3.25% Notes (which represents a conversion price of approximately $16.57 per share). *See Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*.

(C) On February 1, 2012, holders of $23 million of Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012. For information detailing the contingent interest, conversion or redemption features of the Debentures, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*.

(D) Excludes $7 million of unamortized debt premium.

(E) Payment obligations for the project debt associated with owned energy-from-waste facilities are limited recourse to operating subsidiaries and non-recourse to us, subject to operating performance guarantees and commitments.

(F) Interest payments on the Term Loan Facility and letter of credit fees are estimated based on current LIBOR rates and are estimated assuming contractual principal repayments. Interest payments represent accruals for cash interest payments.

(G) Retirement plan obligations are based on actuarial estimates for the pension plan obligations and post-retirement plan obligations as of December 31, 2011. In 2011, we informed employees who were eligible participants in the pension plan of our plan to terminate the pension plan, subject to approval by the IRS, with the intention of fully distributing plan assets as promptly as practicable following such approval. As of December 2011, the fair value of plan assets exceeded accumulated benefit obligations for the pension plan. The actual settlement amount will fluctuate based on future market performance, such as interest costs and actual return on plan assets, and employees disbursement elections. We anticipate the actual settlement will take place following receipt of IRS approval.

(H) Accounting for uncertainty in income tax obligations are based upon the expected date of settlement taking into account all of our administrative rights including possible litigation.

Other Commitments

Other commitments as of December 31, 2011 were as follows (in millions):

	00000	00000	00000
	Commitments Expiring by Period		
	Total	**Less Than One Year**	**More Than One Year**
Letters of credit	$ 277	$ 6	$ 271
Surety bonds	354		354
Total other commitments net	$ 631	$ 6	$ 625

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

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

The surety bonds listed on the table above relate primarily to performance obligations ($341 million) and support for closure obligations of various energy projects when such projects cease operating ($13 million). Were these bonds to be drawn upon, we would have a contractual obligation to indemnify the surety company.

We have certain contingent obligations related to the 7.25% Notes and the 3.25% Notes. These arise as follows:

- holders may require us to repurchase their 7.25% Notes and their 3.25% Notes if a fundamental change occurs; and
- holders may exercise their conversion rights upon the occurrence of certain events, which would require us to pay the conversion settlement amount in cash.

For specific criteria related to contingent interest, conversion or redemption features of the 7.25% Notes, or 3.25% Notes, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*.

As discussed in the *Overview Growth and Development* discussion above, we are focused on developing new projects and making acquisitions to grow our business in the United Kingdom, Ireland, Canada and the United States. We are pursuing additional growth opportunities through the development and construction of new waste and energy facilities. Due to permitting and other regulatory factors, these projects generally evolve over lengthy periods and project financing is generally obtained at the time construction begins, at which time, we can more accurately determine our commitment for a development project.

We have issued or are party to guarantees and related contractual support obligations undertaken pursuant to agreements to construct and operate waste and energy facilities. For some projects, such performance guarantees include obligations to repay certain financial obligations if the project revenues are insufficient to do so, or to repurchase interests of project investors under limited circumstances, or to obtain or guarantee financing for a project. With respect to our businesses, we have issued guarantees to municipal clients and other parties that our subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. Additionally, damages payable under such guarantees for our energy-from-waste facilities could expose us to recourse liability on project debt. If we must perform under one or more of such guarantees, our liability for damages upon contract termination would be reduced by funds held in trust and proceeds from sales of the facilities securing the project debt and is presently not estimable. Depending upon the circumstances giving rise to such damages, the contractual terms of the applicable contracts, and the contract counterparty s choice of remedy at the time a claim against a guarantee is made, the amounts owed pursuant to one or more of such guarantees could be greater than our then-available sources of funds. To date, we have not incurred material liabilities under such performance guarantees. See *Item 1A. Risk Factors We have provided guarantees and financial support in connection with our projects.*

Insurance Coverage

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

Off-Balance Sheet Arrangements

We are party to lease arrangements at our Union County, New Jersey, Alexandria, Virginia and Delaware Valley, Pennsylvania energy-from-waste facilities. At our Union County facility, we lease the facility from the Union County Utilities Authority, referred to as the UCUA, We amended the facility site lease with the Union County Utilities Authority to extend their terms from 2023 to 2031. We guarantee a portion of the rent due under the lease. Rent under the lease is sufficient to allow UCUA to repay tax exempt bonds issued by it to finance the facility and which mature in 2031.

At our Alexandria facility, we are a party to a lease which expires in 2019 related to certain pollution control equipment that was required in connection with the Clean Air Act amendments of 1990, and which was financed by the City of Alexandria and by Arlington County, Virginia. We own this facility, and the rent under this lease is sufficient to pay debt service on tax exempt bonds issued to finance such equipment and which mature in 2013.

Our Delaware Valley facility is a party to a lease for the facility that expires in 2019. We are obligated to pay a portion of lease rent, designated as Basic Rent B, and could be liable to pay certain related contractually-specified amounts, referred to as Stipulated Loss, in the event of a default in the payment of rent under the Delaware Valley lease beyond the applicable grace period. The Stipulated Loss is similar to lease termination liability and is generally intended to provide the lessor with the economic value of the lease, for the remaining lease term, had the default in rent payment not occurred. The balance of rental and Stipulated Loss obligations are payable by a trust formed and collateralized by the project s former operator in connection with the disposition of its interest in the Delaware Valley facility. Pursuant to the terms of various guarantee agreements, we have guaranteed the payments of Basic Rent B and Stipulated Loss to the extent such payments are not made by our subsidiary. We do not believe, however, that such payments constitute a material obligation of our subsidiary since our subsidiary expects to continue to operate the Delaware Valley facility in the ordinary course for the entire term of the lease and will continue to pay rent throughout the term of the lease. As of December 31, 2011, the estimated Stipulated Loss would have been $86 million.

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

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

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We have investments in several investees and joint ventures which are accounted for under the equity and cost methods and therefore we do not consolidate the financial information of those companies. See *Item 8. Financial Statements And Supplementary Data Note 9. Equity Method Investments* for additional information regarding these investments.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our consolidated financial statements in accordance with GAAP, we are required to use judgment in making estimates and assumptions that affect the amounts reported in our consolidated financial statements and related notes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Many of our critical accounting policies are subject to significant judgments and uncertainties which could potentially result in materially different results under different conditions and assumptions. Future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

Policy	Judgments and estimates	Effect if actual results differ from assumptions
Revenue Recognition		
Construction contracts are typically signed in conjunction with agreements to operate a newly constructed project. Upon completion of the construction element of these contracts, we recognize service revenue over the term of the service element of the contract.	We estimate our total construction costs for the contract throughout the project. As the project progresses, revisions to our estimated costs may be necessary.	If a revision to our estimated construction costs is required, the amount of revenue and the related operating income recognized will also fluctuate.
Revenues under existing fixed-price construction contracts are recognized using the percentage-of-completion method, measured by the cost-to-cost method.	Given the unique nature of our business, we are likely to use our best estimate of selling price in allocating revenues between construction, and other project revenue (waste and service revenue, and electricity and steam sales). This allocation would be performed at the inception of the new contracts and when a material modification occurs.	The allocation of revenue will impact the timing of revenue recognized for each unit, where the amount allocated to construction will be recognized in earlier periods followed by the remainder over the service period. Any subsequent modification to the contracts that are considered material could result in a change in the amount and timing of revenue to be recognized.
On January 1, 2011, we adopted an accounting standard related to multiple-deliverable revenue arrangements. The standard provides amendments to criteria for separating consideration in multiple element arrangements. We did not enter or materially modify any existing construction contracts on or after January 1, 2011. For any such future contracts, revenue will be allocated between construction revenue and other project revenue (waste disposal revenue and electricity and steam sales) based on the relative fair value of each element provided the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is		

sold separately or competitor prices for similar
products or services.

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Policy	Judgments and estimates	Effect if actual results differ from assumptions
Purchase Accounting We allocate acquisition purchase prices to identified tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition, with any residual amounts allocated to goodwill. The fair value estimates used reflect our best estimates for the highest and best use by market participants.	These estimates are subject to uncertainties and contingencies. For example, we used the discounted cash flow method to estimate the value of many of our assets, which entailed developing projections of future cash flows.	If the cash flows from the acquired net assets differ significantly from our estimates, the amounts recorded could be subject to impairments. Furthermore, to the extent we change our initial estimates of the remaining useful life of the assets or liabilities, future depreciation and amortization expense could be impacted.
Goodwill and Indefinite Lived Intangibles As of December 31, 2011, we had $232 million of goodwill, all of which is recorded on our Americas reporting unit. We evaluate our goodwill and indefinite lived intangible assets for impairment at least annually or when indications of impairment exist.	Our judgments regarding the existence of impairment indicators are based on regulatory factors, market conditions, anticipated cash flows and operational performance of our assets.	The impairment assessments of goodwill and indefinite lived intangible assets performed in the periods presented resulted in the conclusion that it was more likely than not that the fair value was not less than the carrying value.
We early adopted guidance issued in 2011 related to the testing of goodwill for impairment for our annual review as of October 1, 2011. The amendments provide an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The qualitative assessment takes into consideration both external factors (including the macroeconomic and industry conditions) and our own internal factors (including internal costs, recent financial performance, management, business strategy, customers, and stock price). If we conclude it is more likely than not that the fair value of the reporting unit is not less than its carrying amount based on that qualitative assessment, then we are no longer required to calculate its fair value. We performed the required annual impairment review of our recorded goodwill for our reporting unit using a qualitative assessment as of October 1, 2011 and determined that it was more likely than not that the fair value of our reporting unit was not less than its carrying value and no further assessment was necessary.	When determining the fair value of our reporting units and intangible assets for impairment assessments, we make assumptions regarding their fair values which are dependent on estimates of future cash flows, discount rates, and other factors.	In future years, if there is a significant change in the estimated cash flows, discount rates or other factors that cause the fair values to significantly decrease, there could be impairments which could materially impact our results of operations.

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Policy	Judgments and estimates	Effect if actual results differ from assumptions
Pensions and Other Post-Retirement Benefits		
The expense and the related obligations arising from the pension and other post-retirement benefit plans are based on actuarially-determined estimates. We record a liability equal to the amount by which the present value of the projected benefit obligations exceeded the fair value of pension assets.	On an annual basis, we evaluate the assumed discount rate and expected return on plan assets used to determine pension benefit and other post-retirement benefit expenses and obligations. The discount rate is based on the estimated timing of future benefit payments and expected rates of return currently available on high quality fixed income securities whose cash flows match the estimated timing and amount of future benefit payments of the plan. Our expected return on plan assets is based on historical experience and by evaluating input from the trustee managing the plan assets.	A 1% change in the discount rate would change pension and other post-retirement benefit expense and the obligations by approximately $0.2 million and $18 million, respectively. A 1% change in the return on plan assets would change pension and other post-retirement benefit expense by approximately $0.7 million.
Insurance/Self-Insurance for Employee Benefit Plans		
We retain a substantial portion of the risk related to certain workers compensation and medical claims. However, we maintain stop-loss coverage to limit the exposure related to certain risks. Liabilities associated with these losses include estimates of both claims filed and losses incurred but not yet reported. We use actuarial methods which consider a number of factors to estimate our ultimate cost of losses. We record our workers compensation liabilities at net present value; therefore, these liabilities fluctuate with changes in interest rates. Other liabilities referred to above are not discounted. Our workers compensation and medical liability accrual was $13 million and $8 million as of December 31, 2011 and 2010, respectively.	We believe that the amounts accrued are adequate; however, our liabilities could be significantly affected if future occurrences or loss developments differ from our estimates of both claims filed and losses incurred but not yet reported.	For example, a 1% change in average claim costs would impact our self-insurance expense by less than $1 million in 2011.

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Policy	Judgments and estimates	Effect if actual results differ from assumptions
Financial Instruments		
We record the conversion feature in our cash convertible notes and the related hedges at fair value, with the changes in fair value recorded in income. In our insurance business, our debt and equity securities are classified as available-for-sale and are carried at fair value, with changes in fair value recorded in other comprehensive income.	We estimate the fair value of the conversion feature and the related hedges utilizing observable inputs such as implied volatility and risk-free rates. With respect to the hedges, we record a credit valuation adjustment based on observed credit spreads of our hedge counterparties in the credit default swaps market. The fair value of our debt and equity securities are based on quoted prices from dealers or national securities exchanges.	The conversion feature and note hedge have similar terms and therefore the changes in their fair values offset each other, before taking into account the credit valuation adjustment. We are subject to variability in our results of operations related to the changes in the credit valuation adjustment, which is dependent on the fair value of the hedge and on observed credit spreads. A 10% change in the note hedge valuation would change the credit valuation adjustment by approximately $0.1 million, and a change in credit spreads of 1% would change the credit valuation adjustment by approximately $1 million.
Deferred Tax Assets		
As described in *Item 8. Financial Statements And Supplementary Data Note 16. Income Taxes*, we have recorded a deferred tax asset related to our NOLs. The NOLs will expire in various amounts beginning on December 31, 2023 through December 31, 2030, if not used. Deferred tax assets are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.	We estimated that we have NOLs of approximately $427 million for federal income tax purposes and $223 million for state income tax purposes as of the end of 2011. We also estimated our tax credits as approximately $51 million and our deferred tax assets are offset by a valuation allowance of approximately $22 million. The amount recorded was calculated based upon future taxable income arising from (a) the reversal of temporary differences during the period the NOLs are available and (b) future operating income expected, to the extent it is reasonably predictable. Judgment is involved in assessing whether a valuation allowance is required on our deferred tax assets.	To the extent our estimation of the reversal of temporary differences and operating income generated differs from actual results, we could be required to adjust the carrying amount of the deferred tax assets. The Internal Revenue Service (IRS) is auditing our tax returns for the tax years 2004 to 2009, which includes tax returns for years in which the losses giving rise to the NOLs were reported. 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.

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Policy	Judgments and estimates	Effect if actual results differ from assumptions
Unpaid Loss Reserves and Loss Adjustment Expenses		
Our insurance subsidiaries establish loss and loss adjustment expense (LAE) reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. Our unpaid loss reserve and loss adjustment expenses, including reinsurance recoverable on unpaid losses, was $34 million for both December 31, 2011 and 2010.	The process of estimating reserves involves a considerable degree of judgment by management. Reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as incurred but not reported (IBNR) reserves, which include a provision for expected future development on case reserves. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and LAE. Like case reserves, IBNR reserves are adjusted as additional information becomes known.	If our actual claims experience is not consistent with the assumptions utilized in the determination of the loss reserves, we may be subject to adjustments that would impact our results from operations.

RECENT ACCOUNTING PRONOUNCEMENTS

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

RELATED-PARTY TRANSACTIONS

One member of our current Board of Directors is Senior Counsel to a major international law firm which provides Covanta Energy with certain legal services. We paid this law firm approximately $3 million, $2 million, and $0 for the years ended December 31, 2011, 2010 and 2009, respectively. Such member of the Board of Directors has had no direct or indirect involvement in the procurement, provision, or oversight of billings of such legal services and does not directly or indirectly benefit from amounts paid to such law firm.

Item 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

In the normal course of business, our subsidiaries are party to financial instruments that are subject to market risks arising from changes in commodity prices, interest rates, foreign currency exchange rates, and derivative instruments. Our use of derivative instruments is very limited and we do not enter into derivative instruments for trading purposes. The following analysis provides quantitative information regarding our exposure to financial instruments with market risks. We use a sensitivity model to evaluate the fair value or cash flows of financial instruments with exposure to market risk that assumes instantaneous, parallel shifts in exchange rates and interest rate yield curves. There are certain limitations inherent in the sensitivity analysis presented, primarily due to the assumption that exchange rates change in a parallel manner and that interest rates change instantaneously. In addition, the fair value estimates presented herein are based on pertinent information available to us as of December 31, 2011. Further information is included in *Item 8. Financial Statements And Supplementary Data Note 13. Financial Instruments* and *Note 14. Derivative Instruments*.

Commodity Price Risk

Waste Price Risk

Municipal Solid Waste

Generally, we are protected against fluctuations in fuel (municipal waste) price risk in our Americas segment energy-from-waste business because most of our municipal waste is provided under long-term contracts where we are paid for our fuel at fixed rates. At our tip fee energy-from-waste facilities, differing amounts of waste disposal capacity are not subject to long-term contracts and, therefore, we are partially exposed to the risk of market fluctuations in the waste disposal fees we may charge for fuel. Waste disposal fees declined slightly in 2010 and 2009 primarily due to lower waste generation rates. The decline in waste disposal fees at our energy-from-waste facilities is mitigated through internalizing waste disposal by utilizing our network of transfer stations located throughout the northeast United States, where we have over one million tons of available capacity. Waste disposal fees increased in 2011 due to annual contract price escalations intended to reflect changes in our costs.

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

Wood Waste

We generate income from our biomass facilities from sales of electricity, capacity, and where available, additional value from the sale of renewable energy credits. These facilities sell their energy output into local power pools or to local utilities at rates that float with the market.

At all of these projects, we purchase fuel pursuant to short-term contracts or other arrangements, in each case at prevailing market rates which exposes us to fuel price risk. The price of fuel varies depending upon the time of year, local supply, and price of energy. As such, and unlike our energy-from-waste businesses, we earn income at our biomass facilities based on the margin between our cost of fuel and our revenue from selling the related output. Since 2009, this margin has been negative at certain of our biomass facilities. At our biomass facilities, lower energy prices combined with higher fuel prices have caused us to economically dispatch operations where continued operations are not currently profitable. We will continue to consider this practice as we study forward energy curves, fuel price forecasts, and the profitability of these facilities. In 2011, 2010 and 2009, revenue from our biomass projects represented approximately 4%, 5% and 6%, respectively, of our Americas segment revenue.

Energy Price Risk

Energy-from-Waste Energy Price Risk

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

Following the expiration of certain long-term energy sales contracts, we may have exposure to market risk, and therefore revenue fluctuations, in energy markets. As of December 31, 2011, a change in natural gas prices by $1 per million metric British thermal units (MMBtu) would change our pre-tax income by approximately $10 million to $15 million in 2012. We have entered into contractual arrangements that will mitigate our exposure to this volatility through a variety of hedging techniques, and expect to continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading. Consequently, we have entered into swap agreements with various financial institutions to hedge our exposure to market risk. As of December 31, 2011, the fair value of the energy derivatives of $3 million, pre-tax, was recorded as a current asset and as a component of Accumulated Other Comprehensive Income (AOCI).

Biomass Energy Price Risk

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

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Recycled Metals Price Risk

We sell, recover and recycle materials, principally ferrous metals, under short-term arrangements from most of our energy-from-waste projects in the Americas segment, and have exposure to market fluctuations with respect to such sales. Revenue from these materials is included within our waste services revenues in our consolidated statements of income.

Interest Rate Risk

Outstanding loan balances under the Credit Facilities bear interest at floating rates, which are calculated as either interest at a reserve adjusted British Bankers Association Interest Settlement Rate, commonly referred to as LIBOR, the prime rate or the Federal Funds rate plus 0.5% per annum, plus a borrowing margin. For details as to the various election options under the Credit Facility, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt*. As of December 31, 2011, the outstanding balance of the Term Loan was $619 million. We have not entered into any interest rate hedging arrangements against this balance. A hypothetical increase of 1.00% in the underlying December 31, 2011 market interest rates would result in a potential reduction to twelve month future earnings of $6 million, pre-tax.

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

Under limited circumstances, the 3.25% Notes are convertible by the holders thereof into cash only, based on a conversion rate of 60.3521 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.57 per share) subject to certain customary adjustments as provided in the indenture for the 3.25% Notes. We will not deliver common stock (or any other securities) upon conversion under any circumstances.

In order to reduce our exposure to potential cash payments in excess of the principal amount of the 3.25% Notes resulting from the Cash Conversion Option, we entered into two separate privately negotiated transactions with affiliates of certain of the initial purchasers of the 3.25% Notes (the Option Counterparties). We purchased cash settled call options on our common stock (the Note Hedge) initially correlating to the same number of shares as those initially underlying the 3.25% Notes subject to generally similar customary adjustments, which have economic characteristics similar to those of the Cash Conversion Option embedded in the 3.25% Notes. We sold warrants (the Warrants) correlating to the same number of shares as those initially underlying the 3.25% Notes, which are net share settled and could have a dilutive effect to the extent that the market price of our common stock exceeds the then effective strike price of the Warrants. The strike price of the Warrants is approximately $22.99 per share and is subject to customary adjustments.

The Cash Conversion Option is a derivative instrument which is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. The fair value of the Cash Conversion Option was $49 million as of December 31, 2011. The Note Hedge is accounted for as a derivative instrument and as such, is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. The fair value of the Note Hedge was $47 million as of December 31, 2011. The contingent interest features of the 3.25% Notes are embedded derivative instruments. The fair value of the contingent interest features of the 3.25% Notes was $0 as of December 31, 2011.

We expect the gain or loss associated with changes to the valuation of the Note Hedge transactions to offset the gain or loss associated with changes to the valuation of the Cash Conversion Option. However, they will not be completely offsetting as a result of changes in the credit spreads of the Option Counterparties. Our most significant credit exposure arises from the Note Hedge. The fair value of the Note Hedge reflects the maximum loss that would be incurred should the Option Counterparties fail to perform according to the terms of the Note Hedge agreement.

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

For additional information related to the 3.25% Notes, Cash Conversion Option, and Note Hedge, see *Item 8. Financial Statements And Supplementary Data Note 11. Long-Term Debt* and *Note 14. Derivative Instruments*.

Foreign Currency Exchange Rate Risk

We have operations in various foreign markets, including China, Canada, United Kingdom and Italy. As we grow our business, we expect to invest substantial amounts in foreign currencies to pay for the construction costs of facilities we develop, or for the cost to acquire existing businesses or assets. Currency volatility in those markets, as well as the effectiveness of any currency hedging strategies we may implement, may impact the amount we are required to invest in new projects and the financial returns on these projects, as well our reported results. At some projects, we have mitigated our currency risks by structuring our project contracts so that our revenues are adjusted in line with corresponding changes in currency rates. Therefore, only working capital and project debt denominated in other than a project entity s functional currency are exposed to currency risks.

As of December 31, 2011, we also had net investments in foreign subsidiaries and projects. See *Item 8. Financial Statements And Supplementary Data Note 9. Equity Method Investments* for further discussion.

Risk Related to the Investment Portfolio

With respect to our insurance business, the objectives in managing the investment portfolio held by our insurance subsidiaries are to maintain necessary liquidity and maximize investment income and investment returns while minimizing overall market risk. Investment strategies are developed based on many factors including duration of liabilities, underwriting results, overall tax position, regulatory requirements, and fluctuations in interest rates. Investment decisions are made by management, in consultation with an independent investment advisor, and approved by our insurance subsidiary s board of directors. Market risk represents the potential for loss due to adverse changes in the fair value of securities. The market risks related to the fixed maturity portfolio are primarily credit risk, interest rate risk, reinvestment risk and prepayment risk. The market risk related to the equity portfolio is price risk.

Fixed Maturities

With respect to our insurance business, interest rate risk is the price sensitivity of fixed maturities to changes in interest rates. We view these potential changes in price within the overall context of asset and liability matching. We estimate the payout patterns of the liabilities, primarily loss reserves, of our insurance subsidiaries to determine their duration. Duration targets are set for the fixed income portfolio after consideration of the duration of the liabilities that we believe mitigate the overall interest rate risk. Our exposure to interest rate risk is mitigated by the relative short-term nature of our insurance and other liabilities. The effective duration of the portfolio was 2 years and 3 years as of December 31, 2011 and 2010. We believe that the portfolio duration is appropriate given the relative short-tail nature of the auto and surety programs and projected run-off of all other lines of business. A hypothetical 100 basis point increase in market interest rates would cause an approximate 3% decrease in the fair value of the portfolio while a hypothetical 100 basis point decrease would cause an approximate 2% increase in fair value. Credit risk is the price sensitivity of fixed maturities to changes in the credit quality of such investment. Our exposure to credit risk is mitigated by our investment in high quality fixed income alternatives.

Fixed maturities held by our insurance subsidiary include $7 million and $5 million of residential mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) as of December 31, 2011 and 2010, respectively. All MBS held by our insurance subsidiary were issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association all of which are rated AAA by Moody s Investors Services.

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

Equity Securities

Our insurance subsidiary s investments in equity securities are generally limited to Fortune 500 companies with strong balance sheets, along with a history of dividend growth and price appreciation. As of December 31, 2011, equity securities represented 3% of our insurance company s total investment portfolio. During 2011, the insurance subsidiary did not permanently impair any equity securities.

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Item 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Covanta Holding Corporation

We have audited the accompanying consolidated balance sheets of Covanta Holding Corporation (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covanta Holding Corporation at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Covanta Holding Corporation s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey

February 15, 2012

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COVANTA HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	0000000	0000000	0000000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
	(In millions, except per share amounts)		
OPERATING REVENUES:			
Waste and service revenues	$ 1,082	$ 1,036	$ 916
Electricity and steam sales	400	420	417
Other operating revenues	168	127	51
Total operating revenues	1,650	1,583	1,384
OPERATING EXPENSES:			
Plant operating expenses	962	943	821
Other operating expenses	143	120	48
General and administrative expenses	103	103	109
Depreciation and amortization expense	193	190	197
Net interest expense on project debt	31	38	45
Write-down of assets		34	
Total operating expenses	1,432	1,428	1,220
Operating income	218	155	164
Other income (expense):			
Investment income	1	1	2
Interest expense	(67)	(45)	(38)
Non-cash convertible debt related expense	(25)	(39)	(24)
Loss on extinguishment of debt	(1)	(15)	
Other expenses, net	(19)		
Total other expenses	(111)	(98)	(60)
Income from continuing operations before income tax expense and equity in net income from unconsolidated investments	107	57	104
Income tax expense	(28)	(24)	(42)
Equity in net income from unconsolidated investments	5	2	3
Income from continuing operations	84	35	65
Income from discontinued operations, net of income tax expense of $3, $8, and $7 million, respectively	143	36	46
NET INCOME	227	71	111
Less: Net income from continuing operations attributable to noncontrolling interests in subsidiaries	(5)	(5)	(4)
Less: Net income from discontinued operations attributable to noncontrolling interests in subsidiaries	(3)	(4)	(5)

Total net income attributable to noncontrolling interests in subsidiaries		(8)		(9)		(9)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$	219	$	62	$	102
Amounts Attributable to Covanta Holding Corporation stockholders:						
Continuing operations	$	79	$	30	$	61
Discontinued operations, net of tax expense		140		32		41
Net Income Attributable to Covanta Holding Corporation	$	219	$	62	$	102
Earnings Per Share Attributable to Covanta Holding Corporation stockholders:						
Basic						
Continuing operations	$	0.56	$	0.19	$	0.39
Discontinued operations		0.99		0.21		0.27
Covanta Holding Corporation	$	1.55	$	0.40	$	0.66
Weighted Average Shares		141		153		154
Diluted						
Continuing operations	$	0.56	$	0.19	$	0.39
Discontinued operations		0.98		0.21		0.27
Covanta Holding Corporation	$	1.54	$	0.40	$	0.66
Weighted Average Shares		142		154		155
Cash Dividend Paid Per Share:	$	0.30	$	1.50	$	

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

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COVANTA HOLDING CORPORATION

CONSOLIDATED BALANCE SHEETS

	0000	0000
	As of December 31,	
	2011	**2010**
	(In millions, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$ 232	$ 126
Restricted funds held in trust	101	126
Receivables (less allowances of $5 and $3, respectively)	260	272
Unbilled service receivables	20	23
Deferred income taxes	28	27
Prepaid expenses and other current assets	105	110
Assets held for sale	18	191
Total Current Assets	764	875
Property, plant and equipment, net	2,423	2,478
Investments in fixed maturities at market (cost: $31 and $29, respectively)	31	29
Restricted funds held in trust	90	107
Unbilled service receivables	25	32
Waste, service and energy contracts, net	434	472
Other intangible assets, net	78	79
Goodwill	232	230
Investments in investees and joint ventures	43	46
Other assets	265	328
Total Assets	$ 4,385	$ 4,676
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$ 32	$ 7
Current portion of project debt	147	141
Accounts payable	25	23
Deferred revenue	61	72
Accrued expenses and other current liabilities	211	186
Liabilities held for sale	3	34
Total Current Liabilities	479	463
Long-term debt	1,454	1,558
Project debt	533	662
Deferred income taxes	633	605
Waste and service contracts	76	89
Other liabilities	122	140
Total Liabilities	3,297	3,517
Commitments and Contingencies (Note 20)		
Equity:		
Covanta Holding Corporation stockholders equity:		
Preferred stock ($0.10 par value; authorized 10 shares; none issued and outstanding)		

Common stock ($0.10 par value; authorized 250 shares; issued 158 and 157 shares; outstanding 136 and 150 shares)	16	16
Additional paid-in capital	824	893
Accumulated other comprehensive income	1	5
Accumulated earnings	244	213
Treasury stock, at par	(2)	(1)
Total Covanta Holding Corporation stockholders equity	1,083	1,126
Noncontrolling interests in subsidiaries	5	33
Total Equity	1,088	1,159
Total Liabilities and Equity	$ 4,385	$ 4,676

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

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COVANTA HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	00000	00000	00000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
		(In millions)	
OPERATING ACTIVITIES:			
Net income	$ 227	$ 71	$ 111
Less: Income from discontinued operations, net of tax expense	143	36	46
Income from continuing operations	84	35	65
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities from continuing operations:			
Depreciation and amortization expense	193	190	197
Amortization of long-term debt deferred financing costs	6	7	5
Amortization of debt premium and discount	(5)	(8)	(9)
Write-down of assets		34	
Loss on extinguishment of debt	1	15	
Non-cash convertible debt related expense	25	39	24
Provision for doubtful accounts	2	3	2
Stock-based compensation expense	18	17	14
Equity in net income from unconsolidated investments	(5)	(2)	(3)
Dividends from unconsolidated investments	8	5	1
Deferred income taxes	30	20	32
Change in restricted funds held in trust	4	11	19
Reversal of uncertain tax positions related to pre-emergence tax matters	(24)		
Contractual liability to pre-petition creditors	15		
Change in restricted fund-other related to contractual liability to pre-petition creditors	5		
Other, net	(2)	5	7
Change in operating assets and liabilities, net of effects of acquisitions:			
Receivables	13	27	(7)
Debt service billings in excess of revenue recognized	23	24	19
Accounts payable and accrued expenses	(4)	(19)	(1)
Other, net	(27)	(11)	(13)
Total adjustments for continuing operations	276	357	287
Net cash provided by operating activities from continuing operations	360	392	352
Net cash provided by operating activities from discontinued operations	1	39	45
Net cash provided by operating activities	361	431	397
INVESTING ACTIVITIES:			
Acquisition of businesses, net of cash acquired	(10)	(130)	(266)
Proceeds from the sale of investment securities	12	14	7
Purchase of investment securities	(15)	(17)	(8)
Acquisition of noncontrolling interests in subsidiaries		(2)	(24)
Purchase of equity interests			(9)
Proceeds from the sale of assets	12	12	
Purchase of property, plant and equipment	(118)	(115)	(74)
Acquisition of land use rights	(8)	(19)	

Loans issued to fund certain facility improvements, net of repayments			(11)
Other, net	(9)	(18)	(2)
Net cash used in investing activities from continuing operations	(136)	(275)	(387)
Net cash provided by investing activities from discontinued operations	243		
Net cash provided by (used in) investing activities	107	(275)	(387)

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COVANTA HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	00000	00000	00000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
		(In millions)	
FINANCING ACTIVITIES:			
Proceeds from borrowings on long-term debt		400	460
Proceeds from issuance of warrants			54
Purchase of convertible note hedge			(112)
Payments of deferred financing costs		(10)	(14)
Payment of interest rate swap termination costs			(11)
Principal payments on long-term debt	(7)	(7)	(7)
Principal payments on project debt	(137)	(202)	(230)
Convertible debenture repurchases	(32)	(313)	
Payments of fees related to tender offer		(2)	
Proceeds from borrowings on project debt	15	39	70
Proceeds from borrowings on revolving credit facility		79	
Payments on borrowings on revolving credit facility		(79)	
Change in restricted funds held in trust	38	3	45
Cash dividends paid to stockholders	(32)	(233)	
Common stock repurchased	(229)	(95)	
Distributions to partners of noncontrolling interests in subsidiaries	(6)	(6)	(6)
Proceeds from the exercise of options for common stock, net		1	1
Financings of insurance premiums, net	10	(10)	
Payments to pre-petition creditors	(12)		
Decrease in restricted funds for pre-petition creditors	12		
Other financing, net	(1)	26	35
Net cash (used in) provided by financing activities from continuing operations	(381)	(409)	285
Net cash provided by (used in) financing activities from discontinued operations	8	(40)	(54)
Net cash (used in) provided by financing activities	(373)	(449)	231
Effect of exchange rate changes on cash and cash equivalents	(1)	(1)	1
Net increase (decrease) in cash and cash equivalents	94	(294)	242
Cash and cash equivalents at beginning of year	140	434	192
Cash and cash equivalents at end of year	234	140	434
Less: Cash and cash equivalents of discontinued operations at end of year	2	14	16
Cash and cash equivalents of continuing operations at end of year	$ 232	$ 126	$ 418
Cash Paid for Interest and Income Taxes:			
Interest	$ 101	$ 84	$ 86
Income taxes, net of refunds	$ 13	$ 4	$ 2

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

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COVANTA HOLDING CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY

	0000	0000	0000	0000	0000	0000	0000	0000	0000
	Covanta Holding Corporation Stockholders Equity								
	Common Stock			**Accumulated Other Comprehensive Income (Loss)**		**Treasury Stock**		**Noncontrolling Interests in Subsidiaries**	
	Shares	**Amount**	**Additional Paid-In Capital**		**Accumulated Earnings**	**Shares**	**Amount**		**Total**
					(In millions)				
Balance as of December 31, 2008	155	$ 15	$ 841	$ (8)	$ 342	1	$ (1)	$ 35	$ 1,224
Stock-based compensation expense			14						14
Issuance of Warrants			54						54
Shares repurchased for tax withholdings for vested stock awards			(2)						(2)
Exercise of options to purchase common stock			1						1
Shares issued in non-vested stock award	1	1	(1)						
Purchase price allocation for noncontrolling interests								33	33
Acquisition of noncontrolling interests in subsidiaries			10					(33)	(23)
Distributions to partners of noncontrolling interests in subsidiaries								(11)	(11)
Comprehensive income, net of income taxes:									
Net income					102			9	111
Foreign currency translation				6				1	7
Pension and other postretirement plan unrecognized net gain, net of income tax expense of $6				9					9
Total comprehensive income				15	102			10	127
Balance as of December 31, 2009	156	16	917	7	444	1	(1)	34	1,417
Stock-based compensation expense			17						17
Dividend declared					(233)				(233)
Common stock repurchased			(35)		(60)	6			(95)
Repurchase of equity related to Debenture tender offer			(6)						(6)
Exercise of options to purchase common stock			1						1
Shares issued in non-vested stock award	1								
Acquisition of noncontrolling interests in subsidiaries			(1)					(1)	(2)
Distributions to partners of noncontrolling interests in subsidiaries								(10)	(10)
Comprehensive income, net of income taxes:									
Net income					62			9	71
Foreign currency translation				1				1	2
Pension and other postretirement plan unrecognized net loss, net of income tax benefit of $1				(3)					(3)

Total comprehensive (loss) income				(2)	62			10	70
Balance as of December 31, 2010	157	16	893	5	213	7	(1)	33	1,159
Stock-based compensation expense			18						18
Deferred tax adjustment on stock-based compensation			(1)						(1)
Dividend declared					(42)				(42)
Dividend for vested stock awards			1		(1)				
Common stock repurchased			(86)		(143)	14	(1)		(230)
Shares repurchased for tax withholdings for vested stock awards			(1)		(2)	1			(3)
Shares issued in non-vested stock award	1								
Elimination due to sale of controlling interests in subsidiaries								(28)	(28)
Distributions to partners of noncontrolling interests in subsidiaries								(6)	(6)
Comprehensive income, net of income taxes:									
Net income					219			8	227
Foreign currency translation				2				(2)	
Pension and other postretirement plan unrecognized net loss, net of income tax benefit of $5				(8)					(8)
Net unrealized gain on derivative instruments				2					2
Total comprehensive (loss) income				(4)	219			6	221
Balance as of December 31, 2011	158	$ 16	$ 824	$ 1	$ 244	22	$ (2)	$ 5	$ 1,088

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

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization

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

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 19 million tons of solid waste annually and produce over 10 million megawatt (MW) hours of baseload electricity annually. We operate and/or have ownership positions in 46 energy-from-waste facilities, which are primarily located in North America, and 15 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). We also operate waste management infrastructure that is complementary to our core EfW business.

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

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

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. For additional information, see Note 6. Financial Information by Business Segments.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements reflect the results of our operations, cash flows and financial position of our majority-owned or controlled subsidiaries. All intercompany accounts and transactions have been eliminated.

Equity Method Investments

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

Revenue Recognition

Waste and Service Revenues Revenues from waste and service agreements consist of the following:

1) Fees earned under contract to operate and maintain energy-from-waste and independent power facilities are recognized as revenue when services are rendered, regardless of the period they are billed;

2) Fees earned to service project debt (principal and interest) where such fees are expressly included as a component of the service fee paid by the client community pursuant to applicable energy-from-waste service agreements. Regardless of the timing of amounts paid by client communities relating to project debt principal, we record service revenue with respect to this principal component on a levelized basis over the term of the agreement. Unbilled service receivables related to energy-from-waste operations are discounted in recognizing

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the present value for services performed currently in order to service the principal component of the project debt;

3) Fees earned for processing waste in excess of contractual requirements are recognized as revenue beginning in the period when we process the excess waste. Some of our contracts include stated fixed fees earned by us for processing waste up to certain base contractual amounts during specified periods. These contracts also set forth the per-ton fees that are payable if we accept waste in excess of the base contractual amounts;

4) Tipping fees earned under waste disposal agreements are recognized as revenue in the period the waste is received; and

5) Other miscellaneous fees, such as revenue for ferrous and non-ferrous metal recovered and recycled, are generally recognized as revenue when ferrous and non-ferrous metal is delivered to metals processors.

Electricity and Steam Sales Revenue from the sale of electricity and steam are earned and recorded based upon output delivered and capacity provided at rates specified under contract terms or prevailing market rates net of amounts due to client communities under applicable service agreements. We account for certain long-term power contracts in accordance with accounting standards for revenue recognition of long-term power sales contracts which require that power revenues under these contracts be recognized as the lesser of (a) amounts billable under the respective contracts; or (b) an amount determinable by the kilowatt hours made available during the period multiplied by the estimated average revenue per kilowatt hour over the term of the contract. The determination of the lesser amount is to be made annually based on the cumulative amounts that would have been recognized had each method been applied consistently from the beginning of the contract. The difference between the amount billed and the amount recognized is included in other long-term liabilities.

Construction Revenues Revenues under current fixed-price construction contracts are recognized using the percentage-of-completion method, measured by the cost-to-cost method. Under this method, total contract costs are estimated, and the ratio of costs incurred to date to the estimated total costs on the contract is used to determine the percentage-of-completion. This method is used because we consider the costs incurred to be the best available measure of progress on these contracts. Construction revenues are recorded as other operating revenues in the consolidated statements of income. These contracts are typically signed in conjunction with agreements to operate the project constructed and are therefore multiple element arrangements. The contractual price of the undelivered service element has been determined to be its fair value. We expect to earn revenue for our current construction contracts over the next 3 years. Upon completion of the construction element of these contracts, we will begin to recognize service revenue over the term of the service element of the contract.

On January 1, 2011, we adopted an accounting standard related to multiple-deliverable revenue arrangements. The standard provides amendments to criteria for separating consideration in multiple element arrangements. We did not enter or materially modify any existing construction contracts on or after January 1, 2011. For any such future contracts, revenue will be allocated between construction revenue and other project revenue (waste disposal revenue and electricity and steam sales) based on the relative fair value of each element provided the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately or competitor prices for similar products or services.

Renewable Energy Credits

Renewable Energy Credits (REC) represent saleable and tradable environmental commodities. One REC represents the renewable energy attributes created when one megawatt hour of electricity is produced from an eligible renewable energy source. The REC is recognized at fair value as a reduction to plant operating expense in the consolidated statements of income and as an intangible asset within other current assets in the consolidated balance sheets on the date the renewable energy is generated. The fair value amount recognized is reduced by a valuation allowance for those RECs which management believes will ultimately be sold at below market or depressed market prices. As the RECs are delivered, the intangible asset is relieved. Fair values for the RECs are based on prices established by executed contracts, pending contracts or management estimates of current market prices.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pass Through Costs

Pass through costs are costs for which we receive a direct contractually committed reimbursement from the municipal client which sponsors an energy-from-waste project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal, and certain chemical costs. These costs are recorded net of municipal client reimbursements in our consolidated financial statements. Total pass through costs for the years ended December 31, 2011, 2010, and 2009 were $88 million, $90 million, and $72 million, respectively.

Income Taxes

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax losses and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We file a consolidated Federal income tax return for each of the periods covered by the consolidated financial statements, which include all eligible United States subsidiary companies. Foreign subsidiaries were taxed according to regulations existing in the countries in which they do business. Our subsidiary, Covanta Lake II, Inc. has not been a member of any consolidated tax group since February 20, 2004, however the income taxes recorded for this subsidiary are recorded in our consolidated financial statements. Our federal consolidated income tax return also includes the taxable results of certain grantor trusts, which are excluded from our consolidated financial statements, however certain related tax attributes are recorded in our consolidated financial statements since they are part of our federal tax return. For additional information, see Note 16. Income Taxes.

Stock-Based Compensation

Stock-based compensation is accounted for in accordance with accounting standards for share-based awards to employees which requires entities to recognize compensation expense for these awards. The cost for equity-based stock awards is expensed based on their grant date fair value. For additional information, see Note 18. Stock-Based Award Plans.

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.

Investments

The insurance subsidiaries fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Investment securities that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation. Changes in fair value are credited or charged directly to Accumulated Other Comprehensive Income (AOCI) in the consolidated statements of equity as unrealized gains or losses, respectively. Investment gains or losses realized on the sale of securities are determined using the specific identification method. Realized gains and losses are recognized in the consolidated statements of income based on the amortized cost of fixed maturities and cost basis for equity securities on the date of trade, subject to any previous adjustments for other-than-temporary declines. Other-than-temporary declines in fair value are recorded as realized losses in the consolidated statements of income to the extent they relate to credit losses, and to AOCI to the extent they are related to other factors. The cost basis of the security is also reduced. We consider the following factors in determining whether declines in the fair value of securities are other-than-temporary:

- the significance of the decline in fair value compared to the cost basis;
- the time period during which there has been a significant decline in fair value;

whether the unrealized loss is credit-driven or a result of changes in market interest rates;
a fundamental analysis of the business prospects and financial condition of the issuer; and
our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments, such as investments in companies in which we do not have the ability to exercise significant influence, are carried at the lower of cost or estimated realizable value. For additional information, see Note 13. Financial Instruments.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Funds Held in Trust

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

	000000	000000	000000	000000
	As of December 31,			
	2011		**2010**	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Debt service funds - principal	$ 56	$ 57	$ 85	$ 72
Debt service funds - interest	8		6	
Total debt service funds	64	57	91	72
Revenue funds	16		18	
Other funds	21	33	17	35
Total	$ 101	$ 90	$ 126	$ 107

Of the $191 million in total restricted funds as of December 31, 2011, approximately $113 million was designated for future payment of project debt principal. For a discussion of debt service funds under some of our service arrangements, see Note 15. Supplementary Information.

Restricted Funds Other

As of December 31, 2011 and 2010, we had $13 million and $36 million, respectively, in restricted accounts. These restricted funds were held to pay for certain taxes which may be due relating to Covanta Energy s bankruptcy, which occurred prior to its acquisition by us, and for surety and bail bond collateral related to our insurance subsidiary. As of December 31, 2011, $12 million was paid to pre-petition claimants and $3 million of the non-current restricted funds was reclassified to other current assets on our consolidated balance sheet and is expected to be paid to third party claimants in the first half of 2012. The remaining $5 million was reclassified to cash and cash equivalents on our consolidated balance sheet as of December 31, 2011. See Note 16. Income Taxes for additional information. Restricted funds are invested principally in money market funds, bank deposits and certificates of deposit, and are not available for general corporate purposes.

Deferred Financing Costs

As of December 31, 2011 and 2010, we had $19 million and $25 million, respectively, of net deferred financing costs recorded on the consolidated balance sheets. These costs were incurred in connection with our various financing arrangements. These costs are being amortized using the effective interest rate method over the expected period that the related financing is to be outstanding.

Deferred Revenue

Deferred revenue consisted of the following (in millions):

	000000	000000	000000	000000
	As of December 31,			
	2011		**2010**	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Advance billings to municipalities	$ 8	$	$ 10	$
Unearned insurance premiums	1		2	
Other	52	3	60	3
Total	$ 61	$ 3	$ 72	$ 3

Advance billings to various customers are billed one or two months prior to performance of service and are recognized as income in the period the service is provided. Other current deferred revenue relates primarily to pre-construction billings for the expansion project at our Honolulu, Hawaii energy-from-waste facility. Noncurrent deferred revenue relates to electricity contract levelization and is included in other noncurrent liabilities in the consolidated balance sheets.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment

Property, plant, and equipment acquired in business acquisitions were recorded at our estimate of their fair values on the date of the acquisition. Additions, improvements and major expenditures are capitalized if they increase the original capacity or extend the remaining useful life of the original asset more than one year. Maintenance repairs and minor expenditures are expensed in the period incurred. Depreciation is computed using the straight-line method over the estimated remaining useful lives of the assets, which range up to 34 years for energy-from-waste facilities. The original useful lives generally range from three years for computer equipment to 50 years for components of energy-from-waste facilities. Leaseholds improvements are depreciated over the remaining life of the lease or the asset, whichever is shorter. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheets and any gain or loss is reflected in the consolidated statements of income.

Property, plant and equipment consisted of the following (in millions):

	000000	000000	000000
		As of December 31,	
	Useful Lives	**2011**	**2010**
Land		$ 25	$ 25
Facilities and equipment	3-34 years	3,353	3,244
Landfills (primarily ash)	3-37 years	44	45
Construction in progress		41	55
Total		3,463	3,369
Less: accumulated depreciation and amortization		(1,040)	(891)
Property, plant, and equipment net		$ 2,423	$ 2,478

Depreciation and amortization expense related to property, plant and equipment was $165 million, $160 million, and $163 million, for the years ended December 31, 2011, 2010, and 2009, respectively.

Asset Retirement Obligations

In accordance with accounting standards for asset retirement obligations, we recognize a liability for asset retirement obligations when it is incurred which is generally upon acquisition, construction, or development. Our liabilities include closure and post-closure costs for landfill cells and site restoration for certain energy-from-waste and power producing sites. We principally determine the liability using internal estimates of the costs using current information, assumptions, and interest rates, but also use independent appraisals as appropriate to estimate costs. When a new liability for asset retirement obligation is recorded, we capitalize the cost of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. We recognize period-to-period changes in the liability resulting from revisions to the timing or the amount of the original estimate of the undiscounted cash flows. Any changes are incorporated into the carrying amount of the liability and will result in an adjustment to the amount of asset retirement cost allocated to expense in subsequent periods.

Our asset retirement obligation is presented as follows (in millions):

As of December 31,

	2011	2010
Beginning of period asset retirement obligation	$ 29	$ 26
Accretion expense	2	2
Deductions [1]	(5)	(1)
Additions [2]		2
End of period asset retirement obligation	$ 26	$ 29
Less: current portion	(5)	(4)
Noncurrent Asset retirement obligation	$ 21	$ 25

(1) Deductions in 2011 and 2010 related to expenditures and settlements of the asset retirement obligation liability, net revisions based on current estimates of the liability and revised expected cash flows and life of the liability.

(2) Additions in 2010 related primarily to expansion projects for an existing landfill. See Note 3. Business Development, Acquisitions and Dispositions.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization of Waste, Service and Energy Contracts and Intangible Assets

Our waste, service and energy contracts are intangible assets related to long-term operating contracts at acquired facilities. Intangible assets and liabilities, as well as lease interest, and other indefinite-lived assets, are recorded at their estimated fair market values based primarily upon discounted cash flows in accordance with accounting standards related to business combinations. See Note 7. Amortization of Waste, Service and Energy Contracts and Note 8. Other Intangible Assets and Goodwill.

Impairment of Goodwill, Other Intangibles and Long-Lived Assets

We evaluate goodwill and indefinite-lived intangible assets not subject to amortization for impairment on an annual basis, or more frequently if events occur or circumstances change indicating that the fair value of a reporting unit may be below its carrying amount, in accordance with accounting standards related to goodwill and other intangible assets. Fair value is generally determined utilizing a discounted cash flow approach, based on management s best estimate of the highest and best use of future waste and service revenues, electricity revenues and operating expenses, discounted at an appropriate market participant risk adjusted rate.

The evaluation of goodwill requires a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to its carrying value. The goodwill is related to the Americas reporting unit. A reporting unit is defined as an operating segment or a component of an operating segment to the extent discrete financial information is available that is reviewed by segment management. As the components of the Americas reporting unit share similar economic characteristics, we have aggregated them into one reporting unit as permitted by the accounting standard related to goodwill and intangible assets. If the carrying value of the reporting unit exceeds the fair value, the reporting unit s goodwill is compared to its implied value of goodwill. If the carrying value of the reporting unit s goodwill exceeds the implied value, an impairment charge is recognized to reduce the carrying value to the implied value.

In September 2011, the Financial Accounting Standards Board (FASB) issued new guidance related to the testing of goodwill for impairment which we have applied in our annual review as of October 1, 2011. The amendments provide an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The qualitative assessment takes into consideration both external factors (including the macroeconomic and industry conditions) and our own internal factors (including internal costs, recent financial performance, management, business strategy, customers, and stock price). If we conclude it is more likely than not that the fair value of the reporting unit is not less than its carrying amount based on that qualitative assessment, then we are no longer required to calculate its fair value. We performed the required annual impairment review of our recorded goodwill for our reporting unit using a qualitative assessment as of October 1, 2011 and determined that it was more likely than not that the fair value of our reporting unit was not less than its carrying value and no further assessment was necessary.

For indefinite-lived intangible assets, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment charge is recognized to reduce the carrying value of the asset to its fair value. As of December 31, 2011, the fair value of all indefinite-lived intangible assets exceeded their carrying value.

Intangible and other long-lived assets such as property, plant and equipment and purchased intangible assets with finite lives, are evaluated for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable over their estimated useful life. In reviewing for impairment, we compare the carrying value of the relevant assets to their estimated undiscounted future cash flows. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment charge is recognized to reduce the asset s carrying value to their fair value. As of December 31, 2011, there were no indicators of impairment identified.

There were no impairment charges recognized related to our evaluation of goodwill, indefinite-lived intangible assets, or intangible assets for the years ended December 31, 2011, 2010, and 2009. During the year ended, December 31, 2010, we recorded a write- down of assets related to other long-lived assets of $34 million, pre-tax. For additional information, see Note 15. Supplementary Information.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Business Combinations

In accordance with accounting standards for business combinations, we recognize at fair value the assets acquired and liabilities assumed in the transaction including any noncontrolling interest of the acquired entity; recognize any goodwill acquired or gain resulting from a bargain purchase; establish the acquisition-date fair value based on the highest and best use by market participants for the asset as the measurement objective; and disclose information needed to evaluate and understand the nature and financial effect of the business combination. We expense direct transaction costs as incurred; capitalize in-process research and development costs, if any; and record a liability for contingent consideration at the measurement date with subsequent remeasurement recognized in the results of operations. Any costs for business restructuring and exit activities related to the acquired company are included in the post-combination results of operations. Tax adjustments related to previously recorded business combinations, if any, will be recognized in the results of operations.

Accumulated Other Comprehensive Income

AOCI, in the consolidated statements of equity, includes unrealized gains and losses excluded from the consolidated statements of income. These unrealized gains and losses consist of unrecognized gains or losses on our pension and other postretirement benefit obligations, foreign currency translation adjustments, unrealized gains or losses on securities, and net unrealized gains and losses on derivatives. AOCI, net of income taxes, consists of the following (in millions):

	00000	00000
	As of December 31,	
	2011	**2010**
Foreign currency translation	$ 3	$ 1
Pension and other postretirement plan unrecognized net (loss) gain	(5)	3
Net unrealized gain on derivatives	2	
Net unrealized gain on securities	1	1
Accumulated other comprehensive income	$ 1	$ 5

Derivative Instruments

We recognize derivative instruments not designated as hedging instruments on the balance sheet at their fair value. The Cash Conversion Option and Note Hedge are derivative instruments which are recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. We have entered into swap agreements with various financial institutions to hedge our exposure to energy price risk. Changes in the fair value of the energy derivatives are recognized as a component of AOCI. For additional information, see Note 14. Derivative Instruments.

Foreign Currency Translation

For foreign operations, assets and liabilities are translated at year-end exchange rates and revenues and expenses are translated at the average exchange rates during the year. Gains and losses resulting from foreign currency translation are included in the consolidated statements of equity as a component of AOCI. Currency transaction gains and losses are recorded in other operating expenses in the consolidated statements of income.

Pension and Postretirement Benefit Obligations

Our pension and other postretirement benefit plans are accounted for in accordance with accounting standards for defined benefit pension and other postretirement plans which require costs and the related obligations and assets arising from the pension and other postretirement benefit plans to be accounted for based on actuarially-determined estimates. For additional information, see Note 17. Employee Benefit Plans.

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses (LAE) are based on estimates of reported losses and historical experience for incurred but unreported claims, including losses reported by other insurance companies for reinsurance assumed, and estimates of expenses for investigating and adjusting all incurred and unadjusted claims. We believe that the provisions for unpaid losses and LAE are adequate to cover the cost of losses and LAE incurred to date. However, such liability is based upon estimates which may change and there can be no assurance that the ultimate liability will not exceed such estimates. Unpaid losses and LAE are continually monitored and reviewed, and as settlements are made or reserves adjusted, differences are included in current operations.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the activity in the insurance subsidiaries liability for unpaid losses and LAE (in millions):

	00000	00000	00000
		As of December 31,	
	2011	**2010**	**2009**
Net unpaid losses and LAE at beginning of year	$ 25	$ 22	$ 20
Incurred, net, related to:			
Current year	9	10	12
Prior years	3	7	3
Total net incurred	12	17	15
Paid, net, related to:			
Current year	(5)	(6)	(7)
Prior years	(8)	(8)	(5)
Total net paid	(13)	(14)	(12)
Effect of deconsolidation of subsidiary			(1)
Net unpaid losses and LAE at end of year	24	25	22
Plus: Reinsurance recoverable on unpaid losses	10	9	12
Gross unpaid losses and LAE at end of year	$ 34	$ 34	$ 34

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets or liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include useful lives of long-lived assets, asset retirement obligations, unbilled service receivables, fair value of financial instruments, fair value of the reporting units for goodwill impairment analysis, fair value of long-lived assets for impairment analysis, renewable energy credits, stock-based compensation, purchase accounting allocations, cash flows and taxable income from future operations, deferred taxes, unpaid losses and LAE, allowances for uncollectible receivables, and liabilities related to pension obligations, employee medical benefit obligations, workers compensation, severance and certain litigation.

Reclassifications

During the year ended December 31, 2011, we corrected our presentation of the consolidated balance sheet at December 31, 2010 to adjust a portion of the excess of purchase price over par value for treasury stock transactions from additional paid-in capital to retained earnings in the years ended December 31, 2010, 2009, and 2008. At December 31, 2010, an aggregate of $80 million increased additional paid-in capital and decreased retained earnings. This change had no impact on total equity.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued guidance related to amendments to disclosures about fair value measurements. The amendments in this update improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). We are required to adopt this standard for the first quarter of 2012. Early adoption is not permitted. We do not expect this accounting standard to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued guidance related to the presentation of comprehensive income. This guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments require that all other comprehensive income changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued additional guidance which deferred indefinitely the requirement for companies to present reclassification adjustments out of accumulated comprehensive income by component in both the statement where net income is presented and the statement where comprehensive income is presented. The guidance does not affect how earnings per share is calculated

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

or presented. We are required to adopt this standard for the first quarter of 2012, however early adoption is permitted. The amendments should be applied retrospectively. We are currently evaluating the presentational changes to our consolidated financial statements required by this guidance.

In September 2011, the FASB issued guidance related to testing goodwill for impairment. The amendments provide an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity no longer would be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We are required to adopt this standard for the first quarter of 2012. We early adopted this guidance, as permitted, during the fourth quarter of 2011. For additional information, see Note 1. Organization and Summary of Significant Accounting Policies.

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

NOTE 3. BUSINESS DEVELOPMENT, ACQUISITIONS AND DISPOSITIONS

Our growth opportunities include: organic growth, 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. The results of operations reflect the period of ownership of the acquired businesses, business development projects and dispositions. The acquisitions in the section below are not material to our consolidated financial statements individually or in the aggregate and therefore, disclosures of pro forma financial information have not been presented.

Development Projects

China Energy-from-Waste Facilities and Joint Ventures

We currently own 85% of Taixing Covanta Yanjiang Cogeneration Co., Ltd. which, in 2009, entered into a 25 year concession agreement and waste supply agreements to build, own and operate a 350 metric tons per day (tpd) energy-from-waste facility for Taixing Municipality, in Jiangsu Province, People s Republic of China. The project, which was built on the site of our existing coal-fired facility in Taixing, supplies 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 (approximately $26 million as of December 31, 2011) million in project financing which, together with available cash from existing operations, funded construction costs. The facility began processing waste during the second quarter of 2011.

In 2008, we and Chongqing Iron & Steel Company (Group) Ltd. 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 commenced in 2009 and the facility began processing waste during the third quarter of 2011. The project company has obtained Rmb 480 million (approximately $76 million as of December 31, 2011) in project financing, of which 49% is guaranteed by us and 51% is guaranteed by Chongqing Iron & Steel Company (Group) Ltd. for one year after operations fully commence.

Durham-York Energy-from-Waste Facility

During 2011, we received the notice to proceed with design, construction and operation of a municipally-owned 140,000 tonne-per-year greenfield energy-from-waste facility to be built in Clarington, Ontario, located in Durham Region, Canada. The facility will process waste from the Regions of Durham and York. The fixed-price construction

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contract for the project is for approximately C$250 million. The project will be funded and owned by the Durham and York Regions. The project is expected to begin operations during 2014, after which we will operate the facility under a 20 year contract.

Honolulu Energy-from-Waste Facility

We operate and maintain the energy-from-waste facility located in and owned by the City and County of Honolulu, Hawaii. In December 2009, we entered into agreements with the City and County of Honolulu to expand the facility s waste processing capacity from 2,160 tpd to 3,060 tpd and to increase gross electricity capacity from 57 MW to 90 MW. The agreements also extend the contract term by 20 years. The $302 million expansion project is a fixed-price construction contract which is funded and owned by the City and County of Honolulu. The project is expected to begin operations in 2012.

Business Development

Americas

Union County Energy-from-Waste Facility

In December 2011, we amended the waste disposal agreement with the Union County Utilities Authority to extend their terms from 2023 to 2031 and to increase the Union County Utilities Authority s waste disposal commitment.

Niagara Energy-from-Waste Facility

We extended an existing steam sale contract until 2021 and entered into a new steam sale contract that will run from 2011 to 2024; together these contracts represent 35% of the historical steam sold at the facility.

Fairfax County Energy-from-Waste Facility

In August 2010, our service fee contract with Fairfax County was extended from 2011 to 2016 pursuant to a unilateral option held by the County. The terms of the contract remain unchanged under the extension; however, the project debt on the facility was repaid in February 2011, and since Fairfax County had previously paid debt service as a component of the service fee during the term of the original contract, the County will effectively retain the benefit of the debt repayment during the five year extension period.

Huntington Energy-from-Waste Facility

In December, 2010, our service fee contract with the Town of Huntington was extended from 2012 to 2019.

In March 2010, for cash consideration of $2 million, we acquired a nominal limited partnership interest held by a third party in Covanta Huntington Limited Partnership, our subsidiary which owns and operates an energy-from-waste facility in Huntington, New York.

Wallingford Energy-from-Waste Facility

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.

Stanislaus County, California Energy-from-Waste Facility

In May 2009, our service fee contract with Stanislaus County was extended from 2010 to 2016.

Tulsa Energy-from-Waste Facility

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.

Hempstead Energy-from-Waste Facility

We entered into a new tip fee contract with the Town of Hempstead, New York 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 waste capacity. We also entered into new tip fee contracts with other customers that expire on various dates prior to December 2014. These contracts utilize an additional 40% of the facility s waste capacity.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisitions

Dade Metals Recycling Facility

In May 2011, we acquired a metals processing facility located on our Dade energy-from-waste facility site. This facility shreds and processes recovered ferrous scrap metal to enhance marketability and price.

Portfolio of Energy-from-Waste Businesses

We completed the following transactions and acquired businesses which have a combined capacity of 9,600 tpd. Each of the operations acquired included a long-term operating contract with their respective municipal client.

- Between August 2009 and February 2010, we acquired one transfer station business and seven energy-from-waste businesses (Burnaby, Dade, Hudson Valley, Long Beach, MacArthur, Plymouth, and York) located in New York, Pennsylvania, California, Florida and British Columbia. Six of the energy-from-waste facilities and the transfer station are publicly-owned facilities. We paid cash consideration of $259 million in August 2009 for six energy-from-waste businesses and one transfer station, and in February 2010, we paid $128 million for the seventh energy-from-waste business. During the fourth quarter of 2010, we paid $2 million as a final post-closing purchase price adjustment.

- The businesses acquired in August 2009 included a majority ownership stake in one energy-from-waste facility and in November 2009, we acquired the remaining ownership stake in that facility for cash consideration of $24 million.

The final purchase price allocation included $140 million of property, plant and equipment, $329 million of intangible assets related to long-term operating contracts at each acquired EfW business except for the facility which we own, $27 million related to goodwill and $114 million of assumed debt. The acquired intangible assets will be amortized over an initial average remaining useful facility life of 31 years.

Philadelphia Transfer Stations

In May 2009, we acquired two waste transfer stations with combined capacity of 4,500 tpd in Philadelphia, Pennsylvania for cash consideration of approximately $18 million, inclusive of final working capital adjustments. The final purchase price allocation included $6 million of identifiable intangible assets related primarily to customer relationships and goodwill of $1 million.

Dispositions

Landfill Gas Projects

In 2011, we sold two landfill gas projects located in California and received cash proceeds of approximately $12 million and recorded a gain of $9 million.

Discontinued Operations Independent Power Production Facilities

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. In 2011, we completed the sale of our majority equity interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Samalpatti) and our interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Madurai). The Madurai assets sold included our entire interest in Covanta Madurai Operating Private Limited, which provided operation and maintenance services to the facility, as well as our approximately 77% ownership interest in the project company, Madurai Power

Corporation Private Ltd. We also completed the sale of our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon). The Quezon assets sold consisted of our entire interest in Covanta Philippines Operating, Inc., which provided operation and maintenance services to the facility, as well as our 26% ownership interest in the project company, Quezon Power, Inc. During 2011, we received a combined total of cash proceeds of $255 million, net of transaction costs, for our interests in the three fossil fuel independent power production facilities that we have sold. See Note 4. Assets Held for Sale for additional information.

Detroit Energy-from-Waste Facility

In June 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.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 30 2009, we purchased an undivided 30% owner-participant interest in the Detroit Facility for total cash consideration of approximately $8 million 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.

In November 2010, we completed the sale of our entire interest in the Detroit Facility and received consideration of $9 million. We recorded a pre-tax gain of approximately $1 million in connection with this transaction.

NOTE 4. ASSETS HELD FOR SALE

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. As of December 31, 2011, the remaining asset held for sale was our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. In October 2011, we entered into an agreement to sell our interest in the Haripur project and expect the sale to close in the first quarter of 2012.

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

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

	0000	0000	0000
		As of December 31,	
	2011	2010	2009
Revenues	$ 84	$ 152	$ 167
Operating expenses, including net gain on disposal of assets held for sale and loss on assets held for sale [(1)]	$ 54	$ (134)	$ (135)
Income before income tax expense and equity in net income from unconsolidated investments	$ 138	$ 20	$ 34
Equity in net income from unconsolidated investments	$ 8	$ 24	$ 20
Income from discontinued operations, net of income tax expense of $3, $8, and $7, respectively	$ 143	$ 36	$ 46

(1) During the years ended December 31, 2011 and 2010, we recorded a net after-tax gain (loss) on assets held for sale of $119 million and $(8) million, respectively.

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

	As of December 31,	
	2011	2010
Cash and cash equivalents	$ 2	$ 14
Restricted funds held in trust		19
Accounts receivable	1	20
Prepaid expenses and other assets		26

Property, plant and equipment				30
Investments in investees and joint ventures		15		81
Other long-term assets				1
Assets held for sale	$	18	$	191
Accounts payable	$		$	3
Accrued expenses and other		3		11
Project debt				16
Other noncurrent liabilities				4
Liabilities held for sale	$	3	$	34

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. EARNINGS PER SHARE AND EQUITY

Earnings Per Share

Per share data is based on the weighted average number of outstanding shares of our common stock, par value $0.10 per share, during the relevant period. Basic earnings per share are calculated using only the weighted average number of outstanding shares of common stock. Diluted earnings per share computations, as calculated under the treasury stock method, include the weighted average number of shares of additional outstanding common stock issuable for stock options, restricted stock, rights and warrants whether or not currently exercisable.

Diluted earnings per share for all the periods presented does not include securities if their effect was anti-dilutive (in millions, except per share amounts).

	0000	0000	0000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Net income from continuing operations	$ 79	$ 30	$ 61
Net income from discontinued operations	140	32	41
Net income attributable to Covanta Holding Corporation	$ 219	$ 62	$ 102
Basic earnings per share:			
Weighted average basic common shares outstanding	141	153	154
Continuing operations	$ 0.56	$ 0.19	$ 0.39
Discontinued operations	0.99	0.21	0.27
Covanta Holding Corporation	$ 1.55	$ 0.40	$ 0.66
Diluted earnings per share:			
Weighted average basic common shares outstanding	141	153	154
Dilutive effect of stock options			
Dilutive effect of restricted stock	1	1	1
Dilutive effect of convertible debentures			
Dilutive effect of warrants			
Weighted average diluted common shares outstanding	142	154	155
Continuing operations	$ 0.56	$ 0.19	$ 0.39
Discontinued operations	0.98	0.21	0.27
Covanta Holding Corporation	$ 1.54	$ 0.40	$ 0.66
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive:			
Stock options	2	2	2

Restricted stock			
Restricted stock units			
Warrants	28	27	25

In 2007, we issued 1.00% Senior Convertible Debentures due 2027 (the Debentures). The Debentures were convertible under certain circumstances if the closing sale price of our common stock exceeds a specified conversion price ($28.20 in any of the periods presented) before February 1, 2025. In connection with the quarterly cash dividend payable on January 5, 2012, the conversion rate for the Debentures was adjusted to 39.7608 shares of our common stock per $1,000 principal amount of the Debentures. The adjusted conversion rate is equivalent to an adjusted conversion price of $25.15 per share and became effective on December 19, 2011. As of December 31, 2011, the Debentures did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2009, we entered into privately negotiated warrant transactions in connection with the issuance of 3.25% Cash Convertible Senior Notes due 2014 (the 3.25% Notes). These warrants could have a dilutive effect to the extent that the price of our common stock exceeds the applicable strike price of $22.99. As of December 31, 2011, the warrants did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

Equity

During the year ended December 31, 2011, we granted 0.8 million restricted stock awards. For information related to stock-based award plans, see Note 18. Stock-Based Award Plans.

In 2011, we declared quarterly cash dividends totaling $0.30 per share and we repurchased 14.4 million shares of our common stock at a weighted average cost of $15.99 per share for an aggregate amount of approximately $230 million. In 2010, we declared a special cash dividend of $1.50 per share and we repurchased 6.1 million shares of our common stock at a weighted average cost of $15.56 per share for an aggregate amount of approximately $95 million.

As of December 31, 2011, there were 158 million shares of common stock issued of which 136 million shares were outstanding; the remaining 22 million shares of common stock issued but not outstanding were held as treasury stock. As of December 31, 2011, there were 3 million shares of common stock reserved and available for future issuance under equity plans.

As of December 31, 2011, there were 10 million shares of preferred stock authorized, with none issued or outstanding. The preferred stock may be divided into a number of series as defined by our Board of Directors. The Board of Directors are authorized to fix the rights, powers, preferences, privileges and restrictions granted to and imposed upon the preferred stock upon issuance.

NOTE 6. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

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

	00000 **Americas**	00000 **All Other [1]**	00000 **Total**
Year Ended December 31, 2011:			
Operating revenues	$ 1,608	$ 42	$ 1,650
Depreciation and amortization expense	191	2	193
Operating income (loss)	249	(31)	218
Interest expense, net	38	53	91
Equity in net income from unconsolidated investments		5	5
As of December 31, 2011:			
Total assets (includes goodwill of $232 in the Americas segment)	$ 3,955	$ 430	$ 4,385
Capital additions	100	18	118
Year Ended December 31, 2010:			
Operating revenues	$ 1,541	$ 42	$ 1,583
Depreciation and amortization expense	188	2	190
Write-down of assets	11	23	34
Operating income (loss)	213	(58)	155
Interest expense, net	42	41	83
Equity in net income from unconsolidated investments		2	2
As of December 31, 2010:			
Total assets (includes goodwill of $230 in the Americas segment)	$ 4,235	$ 441	$ 4,676

Capital additions	89	26	115
Year Ended December 31, 2009:			
Operating revenues	$ 1,346	$ 38	$ 1,384
Depreciation and amortization expense	195	2	197
Operating income (loss)	195	(31)	164
Interest expense, net	40	20	60
Equity in net (loss) income from unconsolidated investments	(1)	4	3

(1) All other is comprised of the financial results of our insurance subsidiaries operations and our remaining international assets that are not classified as assets held for sale (See Note 4. Assets Held for Sale).

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our operations are principally in the United States. See the list of projects for the Americas segment in *Item 1. Business.* Operations outside of the United States are primarily in Asia, with some projects in Europe and Latin America. A summary of revenues and total assets by geographic area is as follows (in millions):

	0000 United States	0000 Other	0000 Total
Operating Revenues:			
Year Ended December 31, 2011	$ 1,592	$ 58	$ 1,650
Year Ended December 31, 2010	$ 1,541	$ 42	$ 1,583
Year Ended December 31, 2009	$ 1,358	$ 26	$ 1,384

	0000 United States	0000 Assets Held for Sale	0000 Other	0000 Total
Total Assets:				
As of December 31, 2011	$ 4,010	$ 18	$ 357	$ 4,385
As of December 31, 2010	$ 4,383	$ 191	$ 102	$ 4,676

NOTE 7. AMORTIZATION OF WASTE, SERVICE AND ENERGY CONTRACTS

Waste, Service and Energy Contracts

Our waste, service and energy contracts are intangible assets and liabilities relating to long-term operating contracts at acquired facilities and are recorded upon acquisition at their estimated fair market values based upon discounted cash flows. Intangible assets and liabilities are amortized using the straight line method over their remaining useful lives, which average approximately 23 years for the waste, service and energy intangible contract assets and 7 years for the waste and service intangible contract liabilities.

Waste, Service and Energy contracts consisted of the following (in millions):

		00000	00000	00000	00000	00000	00000	00000
			As of December 31, 2011			As of December 31, 2010		
		Useful Life	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Waste, service and energy contracts (asset)	1	36 years	$ 632	$ 198	$ 434	$ 654	$ 182	$ 472
Waste and service contracts (liability)	1	11 years	$ (155)	$ (79)	$ (76)	$ (155)	$ (66)	$ (89)

The following table details the amount of the actual/estimated amortization expense and contra-expense associated with these intangible assets and liabilities as of December 31, 2011 included or expected to be included in our consolidated statements of income for each of the years indicated (in millions):

	Waste, Service and Energy Contracts (Amortization Expense)		Waste and Service Contracts (Contra-Expense)	
	00000	00000	00000	00000
Year ended December 31, 2011	$	38	$	(13)
2012	$	36	$	(13)
2013		32		(12)
2014		29		(12)
2015		26		(8)
2016		22		(8)
Thereafter		289		(23)
Total	$	434	$	(76)

The weighted average number of years prior to the next renewal period for contracts that we have an intangible recorded is 9 years.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. OTHER INTANGIBLE ASSETS AND GOODWILL

Other Intangible Assets

Other intangible assets consisted of the following (in millions):

	00000	00000	00000	00000	00000	00000	00000
		As of December 31, 2011			**As of December 31, 2010**		
	Useful Life	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Lease interest and other	7 18 years	$ 85	$ 21	$ 64	$ 80	$ 17	$ 63
Landfill (primarily ash)	2 years	18	14	4	18	12	6
Total amortizable intangible assets		103	35	68	98	29	69
Other intangibles	Indefinite	10		10	10		10
Intangible assets, net		$ 113	$ 35	$ 78	$ 108	$ 29	$ 79

The following table details the amount of the actual/estimated amortization expense associated with other intangible assets as of December 31, 2011 included or expected to be included in our statements of income for each of the years indicated (in millions):

	2012	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Annual Remaining Amortization	$ 6	$ 6	$ 4	$ 4	$ 4	$ 44	$ 68

Amortization Expense related to other intangible assets was $6 million, $6 million, and $5 million for the years ended December 31, 2011, 2010, and 2009, respectively. Lease interest amortization is recorded as rent expense in plant operating expenses and was $3 million for each of the years ended December 31, 2011, 2010, and 2009.

Goodwill

Goodwill was $232 million and $230 million as of December 31, 2011 and 2010, respectively. Goodwill represents the total consideration paid in excess of the fair value of the net tangible and identifiable intangible assets acquired and the liabilities assumed in acquisitions. Goodwill has an indefinite life and is not amortized but is reviewed for impairment under the provisions of accounting standards for goodwill. We performed the required annual impairment review of our recorded goodwill for our reporting unit using a qualitative assessment as of October 1, 2011 and determined that it was more likely than not that the fair value of our reporting unit was not less than its carrying value and no further assessment was necessary. As of December 31, 2011, goodwill of approximately $41 million was deductible for federal income tax purposes.

The following table details the changes in carrying value of goodwill for the years ended December 31, 2011 and 2010 (in millions):

	0000
	Total
Balance as of December 31, 2009	$ 203

Goodwill related to the acquisition of the EfW businesses (See Note 3)	27
Balance as of December 31, 2010	$ 230
Goodwill related to the acquisition of the Dade Metals Recycling Facility (See Note 3)	2
Balance as of December 31, 2011	$ 232

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EQUITY METHOD INVESTMENTS

Our subsidiaries are party to joint venture agreements through which we have equity investments in several operating projects. The joint venture agreements generally provide for the sharing of operational control as well as voting percentages. We record our share of earnings from our equity investees in equity in net income from unconsolidated investments in our consolidated statements of income.

As of December 31, 2011 and 2010, investments in investees and joint ventures accounted for under the equity method were as follows (in millions):

	00000	00000	00000	00000
	Ownership Interest as of December 31, 2011	**2011**	**Ownership Interest as of December 31, 2010**	**2010**
Pacific Ultrapower Chinese Station Plant (U.S.)	55%	$ 3	55%	$ 5
South Fork Plant (U.S.)	50%	1	50%	1
Koma Kulshan Plant (U.S.)	50%	5	50%	6
Ambiente 2000 (Italy)	40%	1	40%	1
Sanfeng (China) [1]	40%	12	40%	14
Chengdu (China) [1]	49%	21	49%	19
Total investments		$ 43		$ 46

(1) See Note 3. Business Development, Acquisitions and Dispositions for a discussion related to these equity investments.

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities which included our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon). The Quezon assets sold consisted of our entire interest in Covanta Philippines Operating, Inc., which provided operation and maintenance services to the facility, as well as our 26% ownership interest in the project company, Quezon Power, Inc. For additional information, see Note 3. Business Development, Acquisitions and Dispositions and Note 4. Assets Held for Sale. The following is a summary of the unaudited results of operations and financial position of Quezon for the period of January 1, 2011 to March 25, 2011, the disposal date (in millions):

	00000
Condensed Statement of Operations for the period January 1 to March 25, 2011:	
Revenues	$ 74
Operating income	32
Net income	15
Company s share of net income	4
Condensed Balance Sheet as of March 25, 2011:	
Current assets	$ 161

Noncurrent assets	602
Total assets	763
Current liabilities	107
Noncurrent liabilities	249
Total liabilities	356

NOTE 10. LEASES

Leases are primarily operating leases for leaseholds on energy-from-waste facilities and independent power projects, as well as for trucks and automobiles, office space and machinery and equipment. Some of these operating leases have renewal options. Expense under operating leases was $31 million, $30 million, and $31 million, for the years ended December 31, 2011, 2010, and 2009, respectively.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a schedule, by year, of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2011 (in millions):

	2012	2013	2014	2015	2016	Thereafter	Total
Future Minimum Rental Payments	$ 35	$ 26	$ 25	$ 24	$ 24	$ 139	$ 273
Non-Recourse Portion of Future Minimum Rental Payments	$ 21	$ 12	$ 12	$ 12	$ 11	$ 96	$ 164

Future minimum rental payment obligations include $164 million of future non-recourse rental payments that relate to energy-from-waste facilities. Of this amount $87 million is supported by third-party commitments to provide sufficient service revenues to meet such obligations. The remaining $77 million is related to an energy-from-waste facility at which we serve as the operator and directly market one half of the facility s disposal capacity. This facility currently generates sufficient revenues from short-, medium-, and long-term contracts to meet rental payments. We anticipate renewing the contracts or entering into new contracts to generate sufficient revenues to meet remaining future rental payments.

Covanta Delaware Valley, L.P. (Delaware Valley) leases a facility pursuant to an operating lease that expires in July 2019. In certain default circumstances under such lease, Delaware Valley becomes obligated to pay a contractually specified stipulated loss value that declines over time and was approximately $86 million as of December 31, 2011.

NOTE 11. LONG-TERM DEBT

Long-Term Debt

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

	As of December 31, 2011	As of December 31, 2010
7.25% Senior Notes due 2020	$ 400	$ 400
3.25% Cash Convertible Senior Notes due 2014	460	460
Debt discount related to 3.25% Cash Convertible Senior Notes	(67)	(91)
Cash conversion option derivative at fair value	49	116
3.25% Cash Convertible Senior Notes, net	442	485
1.00% Senior Convertible Debentures due 2027	25	57
Debt discount related to 1.00% Senior Convertible Debentures		(3)
1.00% Senior Convertible Debentures, net [(1)]	25	54
Term Loan Facility due 2014	619	626
Total	1,486	1,565
Less: current portion	(32)	(7)
Total long-term debt	$ 1,454	$ 1,558

(1) On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012. See additional information below under *1.00% Senior Convertible Debentures*.

Credit Facilities

We have the ability to make investments in our business and to take advantage of opportunities to grow our business through investments and acquisitions, both domestically and internationally, by utilizing Credit Facilities which are comprised of:

- a $300 million revolving credit facility due 2013, which includes a $200 million sub-facility for the issuance of letters of credit (the Revolving Credit Facility);
- a $320 million funded letter of credit facility due 2014 (the Funded L/C Facility); and
- a term loan facility, due 2014, in the initial amount of $650 million and of which $619 million was outstanding as of December 31, 2011 (the Term Loan Facility).

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2011, we had available credit for liquidity as follows (in millions):

	Total Available Under Facility		Maturing	Outstanding Letters of Credit as of December 31, 2011		Available as of December 31, 2011	
Revolving Credit Facility [1]	$	300	2013	$		$	300
Funded L/C Facility	$	320	2014	$	277	$	43

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

Amortization Terms

The Credit Facilities include mandatory annual amortization of the Term Loan Facility to be paid in quarterly installments through the date of maturity as follows (in millions):

	2012		2013		2014		Total	
Annual Remaining Amortization	$	7	$	7	$	605	$	619

Under the Credit Facilities, we are obligated to apply a portion of excess cash from operations on an annual basis (calculated pursuant to the credit agreement), as well as specified other sources, to repay borrowings under the Term Loan Facility. The portion of excess cash (as defined in the credit agreement) to be used for this purpose is 50%, 25%, or 0%, based on measurement of the leverage ratio under the financial covenants.

Interest and Fee Terms

Loans under the Credit Facilities are designated, at our election, as Eurodollar rate loans or base rate loans. Eurodollar loans bear interest at a reserve adjusted British Bankers Association Interest Settlement Rate, commonly referred to as LIBOR, for deposits in dollars plus a borrowing margin as described below. Interest on Eurodollar rate loans is payable at the end of the applicable interest period of one, two, three or six months (and at the end of every three months in the case of six month Eurodollar loans). Base rate loans bear interest at (a) a rate per annum equal to the greater of (1) the prime rate designated in the relevant facility or (2) the Federal Funds rate plus 0.5% per annum, plus (b) a borrowing margin as described below.

Letters of credit that may be issued in the future under the Revolving Credit Facility will accrue fees at the then effective borrowing margins on Eurodollar rate loans (described below), plus a fee on each issued letter of credit payable to the issuing bank. Letter of credit availability under the Funded L/C Facility accrues fees (whether or not letters of credit are issued thereunder) at the then effective borrowing margin for Eurodollar rate loans times the total availability for issuing letters of credit (whether or not then utilized), plus a fee on each issued letter of credit payable to the issuing bank. In addition, we have agreed to pay to the participants under the Funded L/C Facility a fee equal to 0.10% times the average daily amount of the credit linked deposit paid by such participants for their participation under the Funded L/C Facility.

The borrowing margins referred to above for the Credit Facilities are as follows:

	000	000	000	000
Leverage Ratio	**Borrowing Margin for Revolving Credit (Eurodollar Loans)**	**Borrowing Margin for Revolving Credit (Base Rate Loans)**	**Borrowing Margin for Term Loans, Funded Letters of Credit and Credit-Linked Deposits (Eurodollar Loans)**	**Borrowing Margin for Term Loans, Funded Letters of Credit and Credit-Linked Deposits (Base Rate Loans)**
³ 4.00:1.00	2.00%	1.00%	1.75%	0.75%
< 4.00:1.00 and ³ 3.25:1.00	1.75%	0.75%	1.50%	0.50%
< 3.25:1.00 and ³ 2.75:1.00	1.50%	0.50%	1.50%	0.50%
< 2.75:1.00	1.25%	0.25%	1.50%	0.50%

Guarantees and Securitization

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

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Facilities Financial Covenants

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants. We were in compliance with all required covenants as of December 31, 2011.

The affirmative covenants of the Credit Facilities include covenants relating to the following:

- financial statements and other reports;
- continued existence;
- payment of taxes and claims;
- maintenance of properties;
- insurance coverage;
- inspections by lenders (subject to frequency and cost reimbursement limitations);
- lenders meetings;
- compliance with laws;
- environmental matters;
- additional material real estate assets;
- designation of subsidiaries; and
- post-closing matters.

The negative covenants of the Credit Facilities include limitations on the following:

- indebtedness (including guarantee obligations);
- liens;
- negative pledge clauses;
- restricted junior payments;
- clauses restricting subsidiary distributions;
- investments;
- fundamental changes;
- disposition of assets;
- acquisitions;
- conduct of business;
- amendments or waivers of certain agreements;
- changes in fiscal year; and
- hedge agreements.

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

- maximum Covanta Energy leverage ratio of 3.50 to 1.00 for the four quarter period ended December 31, 2011 and thereafter, which measures Covanta Energy s principal amount of consolidated debt less certain restricted funds dedicated to repayment of project debt principal and construction costs (Consolidated Adjusted Debt) to its adjusted earnings before interest, taxes, depreciation and amortization, as calculated under the Credit Facilities (Adjusted EBITDA). The definition of Adjusted EBITDA in the Credit Facilities excludes certain non-cash charges, and for purposes of calculating the leverage ratio and interest coverage ratios is adjusted on a pro forma basis for acquisitions and dispositions made during the relevant period.

- maximum Covanta Energy capital expenditures incurred to maintain existing operating businesses of $100 million per fiscal year, subject to adjustment due to an acquisition by Covanta Energy; and
- minimum Covanta Energy interest coverage ratio of 3.00 to 1.00, which measures Covanta Energy s Adjusted EBITDA to its consolidated interest expense plus certain interest expense of ours, to the extent paid by Covanta Energy.

Defaults under the Credit Facilities include:

- non-payment of principal when due;
- non-payment of any amount payable to an issuing bank in reimbursement of any drawing under a letter of credit when due;
- non-payment of interest, fees or other amounts after a grace period of five days;
- cross-default to material indebtedness;

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- violation of a covenant (subject, in the case of certain affirmative covenants, to a grace period of thirty days);
- material inaccuracy of a representation or warranty when made;
- bankruptcy events with respect to us, Covanta Energy or any material subsidiary or group of subsidiaries of Covanta Energy;
- material judgments;
- certain material ERISA events;
- change of control (subject to exceptions for certain of our existing owners);
- failure of subordination; and
- actual or asserted invalidity of any guarantee or security document.

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

In 2010, we sold $400 million aggregate principal amount of 7.25% Senior Notes due 2020. Interest on the 7.25% Notes is payable semi-annually on June 1 and December 1 of each year, commencing on June 1, 2011 and the 7.25% Notes will mature on December 1, 2020 unless earlier redeemed or repurchased. In 2010, we used $317 million of the net proceeds of the 7.25% Notes offering to purchase 85% of the total outstanding 1.00% Senior Convertible Debentures due 2027 (described below), for an aggregate purchase price of $313 million plus $1 million in accrued and unpaid interest. The remaining net proceeds were used for general corporate purposes. Net proceeds from the sale of the 7.25% Notes were $390 million, consisting of gross proceeds of $400 million net of $10 million in offering expenses.

The 7.25% Notes are 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 7.25% Notes are 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. None of our subsidiaries guarantee the 7.25% Notes. The 7.25% Notes were rated Ba3 by Moody s Investors Service, Inc. and Single-B by Standard & Poor s Ratings Group Inc. at the time of the offering.

The indenture for the 7.25% Notes may limit our ability and the ability of certain of our subsidiaries to:

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

If and for so long as the 7.25% 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 will be suspended.

At our option, the 7.25% Notes are subject to redemption at any time on or after December 1, 2015, in whole or in part, at the redemption prices set forth in the indenture, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to December 1, 2013, we may redeem up to 35% of the original principal amount of the 7.25% Notes with the proceeds of certain equity offerings at a redemption price of 107.25% of the principal amount of the 7.25% Notes, together with accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to December 1, 2015, we may redeem some or all of the 7.25% 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 7.25% Notes. The occurrence of specific kinds of changes in control will be a triggering event requiring us to offer to purchase from the holders all or a portion of the 7.25% Notes at a price equal to 101% of the principal amount, together with accrued and unpaid interest, if any, to the date of purchase. In addition, certain asset dispositions will be triggering events that may require us to use the proceeds from those asset dispositions to make an offer to purchase the 7.25% Notes at 100% of the principal amount, together with accrued and unpaid interest, if any, to the date of purchase if such proceeds are not otherwise used within 365 days to repay indebtedness or to invest or commit to invest such proceeds in additional assets related to our business or capital stock of a restricted subsidiary.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In 2009, we issued $460 million aggregate principal amount of the 3.25% Notes due in 2014 in a private transaction exempt from registration under the Securities Act of 1933, as amended. We have used the net proceeds from the offering for general corporate purposes, including capital expenditures, permitted investments or permitted acquisitions.

The 3.25% Notes constitute general unsecured senior obligations and rank equally in right of payment with our existing and future senior unsecured indebtedness. The 3.25% Notes are effectively junior to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The 3.25% Notes are not guaranteed by any of our subsidiaries and are effectively subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries.

Interest for the 3.25% Notes is payable semi-annually in arrears, on June 1 and December 1 of each year, commencing on December 1, 2009 until they mature on June 1, 2014. Under limited circumstances, we may be required to pay contingent interest on the 3.25% Notes as a result of failure to comply with the reporting obligations in the indenture, failure to file required Securities and Exchange Commission documents and reports or if the holders cannot freely trade the 3.25% Notes. When applicable, the contingent interest payable per $1,000 principal amount of 3.25% Notes ranges from 0.25% to 0.50% per annum over the applicable term as provided under the indenture for the 3.25% Notes. The contingent interest features of the 3.25% Notes are embedded derivative instruments. The fair value of the contingent interest features of the 3.25% Notes was $0 as of December 31, 2011.

Under limited circumstances, the 3.25% Notes are convertible by the holders thereof into cash only, based on a conversion rate of 60.3521 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.57 per share) subject to certain customary adjustments as provided in the indenture for the 3.25% Notes. We will not deliver common stock (or any other securities) upon conversion under any circumstances. Holders may convert their 3.25% Notes only under the following circumstances:

- prior to March 1, 2014, on any date during any fiscal quarter commencing at any time after June 30, 2009 and only during such fiscal quarter if the closing sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the then effective conversion price; or
- upon the occurrence of specified corporate transactions (as provided in the indenture for the 3.25% Notes); or
- upon certain fundamental changes (as defined in the indenture for the 3.25% Notes in which case the conversion rate will be increased as provided in the indenture); or
- during the five consecutive business day period following any five consecutive trading day period in which the trading price for the 3.25% Notes for each day during such five day period was less than 95% of the product of the closing sale price of our common stock on such day multiplied by the then effective conversion rate; or
- at any time on or after March 1, 2014.

The 3.25% Notes are also subject to repurchase by us, at the holder s option, if a fundamental change occurs, for cash at a repurchase price equal to 100% of the principal amount of the 3.25% Notes, plus accrued and unpaid interest (including contingent interest, if any).

The 3.25% Notes are recognized as long-term debt in our consolidated financial statements. The difference between the face value of the 3.25% Notes ($460 million as of the date of issuance of the 3.25% Notes) and the amount recognized in the financial statements ($336 million as of the date of the issuance of the 3.25% Notes) is the debt discount ($124 million as of the date of the issuance of the 3.25% Notes) which is accreted to the 3.25% Notes over their life and recognized as non-cash convertible debt related expense. For the years ended December 31, 2011, 2010 and 2009, the pre-tax non-cash convertible debt related expense recognized in our consolidated statements of income related to the 3.25% Notes was $24 million, $21 million and $12 million, respectively. The amount of the debt discount accretion expected to be included in our consolidated financial statements is $26 million, $29 million and $13 million for the years ended December 31, 2012, 2013, and 2014, respectively.

The 3.25% Notes are convertible into cash only, and therefore the cash conversion option that is part of the 3.25% Notes is accounted for as a derivative. The initial valuation of the cash conversion option (the Cash Conversion Option) is an embedded derivative of $124 million, which is recognized as long-term debt in our consolidated financial statements. The Cash Conversion Option is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. As of

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2011, the fair value of the Cash Conversion Option was $49 million. See Note 13. Financial Instruments and Note 14. Derivative Instruments for additional information regarding the Cash Conversion Option.

In connection with the 3.25% Notes offering, we entered into privately negotiated cash convertible note hedge transactions (the Note Hedge) with affiliates of certain of the initial purchasers of the 3.25% Notes (the Option Counterparties) that are expected to reduce our exposure to potential cash payments in excess of the principal amount of the 3.25% Notes that may be required to be made by us upon the cash conversion of the 3.25% Notes. The Note Hedge consisted of our purchase for $112 million of cash settled call options on our common stock (initially correlating to the same number of shares as those initially underlying the 3.25% Notes subject to generally similar customary adjustments) that have economic characteristics similar to those of the Cash Conversion Option embedded in the 3.25% Notes. The Note Hedge was recorded as a noncurrent asset in our consolidated financial statements for $112 million. The Note Hedge is also accounted for as a derivative instrument and as such, is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. As of December 31, 2011, the fair value of the Note Hedge was $47 million. See Note 13. Financial Instruments and Note 14. Derivative Instruments for additional information regarding the Note Hedge.

We expect the gain or loss associated with changes to the valuation of the Note Hedge to substantially offset the gain or loss associated with changes to the valuation of the Cash Conversion Option. However, they will not be completely offsetting as a result of changes in the credit spreads of the Option Counterparties.

In connection with the 3.25% Notes offering, we also sold warrants (the Warrants) to the Option Counterparties, in privately negotiated transactions, initially correlating to the same number of shares as those initially underlying the 3.25% Notes, which could have a dilutive effect to the extent that the market price of our common stock exceeds the then effective strike price of the Warrants. The Warrants were sold for aggregate proceeds of $54 million. The strike price of the Warrants was approximately $25.74 per share and was subject to customary adjustments. As a result of cash dividends paid since the Warrants were issued, the conversion rate for the Warrants has been adjusted to $22.99. The Warrants are exercisable only at expiration in equal tranches over 60 days beginning on September 2, 2014 and ending on November 26, 2014. The Warrants are only net share settled which means that, with respect to any exercise date, we will deliver to the Warrant holders a number of shares for each warrant equal to the excess (if any) of the volume weighted average price of the shares on the exercise date over the then effective strike price of the Warrants, divided by such volume weighted average price of the shares, with a cash payment in lieu of fractional shares. Accordingly, the Warrants were recorded as additional paid-in capital in our consolidated financial statements for $54 million. The Warrant transactions meet the definition of an equity derivative under current accounting principles because they were indexed to our common stock. As such, the Warrants were recorded at their fair value upon their issuance in 2009 within equity in our consolidated balance sheet and are not re-measured at fair value on a quarterly basis.

Net proceeds from the above transactions were $387 million, consisting of gross proceeds of $460 million from the 3.25% Notes and $54 million of proceeds from the Warrants, less the $112 million purchase price for the Note Hedge and $14 million of purchase discounts and other offering expenses.

The Note Hedge transactions and the Warrant transactions are separate transactions, each of which we have entered into with the Option Counterparties, and are not part of the terms of the Notes and will not affect any rights of holders under the 3.25% Notes. Holders of the 3.25% Notes do not have any rights with respect to the Note Hedge transactions or Warrant transactions.

1.00% Senior Convertible Debentures due 2027 (the Debentures)

In 2007, we completed an underwritten public offering of $374 million aggregate principal amount of Debentures. In November 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027. We offered to purchase the Debentures at a purchase price of $990 for each $1,000 principal amount of Debentures, plus accrued and unpaid interest. During the year ended December 31, 2011 and 2010, $32 million and $317 million, respectively, of the Debentures were purchased. We used a portion of the net proceeds of the 7.25% Note offering discussed above to fund the purchase price and accrued and unpaid interest of the Debentures. As of December 31, 2011, there were $25 million aggregate principal amount of the Debentures outstanding.

At our option, the Debentures are subject to redemption at any time on or after February 1, 2012, in whole or in part, at a redemption price equal to 100% of the principal amount of the Debentures being redeemed, plus accrued and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unpaid interest (including contingent interest, if any). On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012.

Loss on Extinguishment of Debt

For the years ended December 31, 2011 and 2010, as a result of the tender offer to purchase outstanding Debentures, we recorded a loss on extinguishment of debt of $1 million and $15 million, respectively, pre-tax, which was comprised of the difference between the fair value and carrying value of the liability component of the Debentures tendered, a write off of deferred financing costs and fees incurred in conjunction with the tender offer. In 2010, we also reduced additional paid-in-capital by $8 million, pre-tax, which represented the difference between the amount paid in the tender offer and the fair value of the liability.

Financing Costs

All deferred financing costs are amortized to interest expense over the life of the related debt using the effective interest method. Amortization of deferred financing costs is included as a component of interest expense and was $6 million, $7 million, and $5 million for the years ended December 31, 2011, 2010, and 2009, respectively.

NOTE 12. PROJECT DEBT

Project debt is presented below (in millions):

	0000	0000
	As of December 31,	
	2011	**2010**
Americas Project Debt related to Service Fee structures		
3.00-6.25% serial revenue bonds due 2012 through 2019	$ 148	$ 232
3.7-7.0% term revenue bonds due 2012 through 2022	141	161
5.248% other debt obligations due 2012 through 2020	2	2
Subtotal	291	395
Unamortized debt premium, net	4	7
Total Service Fee structure related project debt	295	402
Americas Project Debt related to Tip Fee structures		
5.10-6.70% serial revenue bonds due 2012 through 2019	134	163
5.450-8.375% term revenue bonds due 2012 through 2019	221	223
Subtotal	355	386
Unamortized debt premium, net	4	5
Total Tip Fee structure related project debt	359	391
Other Project Debt	26	10

Total project debt		680		803
Less: Current project debt (includes $3 and $5 of unamortized premium, respectively)		(147)		(141)
Noncurrent project debt	$	533	$	662

On December 1, 2010, one of our client communities refinanced project debt ($30 million outstanding) with the proceeds from new bonds and cash on hand. As a result of the refinancing, the client community issued $28 million tax exempt bonds bearing interest from 2% to 4% due 2015 in order to pay down the existing project debt. Consistent with other private, non-tip fee structures, the client community will pay us debt service revenue equivalent to the principal and interest on the bonds.

On June 1, 2010, we elected to repurchase $43 million of project bonds (issued in connection with our Hempstead facility) under a mandatory tender. The bonds were simultaneously amended to extend their final maturity from December 1, 2010 to June 1, 2015. As a result of this transaction, the bonds have been reflected as repaid in the consolidated financial statements, but may be remarketed to third party investors at any time. In the event we effect such a remarketing, the aggregate amount of our project debt would be increased accordingly.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The maturities of long-term project debt as of December 31, 2011 are as follows (in millions):

	2012	2013	2014	2015	2016	Thereafter	Total	Less: Current Portion	Total Noncurrent Project Debt
Debt	$ 144	$ 129	$ 120	$ 95	$ 42	$ 143	$ 673	$ (144)	$ 529
Premium	3	2	1	1			7	(3)	4
Total	$ 147	$ 131	$ 121	$ 96	$ 42	$ 143	$ 680	$ (147)	$ 533

Project debt associated with the financing of energy-from-waste facilities is arranged by municipal entities through the issuance of tax-exempt and taxable revenue bonds or other borrowings. For those facilities we own, that project debt is recorded as a liability on our consolidated financial statements. Generally, debt service for project debt related to Service Fee Structures is the primary responsibility of municipal entities, whereas debt service for project debt related to Tip Fee structures is paid by our project subsidiary from project revenue expected to be sufficient to cover such expense.

Payment obligations for our project debt associated with energy-from-waste facilities are limited recourse to the operating subsidiary and non-recourse to us, subject to operating performance guarantees and commitments. These obligations are secured by the revenues pledged under various indentures and are collateralized principally by a mortgage lien and a security interest in each of the respective energy-from-waste facilities and related assets. As of December 31, 2011, such revenue bonds were collateralized by property, plant and equipment with a net carrying value of $2 billion and restricted funds held in trust of approximately $167 million.

Other project debt includes $26 million due to financial institutions denominated in Rmb, relating to the construction of a 350 tpd energy-from-waste line in Taixing Municipality, in Jiangsu Province, People s Republic of China. The debt bears a floating interest rate based on a 5% discount on the benchmark interest rate (for loans with repayment period terms of five years or more) announced by the People s Bank of China. As of December 31, 2011, the benchmark interest rate is 7.05% and the interest rate applicable to the outstanding loan was 6.70%. The construction related debt is payable in scheduled annual installments until 2019. The entire debt is secured by the project assets for the entire term of the loan and is backed by a guarantee from Covanta Energy Asia Pacific Holdings, Limited (China) effective until one year after maturity date of the loan.

NOTE 13. FINANCIAL INSTRUMENTS

Fair Value Measurements

Authoritative guidance associated with fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

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

Fair values for long-term debt and project debt are determined using quoted market prices.

The fair value of the Note Hedge and the Cash Conversion Option are determined using an option pricing model based on observable inputs such as implied volatility, risk free rate, and other factors. The fair value of the Note Hedge is adjusted to reflect counterparty risk of non-performance, and is based on the counterparty s credit spread in the credit derivatives market. The contingent interest features related to the Debentures and the Notes are valued quarterly using the present value of expected cash flow models incorporating the probabilities of the contingent events occurring.

The estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of December 31, 2011. However, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2011, and current estimates of fair value may differ significantly from the amounts presented herein.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents information about the fair value measurement of our assets and liabilities as of December 31, 2011:

	00000	00000	00000	00000	00000
	As of December 31, 2011		Fair Value Measurements at Reporting Date Using		
Financial Instruments Recorded at Fair Value on a Recurring Basis:	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In millions)			
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 225	$ 225	$ 225	$	$
Money market funds	7	7	7		
Total cash and cash equivalents:	232	232	232		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	5	5	5		
Money market funds	119	119	119		
U.S. Treasury/Agency obligations (1)	15	15	15		
State and municipal obligations	7	7	7		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	45	45	45		
Total restricted funds held in trust:	191	191	191		
Restricted funds other:					
Bank deposits and certificates of deposit (2)(3)	5	5	5		
Money market funds (3)	7	7	7		
Residential mortgage-backed securities (3)	1	1	1		
Total restricted funds other:	13	13	13		
Investments:					
Mutual and bond funds (2)	2	2	2		
Investments available for sale:					
U.S. Treasury/Agency obligations (4)	8	8	8		
Residential mortgage-backed securities (4)	7	7	7		
Other government obligations (4)	3	3	3		
Corporate investments (4)	13	13	13		
Equity securities (3)	1	1	1		
Total investments:	34	34	34		
Derivative Asset Note Hedge	47	47		47	
Derivative Asset Energy Hedges	3	3		3	

Total assets:	$ 520	$ 520	$ 470	$ 50	$
Liabilities:					
Derivative Liability Cash Conversion Option	$ 49	$ 49	$	$ 49	$
Derivative Liabilities Contingent interest features of the 3.25% Notes and Debentures	0	0		0	
Total liabilities:	$ 49	$ 49	$	$ 49	$

	00000	00000
	As of December 31, 2011	
Financial Instruments Recorded at Carrying Amount:	**Carrying Amount**	**Estimated Fair Value**
Assets:		
Accounts receivables [(5)]	$ 274	$ 274
Liabilities:		
Long-term debt (excluding Cash Conversion Option)	$ 1,437	$ 1,470
Project debt	$ 680	$ 693

(1) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.

(2) Included in other noncurrent assets in the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Included in prepaid expenses and other current assets in the consolidated balance sheets.
(4) Included in investments in fixed maturities at market in the consolidated balance sheets.
(5) Includes $17 million of noncurrent receivables in other noncurrent assets in the consolidated balance sheets.

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

	00000	00000	00000	00000	00000
			Fair Value Measurements at Reporting Date Using		
	As of December 31, 2010				
Financial Instruments Recorded at Fair Value on a Recurring Basis:	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In millions)		
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 48	$ 48	$ 48	$	$
Money market funds	78	78	78		
Total cash and cash equivalents:	126	126	126		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	4	4	4		
Money market funds	117	117	117		
U.S. Treasury/Agency obligations (1)	56	56	56		
State and municipal obligations	7	7	7		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	49	49	49		
Total restricted funds held in trust:	233	233	233		
Restricted funds other:					
Bank deposits and certificates of deposit (2)	22	22	22		
Money market funds (3)	11	11	11		
Residential mortgage-backed securities (3)	1	1	1		
Other government obligations (3)	1	1	1		
Corporate investments (3)	1	1	1		
Total restricted funds other:	36	36	36		
Investments:					
Mutual and bond funds (2)	3	3	3		
Investments available for sale:					
U.S. Treasury/Agency obligations (4)	6	6	6		
Residential mortgage-backed securities (4)	5	5	5		
Other government obligations (4)	2	2	2		
Corporate investments (4)	16	16	16		

Equity securities [3]	1	1	1		
Total investments:	33	33	33		
Derivative Asset Note Hedge	112	112		112	
Total assets:	$ 540	$ 540	$ 428	$ 112	$
Liabilities:					
Derivative Liability Energy Hedges	$ 1	$ 1	$	$ 1	$
Derivative Liability Cash Conversion Option	116	116		116	
Derivative Liabilities Contingent interest features of the 3.25% Notes and Debentures	0	0		0	
Total liabilities:	$ 117	$ 117	$	$ 117	$

	00000	00000
	As of December 31, 2010	
Financial Instruments Recorded at Carrying Amount:	**Carrying Amount**	**Estimated Fair Value**
Assets:		
Accounts receivables [5]	$ 293	$ 293
Liabilities:		
Long-term debt (excluding Cash Conversion Option)	$ 1,448	$ 1,497
Project debt	$ 803	$ 823

(1) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Included in other noncurrent assets in the consolidated balance sheets.
(3) Included in prepaid expenses and other current assets in the consolidated balance sheets.
(4) Included in investments in fixed maturities at market in the consolidated balance sheets.
(5) Includes $25 million of noncurrent receivables in other noncurrent assets in the consolidated balance sheets.

Investments

Our insurance subsidiaries fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Other investments, such as investments in companies in which we do not have the ability to exercise significant influence, are carried at the lower of cost or estimated realizable value. For accounting policy information related to investments, see Note 1. Organization and Summary of Significant Accounting Policies.

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

	00000	00000	00000	00000	00000	00000	00000	00000
	As of December 31, 2011				As of December 31, 2010			
	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Current investments:								
Fixed maturities	$	$	$	$	$	$	$	$
Equity securities - insurance business	1			1	1			1
Total current investments	$ 1	$	$	$ 1	$ 1	$	$	$ 1
Noncurrent investments:								
Fixed maturities - insurance business:								
U.S. government obligations	$	$	$	$	$	$	$	$
U.S. government agencies	8			8	6			6
Residential mortgage-backed securities	7			7	5			5
Other government obligations	3			3	2			2
Corporate investments	13			13	15	1		16
Total fixed maturities - insurance business	31			31	28	1		29
Mutual and bond funds	2			2	3			3
Total noncurrent investments	$ 33	$	$	$ 33	$ 31	$ 1	$	$ 32

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

	00000	00000	00000	00000
	As of December 31, 2011		As of December 31, 2010	
Description of Investments				

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and other direct U.S. Government obligations	$	$	$ 1	$
Residential mortgage-backed securities	4		2	
Other government obligations	1		1	
Corporate bonds	6		4	
Total fixed maturities	11		8	
Equity securities				
Total temporarily impaired investments	$ 11	$	$ 8	$

As of December 31, 2011, the number of U.S. Treasury and federal agency obligations, other government obligations, mortgage-backed securities, and corporate bonds temporarily impaired are 0, 2, 5 and 17, respectively. As of December 31, 2011, all of the temporarily impaired fixed maturity investments with a fair value of $11 million had maturities greater than 12 months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our fixed maturities held by our insurance subsidiary include mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) representing 21.8% and 15.4% of the total fixed maturities as of December 31, 2011 and 2010, respectively. Our MBS holdings are issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association all of which are rated AAA by Moody s Investors Services. MBS and callable bonds, in contrast to other bonds, are more sensitive to market value declines in a rising interest rate environment than to market value increases in a declining interest rate environment.

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

	0000000000	0000000000
	As of December 31, 2011	
	Amortized Cost	**Fair Value**
Available-for-sale:		
One year or less	$ 4	$ 4
Over one year to five years	20	20
Over five years to ten years	7	7
More than ten years		
Total fixed maturities	$ 31	$ 31

The change in net unrealized gain on securities included as a separate component of AOCI in the consolidated statements of equity was not material for the year ended December 31, 2011, 2010 and 2009.

NOTE 14. DERIVATIVE INSTRUMENTS

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

	0000000	0000000	0000000
Derivative Instruments Not Designated		**Fair Value as of December 31,**	
As Hedging Instruments	**Balance Sheet Location**	**2011**	**2010**
Asset Derivatives:			
Note Hedge	Other noncurrent assets	$ 47	$ 112
Liability Derivatives:			
Cash Conversion Option	Long-term debt	$ 49	$ 116
Contingent interest features of the Debentures and 3.25% Notes	Other noncurrent liabilities	$ 0	$ 0

	00000	00000	00000	00000
Effect on Income of Derivative Instruments Not Designated As Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivatives**	**Amount of Gain or (Loss) Recognized In Income on Derivative For the Years Ended December 31,**		

		2011		2010		2009	
Note Hedge	Non-cash convertible debt related expense	$	(65)	$	(11)	$	11
Cash Conversion Option	Non-cash convertible debt related expense		67		12		(4)
Contingent interest features of the 3.25% Notes and Debentures	Non-cash convertible debt related expense						
Interest rate swap	Non-cash convertible debt related expense						
Effect on income of derivative instruments not designated as hedging instruments		$	2	$	1	$	7

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

The Cash Conversion Option is a derivative instrument which is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. The Note Hedge is accounted for as a derivative instrument and as such, is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We expect the gain or loss associated with changes to the valuation of the Note Hedge to substantially offset the gain or loss associated with changes to the valuation of the Cash Conversion Option. However, they will not be completely offsetting as a result of changes in the credit valuation adjustment related to the Note Hedge. Our most significant credit exposure arises from the Note Hedge. The fair value of the Note Hedge reflects the maximum loss that would be incurred should the Option Counterparties fail to perform according to the terms of the Note Hedge agreement. See Note 11. Long-Term Debt for specific details related to the Cash Conversion Option, Note Hedge and contingent interest features of the 3.25% Notes.

Contingent Interest feature of the 1.00% Senior Convertible Debentures

The contingent interest feature in the Debentures is an embedded derivative instrument. The first contingent cash interest payment period commenced on February 1, 2012, and the fair value for the embedded derivative was $0 as of December 31, 2011. See Note 22. Subsequent Events for information related to the repurchase of outstanding Debentures.

Energy Price Risk

Following the expiration of certain long-term energy sales contracts, we may have exposure to market risk, and therefore revenue fluctuations, in energy markets. We have entered into contractual arrangements that will mitigate our exposure to this volatility through a variety of hedging techniques, and will continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading. Consequently, we have entered into swap agreements with various financial institutions to hedge our exposure to market risk. As of December 31, 2011, the fair value of the energy derivatives of $3 million, pre-tax, was recorded as a current asset and as a component of AOCI.

Interest Rate Swaps

On August 20, 2009, one of our client communities refinanced project debt ($64 million outstanding) and we terminated a related interest rate swap ($10 million liability) with the proceeds from new bonds and cash on hand. Prior to this refinancing, we had an interest rate swap agreement related to the existing project debt that economically fixed the interest rate on the adjustable-rate revenue bonds. Any payments made or received under the swap agreement, including amounts upon termination, were included as an explicit component of the client community s obligation under the related service agreement. Therefore, all payments made or received under the swap agreement were a pass through to the client community. The swap agreement resulted in increased debt service expense, which is a pass through to the client community, of $2 million for the year ended December 31, 2009.

NOTE 15. SUPPLEMENTARY INFORMATION

Other Operating Expenses

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

	000000	000000	000000
	For the Years Ended December 31,		
	2011	2010	2009
Construction expense	$ 143	$ 101	$ 27
Insurance subsidiary operating expenses [1]	16	23	21
Gain on the sale of businesses	(9)		
Insurance recoveries	(5)	(1)	
Development costs	5		
Foreign exchange gain	(5)	(1)	

Other	(2)	(2)	
Total other operating expenses	$ 143	$ 120	$ 48

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

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Write-down of Assets

Americas

Harrisburg Energy-from-Waste Facility

In 2008, we entered into a ten year agreement with The Harrisburg Authority to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania. We also agreed to provide construction management services and to advance up to $26 million in funding to The Harrisburg Authority for certain facility improvements required to enhance facility performance, which improvements 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. We had advanced $22 million, of which $20 million was outstanding as of December 31, 2010 under this funding arrangement. 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. On December 15, 2010, the City of Harrisburg was formally admitted to the State oversight program for distressed municipalities known as Act 47. In 2010, we recorded a non-cash impairment charge of $7 million, pre-tax, to write-down the receivable to $13 million, which was calculated based on a range of potential outcomes utilizing various estimated cash flows for the receivable. In October 2011, the City of Harrisburg filed for protection under the bankruptcy laws. In November 2011, the bankruptcy court dismissed the filing, and the City appealed the dismissal. The City s appeal was denied in February 2012. We intend to continue 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.

Other Assets

During the year ended December 31, 2010, we recorded a non-cash impairment charge of $4 million which is comprised primarily of the write-down of real estate for our corporate office and certain project assets to estimated fair value.

Other

Dublin Joint Venture

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 50% of the facility s processing capacity. The project was 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 in September 2010, without the satisfaction of all the conditions precedent. The parties will need to agree to proceed and are currently working toward addressing the current project issues. We recorded a non-cash impairment charge of $23 million, pre-tax, during the year ended December 31, 2010, reducing the carrying value of the net assets to the present value of the expected cash flows to be recovered (Level 3 measure of fair value). This charge was comprised of the entire capitalized pre-construction and construction costs for the project, net of approximately $8 million in recoverable assets net of liabilities, of which approximately $6 million remain on the consolidated balance sheet as of December 31, 2011 and primarily related to recoverable premiums under project insurance.

Non-cash convertible debt related expense

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

	00000	00000	00000

	For the Years Ended December 31,		
	2011	2010	2009
Debt discount accretion related to the 3.25% Notes	$ 24	$ 21	$ 12
Debt discount accretion related to the Debentures	3	19	19
Fair value changes related to the Note Hedge	65	11	(11)
Fair value changes related to the Cash Conversion Option	(67)	(12)	4
Total non-cash convertible debt related expense	$ 25	$ 39	$ 24

Other Expenses, Net

For the year ended December 31, 2011, other expenses, net included a $15 million expense for a liability to pre-petition claimants and a $4 million foreign currency loss related to intercompany loans. See Note 16. Income Taxes for additional information related to the liability to pre-petition claimants.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Selected Supplementary Balance Sheet Information

Selected supplementary balance sheet information is as follows (in millions):

	00000	00000
	As of December 31,	
	2011	**2010**
Note Hedge (Note 11)	$ 47	$ 112
Prepaid expenses	86	61
Land use rights and capitalized development costs (1)	65	53
Reinsurance recoverable on unpaid losses (Note 1)	10	9
Other	57	93
Total other noncurrent assets	$ 265	$ 328
Operating expenses, payroll and related expenses	$ 121	$ 111
Accrued liabilities to client communities	27	32
Interest payable	12	16
Dividends payable	11	1
Other	40	26
Total accrued expenses and other current liabilities	$ 211	$ 186

(1) During the year ended December 31, 2011, we recorded a non-cash write-off of $5 million of capitalized development costs related to a development project which we ceased to pursue in the United Kingdom.

NOTE 16. INCOME TAXES

We file a federal consolidated income tax return with our eligible subsidiaries. Our federal consolidated income tax return also includes the taxable results of certain grantor trusts described below. The components of income tax expense were as follows (in millions):

	00000	**00000**	**00000**
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Current:			
Federal	$ (12)	$ (11)	$ (1)
State	6	13	10
Foreign	4	2	1
Total current	(2)	4	10
Deferred:			
Federal	22	38	18
State	8	(17)	14
Foreign		(1)	

Total deferred	30	20	32
Total income tax expense	$ 28	$ 24	$ 42

Domestic and foreign pre-tax income was as follows (in millions):

	00000	00000	00000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Domestic	$ 121	$ 89	$ 117
Foreign	(14)	(32)	(13)
Total	$ 107	$ 57	$ 104

The effective income tax rate was 26.8%, 41.3%, and 41.1% for the years ended December 31, 2011, 2010, and 2009, respectively. The decrease in the effective tax rate for the year ended December 31, 2011, compared to the year ended December 31, 2010, was primarily a result of the release of the liability for uncertain tax positions related to the lapse of the statute of limitations with respect to tax issues arising at the time Covanta Energy emerged from bankruptcy.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of our income tax expense at the federal statutory income tax rate of 35% to income tax expense at the effective tax rate is as follows (in millions):

	00000	00000	00000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Income tax expense at the federal statutory rate	$ 37	$ 20	$ 36
State and other tax expense	8	(2)	17
Change in valuation allowance	(3)	(2)	(5)
Grantor trust income(loss)	1	(2)	1
Subpart F income and foreign dividends	1	1	2
Tax impact of Dublin impairment		8	
Taxes on foreign earnings	9	4	5
Production tax credits/R&E tax credits	(5)	(5)	(13)
Liability for uncertain tax positions	(22)	(2)	(1)
Stock-based compensation		4	
Non-deductible expense incurred to pre-petition claimants from Covanta Energy s bankruptcy	5		
Other, net	(3)		
Total income tax expense	$ 28	$ 24	$ 42

We had consolidated federal NOLs estimated to be approximately $427 million for federal income tax purposes as of the end of 2011. These consolidated federal NOLs will expire, if not used, in the following amounts in the following years (in millions):

	Amount of Carryforward Expiring
2023	$ 56
2024	1
2025	6
2026	2
2027	1
2028	333
2029	
2030	28
	$ 427

In addition to the consolidated federal NOLs, as of December 31, 2011, we had state NOL carryforwards of approximately $223 million, which expire between 2012 and 2031, capital loss carryforwards of $4 million expiring between 2012 and 2015, net foreign NOL carryforwards of approximately $2 million expiring between 2015 and 2031, and federal tax credit carryforwards, including production tax credits and minimum tax credits, of $51 million. These deferred tax assets are offset by a valuation allowance of approximately $22 million.

During 2011, we increased our valuation allowance by $2 million primarily related to an increase for state net operating losses offset by the related federal effect and a release of the federal valuation allowance for net operating losses of Covanta Lake II, Inc.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities are presented as follows (in millions):

	00000	00000
	As of December 31,	
	2011	**2010**
Deferred Tax Assets:		
Loss reserve discounting	$ 2	$ 2
Capital loss carryforward	2	
Net operating loss carryforwards	50	35
Accrued expenses	17	17
Prepaids and other costs	27	26
Deferred tax assets attributable to pass-through entities	10	10
Other	3	1
AMT and other credit carryforwards	51	45
Total gross deferred tax asset	162	136
Less: valuation allowance	(22)	(20)
Total deferred tax asset	140	116
Deferred Tax Liabilities:		
Unbilled accounts receivable	18	33
Property, plant and equipment	528	492
Intangible assets	65	83
Deferred tax liabilities attributable to pass-through entities	75	66
Accrued original issue discount and related deferral on convertible debt	36	2
Prepaid expenses	22	15
Other, net		3
Total gross deferred tax liability	744	694
Net deferred tax liability	$ (604)	$ (578)

We employ the permanent reinvestment exception whereby we do not provide deferred taxes on the undistributed earnings of our international subsidiaries. We intend to permanently reinvest our international earnings outside of the United States in our existing international operations and in any new international business which may be developed or acquired. Cumulative undistributed foreign earnings for which United States taxes were not provided were included in consolidated retained earnings in the amount of approximately $359 million and $215 million as of December 31, 2011 and 2010, respectively. Determining the unrecognized deferred tax liability for these undistributed foreign earnings is not practicable.

Deferred tax assets relating to employee stock based compensation deductions were reduced to reflect exercises of non-qualified stock option grants and vesting of restricted stock. Some exercises of non-qualified stock option grants and vesting of restricted stock resulted in tax deductions in excess of previously recorded benefits resulting in a windfall. Although these additional deductions were reported on the corporate tax returns and increased NOLs, the additional tax benefit associated with the windfall was not recognized for financial reporting purposes. These windfalls will not be recognized until the related deductions result in a reduction of taxes payable and cash tax payments. Accordingly, since the tax benefit does not reduce our current taxes payable, these windfall tax benefits were not reflected in deferred tax assets for financial reporting purposes for 2011 and 2010. Windfalls included in NOLs but not reflected in deferred tax assets were approximately $17 million for both 2011 and 2010.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

Balance at December 31, 2008	$ 132
Additions based on tax positions related to the current year	
Additions for tax positions of prior years	1
Reductions for lapse in applicable statute of limitations	(2)
Reductions for tax positions of prior years	
Balance at December 31, 2009	$ 131
Additions based on tax positions related to the current year	$
Additions for tax positions of prior years	1
Reductions for lapse in applicable statute of limitations	(2)
Reductions for tax positions of prior years	
Balance at December 31, 2010	$ 130
Additions based on tax positions related to the current year	$ 3
Additions for tax positions of prior years	5
Reductions for lapse in applicable statute of limitations	(19)
Reductions for tax positions of prior years	
Balance at December 31, 2011	$ 119

The uncertain tax positions, exclusive of interest and penalties, were $119 million and $130 million as of December 31, 2011 and 2010, respectively, which also represent potential tax benefits that if recognized, would impact the effective tax rate.

For the year ended December 31, 2011, the income tax provision included a $24 million benefit due to the reversal of uncertain tax positions, following the expiration of applicable statutes of limitations related to pre-emergence tax matters in the Covanta Energy bankruptcy. Since March 2004, we had held $20 million in restricted funds intended to cover those uncertain tax positions. The restricted funds were included in other assets on our consolidated balance sheet. The expiration of the statutes of limitations triggered a liability to pre-petition claimants of approximately 73% of the restricted fund balance. Therefore, we recorded approximately $15 million as other expense during the year ended December 31, 2011. As of December 31, 2011, $12 million of the noncurrent funds were paid to claimants and $3 million of these funds were reclassified to other current assets on our consolidated balance sheet and are expected to be paid to third party claimants in the first half of 2012. The remaining $5 million was reclassified to cash and cash equivalents on our consolidated balance sheet as of December 31, 2011.

We record interest accrued on liabilities for uncertain tax positions and penalties as part of the tax provision. For the year ended December 31, 2011 and 2010, we recognized $1 million in each year of interest and penalties on liabilities for uncertain tax positions. As of December 31, 2011 and 2010, we had accrued interest and penalties associated with liabilities for uncertain tax positions of $2 million and $7 million, respectively. We continue to reflect interest accrued on uncertain tax positions and penalties as part of the tax provision.

In the ordinary course of our business, the Internal Revenue Service (IRS) and state tax authorities will periodically audit our federal and state tax returns. As issues are examined by the IRS and state auditors, we may decide to adjust the existing liability for uncertain tax positions for issues that were not previously deemed an exposure. Federal income tax returns for Covanta Energy are closed for the years through 2003. However, to the extent NOLs are utilized from earlier years, federal income tax returns for Covanta Holding Corporation, formerly known as Danielson Holding Corporation, are still open. The IRS is currently auditing our tax returns for the years 2004 through 2009. If the IRS were successful in challenging our NOLs, it is possible that some portion of the NOLs would not be available to offset consolidated taxable income.

State income tax returns are generally subject to examination for a period of three to six years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

Our NOLs predominantly arose from our predecessor insurance entities (which were subsidiaries of our predecessor, formerly named Mission Insurance Group, Inc., Mission). These Mission insurance entities have been in state insolvency proceedings in California and Missouri since the late 1980 s. The amount of NOLs available to us will be

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reduced by any taxable income or increased by any taxable losses generated by current members of our consolidated tax group, which include grantor trusts associated with the Mission insurance entities.

In January 2006, we executed agreements with the California Commissioner of Insurance (the California Commissioner), who administers the majority of the grantor trusts, regarding the final administration and conclusion of such trusts. The agreements, which were approved by the California state court overseeing the Mission insolvency proceedings (the Mission Court), settled matters that had been in dispute regarding the historic rights and obligations relating to the conclusion of the grantor trusts. These included the treatment of certain claims against the grantor trusts which are entitled to distributions of an aggregate of 1.6 million shares of our common stock issued to the California Commissioner in 1990 under existing agreements entered into at the inception of the Mission insurance entities reorganization.

Pursuant to a claims evaluation process that we administered pursuant to such agreements with, and overseen by, the Conservation and Liquidation Office, all claim holders entitled to receive distributions of shares of our common stock from the California Commissioner were identified. As a result of this process, approximately $1 billion in claims were approved pursuant to orders of the Mission Court. As part of the wind down process and final claims evaluation by the Conservation and Liquidation Office, and in accordance with the parties contractual obligations and the requirements of the Internal Revenue Code governing such exchanges of stock for debt, the California Commissioner distributed shares of our common stock in settlement of these claims. This distribution, which is among the final steps necessary to conclude the insolvency cases relating to the trusts being administered by the California Commissioner, was conducted in December 2008 pursuant to orders of the Mission Court. These events resulted in our recognition of $515 million of additional NOLs in 2008, or a deferred tax asset of $180 million. Of this $180 million deferred tax asset, $111 million was previously recognized on the balance sheet.

We have discussed with the Director of the Division of Insurance of the State of Missouri (the Missouri Director), who administers the balance of the grantor trusts relating to the Mission Insurance entities, similar arrangements for distribution of the remaining 0.2 million shares of our common stock by the Missouri Director to claimants of the Missouri grantor trusts. Given the claims activity relating to the Missouri grantor trusts, and the lack of disputed matters with the Missouri Director, we do not expect to enter into additional or amended contractual arrangements with the Missouri Director with respect to the final administration of the Missouri grantor trusts or the related distribution by the Missouri Director of shares of our common stock.

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

NOTE 17. EMPLOYEE BENEFIT PLANS

We sponsor various retirement plans covering the majority of our employees and retirees in the United States, as well as other postretirement benefit plans for a small number of retirees in the United States that include healthcare benefits and life insurance coverage. Employees in the United States not participating in our retirement plans generally participate in retirement plans offered by collective bargaining units of which these employees are members. The majority of our international employees participate in defined benefit or defined contribution retirement plans as required or available in accordance with local laws.

Our insurance subsidiary has a defined benefit plan that has had its service credits frozen since December 31, 2001. Since that date, participants cash balance accounts have only been increased by interest credits. In September 2010, we filed a single employer plan termination form with the Pension Benefit Guaranty Corporation (PBGC) and a request for a Determination Letter upon Plan Termination with the IRS to terminate the plan effective August 1, 2010. Final approval is yet to be received from the PBGC and the IRS. Final approval is expected in the first half of 2012. All participants including active and terminated employees who were eligible participants in the defined benefit pension plan will be 100% vested and have a non-forfeitable right to these benefits as of such date. As of December 31, 2011, the fair value of the pension plan assets for our insurance subsidiary was approximately $1 million and the plan is expected to be paid out in early 2012 following receipt of IRS approval. The employees of our insurance subsidiary currently participate in a defined contribution retirement plan.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Defined Contribution Plans

Substantially all of our employees in the United States are eligible to participate in the defined contribution plans we sponsor. The defined contribution plans allow employees to contribute a portion of their compensation on a pre-tax basis in accordance with specified guidelines. We match a percentage of employee contributions up to certain limits. We also provide a company contribution to the defined contribution plans for eligible employees. Our costs related to all defined contribution plans were $15 million, $16 million, and $15 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Pension and Postretirement Benefit Obligations

Effective December 31, 2005, we froze service accruals in the defined benefit pension plan for employees in the United States who do not participate in retirement plans offered by collective bargaining units or our insurance subsidiaries. All active employees who were eligible participants in the defined benefit pension plan, as of December 31, 2005, became 100% vested and have a non-forfeitable right to these benefits as of such date. Effective January 1, 2010, the defined benefit pension plan was further amended to exclude future compensation increases received by eligible participants after December 31, 2009. During the second quarter of 2011, we informed employees who were eligible participants in the pension plan of our plan to terminate the pension plan, subject to approval by the IRS, with the intention of fully distributing plan assets as promptly as practicable following such approval. The actual settlement amount will fluctuate based on future market performance, such as the interest rate at the final settlement, actual return on plan assets, and employees disbursement elections. The actual settlement will take place following receipt of IRS approval.

Assumptions

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

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

	Discount Rate	Net (Loss) Gain Recognized in AOCI	Net (Loss) Gain Net of Tax, Recognized in AOCI
		(dollars in millions)	
Year Ended December 31, 2011	4.30%	$ (13)	$ (8)
Year Ended December 31, 2010	5.50%	$ (4)	$ (3)
Year Ended December 31, 2009	6.00%	$ 15	$ 9

An annual rate of increase of 8.5% in the per capita cost of health care benefits was assumed for 2011 for covered employees. An average increase of 8.0% was assumed for 2012. The average increase is then projected to gradually decline to 5.5% in 2017 and remain at that level. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change (either increase or decrease) in the assumed health care trend rate would have an immaterial (less than $0.5 million) effect on either total service and interest cost components or postretirement benefit obligations.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Obligation and Funded Status

The following table is a reconciliation of the changes in the benefit obligations and fair value of assets for our defined benefit pension and other postretirement benefit plans, the funded status (using a December 31 measurement date) of the plans and the related amounts recognized in our consolidated balance sheets (in millions, except percentages as noted):

	000	000	000	000
	Pension Benefits		**Other Benefits**	
	For the Year Ended December 31, 2011	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2011**	**For the Year Ended December 31, 2010**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 82	$ 72	$ 6	$ 8
Service cost				
Interest cost	4	4	1	1
Amendments				
Actuarial loss (gain)	18	8	1	(2)
Benefits paid	(2)	(2)	(1)	(1)
Benefit obligation at end of year	$ 102	$ 82	$ 7	$ 6
Change in plan assets:				
Plan assets at fair value at beginning of year	$ 78	$ 64	$	$
Actual return on plan assets	10	8		
Contributions	1	8	1	1
Benefits paid	(2)	(2)	(1)	(1)
Plan assets at fair value at end of year	$ 87	$ 78	$	$
Reconciliation of accrued benefit liability and net amount recognized:				
Funded status of the plan	$ (15)	$ (4)	$ (7)	$ (6)
Unrecognized net gain				
Net amount recognized	$ (15)	$ (4)	$ (7)	$ (6)
Accumulated other comprehensive (income) loss recognized:				
Net actuarial loss (gain)	$ 19	$ 6	$ (3)	$ (3)
Net prior service credit	(10)	(10)		
Total as of December 31, 2011	$ 9	$ (4)	$ (3)	$ (3)
Weighted average assumptions used to determine net periodic benefit expense for years ending December 31:				
Discount rate	5.50%	6.00%	5.50%	6.00%

Expected return on plan assets	6.75%	7.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Weighted average assumptions used to determine projected benefit obligations as of December 31:				
Discount rate	4.30%	5.50%	4.30%	5.50%
Rate of compensation increase	N/A	N/A	N/A	N/A

For the pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets were $102 million, $102 million and $87 million, respectively as of December 31, 2011 and $5 million, $5 million, and $0, respectively as of December 31, 2010.

For the pension plans with accumulated benefit obligations less than plan assets, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets were each $0 as of December 31, 2011 and $77 million, $77 million, and $78 million, respectively as of December 31, 2010.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We estimate that the future benefits payable for the retirement and postretirement plans in place are as follows (in millions).

	0000000	0000000	0000000	0000000	0000000	0000000
			As of December 31,			
	2012	**2013**	**2014**	**2015**	**2016**	**2017 - 2021**
Pension Benefits	$ 3	$ 98	$	$	$ 1	$ 3
Other Benefits (Net of Medicare Part D Subsidy)	$ 1	$ 1	$ 1	$ 1	$ 1	$ 2
Attributable to Medicare Part D Subsidy	$	$	$	$	$	$

Pension costs for our defined benefit plans and other post-retirement benefit plans included the following components (in millions):

	Pension Benefits		**Other Benefits**	
	For the Year Ended December 31, 2011	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2011**	**For the Year Ended December 31, 2010**
Components of Net Periodic Benefit Cost:				
Service cost	$	$	$	$
Interest cost	4	4	1	1
Expected return on plan assets	(5)	(5)		
Amortization of net prior service cost				
Amortization of net actuarial gain			(1)	(1)
Net periodic benefit cost	(1)	(1)		
Settlement cost				
Final net periodic benefit cost	$ (1)	$ (1)	$	$

Plan Assets

Plan assets had a fair value of $87 million and $78 million as of December 31, 2011 and 2010, respectively. The allocation of plan assets was as follows:

	As of December 31,	
	2011	**2010**
Total Equities	%	51%
Total Debt Securities	97%	46%
Other	3%	3%
Total	100%	100%

Our expected return on plan assets assumption is based on historical experience and by evaluating input from the trustee managing the plan assets. The expected return on the plan assets is also impacted by the target allocation of assets, which we have shifted entirely to debt securities in anticipation of a potential termination of the plan within the next two years. With this in mind, we have concentrated the plan assets in debt securities in order to reduce near-term volatility in asset values, as well as to hedge more effectively against changes in the estimated termination liability, which will be calculated based on prevailing interest rates that the time of termination. The target ranges of allocation of assets are as follows:

Total Equities	0%
Total Debt Securities	100%
Other	0%

We anticipate that the long-term asset allocation on average will approximate the targeted allocation. Actual asset allocations are reviewed and the pension plans investments are rebalanced to reflect the targeted allocation when considered appropriate.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following sets forth the types of assets measured at fair value and a brief description of the valuation technique for each asset type:

Type of Fund	Types of Investments	Valuation Technique
U.S. Stock Funds	Funds comprised of domestic equity securities.	Securities are typically priced using the closing price from the applicable exchange, such as the NYSE, NASDAQ, etc.
U.S. Bond Funds	Funds comprised of domestic fixed income securities.	Securities are priced by a third-party evaluation service using inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads.
International Stock Funds	Funds comprised of international equity securities.	Securities are priced using the closing price from the local international stock exchange, such as the International Stock Index.
Real Estate Funds	Comprised of real estate investments either directly owned or through partnership interests and mortgage and other loans on income producing real estate.	The fair value of real estate properties is determined quarterly through an independent appraisal process utilizing traditional real estate valuation methodologies.
Short-Term Funds	Portfolios comprised of short-term securities.	Securities are valued initially at cost and thereafter adjusted for amortization of any discount or premium, i.e. amortized cost, which approximates fair value.

The fair value of pension plan assets, by asset category, is as follows (in millions):

		Fair Value Measurements as of December 31, 2011		
	Total	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
U.S. companies (1)	$	$	$	$
International companies (2)				
U.S. Bonds (3)	85		85	
Real estate (4)				
Short-term securities (5)	2		2	
Total pension plan assets, at fair value	$ 87	$	$ 87	$

		Fair Value Measurements as of December 31, 2010		
	Total	Quoted Market Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
Equity securities:				
U.S. companies [(1)]	$ 34	$	$ 34	$
International companies [(2)]	6		6	
U.S. Bonds [(3)]	36		36	
Real estate [(4)]	2		2	
Short-term securities[(5)]				
Total pension plan assets, at fair value	$ 78	$	$ 78	$

(1) As of December 31, 2011 and 2010, approximately 0% and 43%, respectively, of the pension plan assets are in U.S. Stock Funds held in trusts, which are comprised of a well diversified portfolio of U.S. large-cap and mid-cap companies.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) As of December 31, 2011 and 2010, approximately 0% and 8%, respectively, of the pension plan assets are in International Equity Funds held in trusts, of which in 2010 approximately 50% was invested in equity securities of foreign companies primarily located in the United Kingdom and Europe. The remaining 50% was invested in equity securities of foreign companies primarily in growth markets located in the United Kingdom and Europe or emerging markets in Asia and Latin America.

(3) As of December 31, 2011 and 2010, approximately 97% and 46%, respectively, of the pension plan assets are in U.S. Bond Funds held in trusts, which are primarily invested in U.S. Government obligations, U.S. Agency securities and corporate debt securities with an investment grade of A or better.

(4) As of December 31, 2011 and 2010, approximately 0% and 3% of the pension plan assets are in Real Estate Funds held in trusts, which are comprised primarily of real estate investments either directly owned or through partnership interests and mortgage and other loans on income producing real estate.

(5) As of December 31, 2011 and 2010, approximately 3% and 0% of the pension plan assets are in Short-term securities.

NOTE 18. STOCK-BASED AWARD PLANS

Stock-Based Award Plans

We adopted the Covanta Holding Corporation Equity Award Plan for Employees and Officers (the Employees Plan) and the Covanta Holding Corporation Equity Award Plan for Directors (the Directors Plan) (collectively, the Award Plans), effective with stockholder approval on October 5, 2004.

The purpose of the Award Plans is to promote our interests (including our subsidiaries and affiliates) and our stockholders interests by using equity interests to attract, retain and motivate our management, non-employee directors and other eligible persons and to encourage and reward their contributions to our performance and profitability. The Award Plans provide for awards to be made in the form of (a) shares of restricted stock, (b) restricted stock units, (c) incentive stock options, (d) non-qualified stock options, (e) stock appreciation rights, (f) performance awards, or (g) other stock-based awards which relate to or serve a similar function to the awards described above. Awards may be made on a standalone, combination or tandem basis. The maximum aggregate number of shares of common stock available for issuance is 12,000,000 under the Employees Plan and 700,000 under the Directors Plan. The maximum number of shares that may be granted to any participant in any calendar year is 250,000 shares of restricted stock and options to purchase 650,000 shares of our common stock.

Stock-Based Compensation

We recognize stock-based compensation expense in accordance with the accounting standards for stock-based compensation in effect at the date of grant. We recognize compensation costs using the graded vesting attribution method over the requisite service period of the award, which is generally three to five years. We recognize compensation expense based on the number of stock options and restricted stock awards expected to vest by using an estimate of expected forfeitures. We review the forfeiture rates at least annually and revise compensation expense, if necessary. During 2011, the average forfeiture rates were 12% for restricted stock awards and 15% for stock options and restricted stock units. Stock-based compensation expense is as follows (in millions, except for weighted average years):

	Total Compensation Expense for the Years Ended December 31,			As of December 31, 2011	
	2011	2010	2009	Unrecognized stock-based compensation expense	Weighted-average years to be recognized
Restricted Stock Awards	$ 14	$ 13	$ 10	$ 9	2
Restricted Stock Units	$ 3	$ 2	$	$ 4	2
Stock Options	$ 1	$ 2	$ 4	$ 0.3	1

Restricted Stock Awards

Restricted stock awards that have been issued to employees typically vest over a three year period. Restricted stock awards are stock-based awards for which the employee or director does not have a vested right to the stock (nonvested) until the requisite service period has been rendered or the required financial performance factor has been reached for each pre-determined vesting date. A percentage of each employee restricted stock awards granted have financial performance factors. Stock-based compensation expense for each financial performance factor is recognized

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

beginning in the period when management has determined it is probable the financial performance factor will be achieved for the respective vesting period. The fair value of shares vested during the year was $11 million.

Restricted stock awards to employees are subject to forfeiture if the employee is not employed on the vesting date. Restricted stock awards issued to directors are not subject to forfeiture in the event a director ceases to be a member of the Board of Directors, except in limited circumstances. Restricted stock awards will be expensed over the requisite service period, subject to an assumed forfeiture rate. Prior to vesting, restricted stock awards have all of the rights of common stock (other than the right to sell or otherwise transfer or to receive unrestricted dividends, when issued). We calculate the fair value of share-based stock awards based on the closing price on the date the award was granted.

During the year ended December 31, 2011, we awarded certain employees approximately 728,986 restricted stock awards. The restricted stock awards will be expensed over the requisite service period, subject to an assumed 12% average forfeiture rate. The terms of the restricted stock awards include vesting provisions based solely on continued service. If the service criteria are satisfied, the majority of the restricted stock awards vest during March of 2012, 2013, and 2014.

On May 5, 2011, in accordance with our existing program for annual director compensation, we awarded 36,000 shares of restricted stock under the Directors Plan. We determined that the service vesting condition of these restricted stock awards to be non-substantive and, in accordance with accounting principles for stock compensation, recorded the entire fair value of the award as compensation expense on the grant date.

Changes in nonvested restricted stock awards were as follows (in thousands, except per share amounts):

	00000	00000	00000	00000	00000	00000
	As of December 31,					
	2011		2010		2009	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at the beginning of the year	1,392	$ 17.35	1,130	$ 19.72	857	$ 23.61
Granted	765	16.61	943	16.41	742	16.59
Vested	(654)	18.35	(522)	20.66	(447)	21.86
Forfeited	(68)	16.60	(159)	17.76	(22)	22.05
Nonvested at the end of the year	1,435	$ 16.54	1,392	$ 17.35	1,130	$ 19.72

Restricted Stock Units

In 2010, we adopted a Growth Equity Plan, which is to be used for awards pursuant to our Equity Award Plan for Employees and Officers. The Growth Equity Plan provides for the award of restricted stock units (RSUs) to certain employees in connection with specified growth-based acquisitions that have been completed or development projects that have commenced.

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

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in nonvested restricted stock units were as follows (in thousands, except per share amounts):

	00000	00000	00000	00000
	As of December 31,			
	2011		2010	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at the beginning of the year	968	$ 16.64		$
Granted	36	16.57	1,085	16.64
Vested				
Forfeited			(117)	16.64
Nonvested at the end of the year	1,004	$ 16.64	968	$ 16.64

Stock Options

We have also awarded stock options to certain employees and directors. Stock options awarded to directors vest immediately. Stock options awarded to employees have typically vested annually over 3 to 5 years and expire over 10 years. We calculate the fair value of our share-based option awards using the Black-Scholes option pricing model which requires estimates of the expected life of the award and stock price volatility. During the years ended December 31, 2011, 2010 and 2009, we did not grant options to purchase shares of common stock to employees or directors.

The following table summarizes activity and balance information of the options under the Award Plans and 1995 Plan (in thousands, except per share amounts):

	00000	00000	00000	00000	00000	00000
	As of December 31,					
	2011		2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
1995 Stock Option Plan						
Outstanding at the beginning of the year		$	70	$ 3.06	108	$ 3.86
Granted						
Exercised			(70)	3.06	(38)	5.31
Forfeited						
Outstanding at the end of the year		$		$	70	$ 3.06
Options exercisable at year end		$		$	70	$ 3.06
Options available for future grant						
2004 Stock Option Plan						
Outstanding at the beginning of the year	2,264	$ 18.04	2,681	$ 18.83	2,770	$ 18.76

Granted						
Exercised	(68)	5.93	(219)	6.30	(38)	9.34
Expired	(144)	20.84	(54)	22.41	(6)	22.02
Forfeited			(144)	23.04	(45)	22.02
Outstanding at the end of the year	2,052	$ 18.24	2,264	$ 18.04	2,681	$ 18.83
Options exercisable at year end	1,469	$ 17.09	1,354	$ 15.97	1,476	$ 15.54
Options available for future grant	3,282		4,082		6,110	

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2011, options for shares were in the following price ranges (in thousands, except years and per share amounts):

	00000	00000	00000	00000	00000
	Options Outstanding		Weighted Average Remaining Contractual Life (Years)	Options Exercisable	
Exercise Price Range	Number of Shares	Weighted Average Exercise Price		Number of Shares	Weighted Average Exercise Price
$5.93	326	$ 5.93	2.8	326	$ 5.93
$11.40	93	11.40	3.7	93	11.40
$18.85 $20.52	1,403	20.52	5.2	907	20.52
$23.30 $26.84	230	24.57	6.5	143	24.51
	2,052			1,469	

The total received from the exercise of stock options was less than $1 million in the year ended December 31, 2011, and approximately $1 million for both years ended December 31, 2010, and 2009 respectively. The tax benefits related to the exercise of the non-qualified stock options and the vesting of the restricted stock award were not recognized during 2011, 2010 and 2009 due to our NOLs. When the NOLs have been fully utilized by us, we will recognize a tax benefit and an increase in additional paid-in capital for the excess tax deductions received on the exercised non-qualified stock options and vested restricted stock. Future realization of the tax benefit will be presented in cash flows from financing activities in the consolidated statements of cash flows in the period the tax benefit is recognized. Previously recorded tax benefits that are in excess of the realized tax benefit on a particular non-qualified stock option or restricted stock are recorded as an increase to income tax expense since there is no APIC pool available to offset these reduced tax benefits.

The aggregate intrinsic value as of December 31, 2011 for options exercisable was $3 million for both options outstanding and options vested and was $0 for options expected to vest. The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the closing stock price on the last trading day of 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of 2011 (December 30, 2011). The intrinsic value changes based on the fair market value of our common stock. The total intrinsic value of options exercised for the years ended as of December 31, 2011, 2010, and 2009 was $1 million, $3 million, and $1 million, respectively.

As of December 31, 2011, there were options to purchase 2 million shares of common stock that had vested and were expected to vest in future periods at a weighted average exercise price of $18.11. The fair value of options vested during the years ended December 31, 2011, 2010, and 2009 was $6 million, $7 million, and $4 million, respectively.

NOTE 19. RELATED-PARTY TRANSACTIONS

One member of our current Board of Directors is Senior Counsel to a major international law firm which provides Covanta Energy with certain legal services. We paid this law firm approximately $3 million, $2 million, and $0 for the years ended December 31, 2011, 2010 and 2009, respectively. Such member of the Board of Directors has had no direct or indirect involvement in the procurement, provision, or oversight of billings of such legal services and does not directly or indirectly benefit from amounts paid to such law firm.

NOTE 20. COMMITMENTS AND CONTINGENCIES

We and/or our subsidiaries are party to a number of claims, lawsuits and pending actions, most of which are routine and all of which are incidental to our business. We assess the likelihood of potential losses on an ongoing basis and when losses are considered probable and reasonably estimable, record as a loss an estimate of the outcome. If we can only estimate the range of a possible loss, an amount representing the low end of the range of possible outcomes is recorded. The final consequences of these proceedings are not presently determinable with certainty.

Environmental Matters

Our operations are subject to environmental regulatory laws and environmental remediation laws. Although our operations are occasionally subject to proceedings and orders pertaining to emissions into the environment and other environmental violations, which may result in fines, penalties, damages or other sanctions, we believe that we are in substantial compliance with existing environmental laws and regulations.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We may be identified, along with other entities, as being among parties potentially responsible for contribution to costs associated with the correction and remediation of environmental conditions at disposal sites subject to federal and/or analogous state laws. In certain instances, we may be exposed to joint and several liabilities for remedial action or damages. Our ultimate liability in connection with such environmental claims will depend on many factors, including our volumetric share of waste, the total cost of remediation, and the financial viability of other companies that also sent waste to a given site and, in the case of divested operations, its contractual arrangement with the purchaser of such operations.

The potential costs related to the matters described below and the possible impact on future operations are uncertain due in part to the complexity of governmental laws and regulations and their interpretations, the varying costs and effectiveness of cleanup technologies, the uncertain level of insurance or other types of recovery and the questionable level of our responsibility. Although the ultimate outcome and expense of any litigation, including environmental remediation, is uncertain, we believe that the following proceedings will not have a material adverse effect on our consolidated financial position or results of operations.

Wallingford Matter. In 2010, compliance stack testing indicated that one of the three combustion units at the Wallingford energy-from-waste facility had exceeded the permit limit for dioxin/furan emissions. We promptly shut down the affected combustion unit and self-reported the test results to the Connecticut Department of Energy and Environmental Protection (CTDEEP). On August 18, 2010, the Connecticut Office of the Attorney General (AG), on behalf of the CTDEEP, commenced an enforcement action in Connecticut Superior Court (Hartford) with respect to the results of the compliance stack testing. We, the CTDEEP and AG reached agreement on a restart and test program to demonstrate that the affected combustion unit has been returned to compliance and to settle all claims (approximately $0.4 million) relating to this matter. That agreement became final as of July 20, 2011, and we have since restarted the affected unit, consistent with the approved agreement.

Lower Passaic River Matter. In August 2004, the United States Environmental Protection Agency (EPA) notified Covanta Essex Company (Essex) that it was a potentially responsible party (PRP) for Superfund response actions in the Lower Passaic River Study Area, referred to as LPRSA, a 17 mile stretch of river in northern New Jersey. Essex is one of 71 PRPs named thus far that have joined the LPRSA PRP group, which is undertaking a Remedial Investigation/Feasibility Study (Study) of the LPRSA under EPA oversight. Essex s share of the Study costs to date are not material to its financial position and results of operations; however, the Study costs are exclusive of any LPRSA remedial costs or natural resource damages that may ultimately be assessed against PRPs. In February 2009, Essex and over 300 other PRPs were named as third-party defendants in a suit brought by the State of New Jersey Department of Environmental Protection (NJDEP) in New Jersey Superior Court of Essex County against Occidental Chemical Corporation and certain related entities (Occidental) with respect to alleged contamination of the LPRSA by Occidental. The Occidental third-party complaint seeks contribution with respect to any award to NJDEP of damages against Occidental in the matter. Considering the history of industrial and other discharges into the LPRSA from other sources, including named PRPs, Essex believes any releases to the LPRSA from its facility to be de minimis; however, it is not possible at this time to predict that outcome or to estimate Essex s ultimate liability in the matter, including for LPRSA remedial costs and/or natural resource damages and/or contribution claims made by Occidental and/or other PRPs.

Other Commitments

Other commitments as of December 31, 2011 were as follows (in millions):

	00000	00000	00000
	Commitments Expiring by Period		
	Total	**Less Than One Year**	**More Than One Year**
Letters of credit	$ 277	$ 6	$ 271
Surety bonds	354		354
Total other commitments net	$ 631	$ 6	$ 625

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

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The surety bonds listed on the table above relate primarily to performance obligations ($341 million) and support for closure obligations of various energy projects when such projects cease operating ($13 million). Were these bonds to be drawn upon, we would have a contractual obligation to indemnify the surety company.

We have certain contingent obligations related to the 7.25% Notes and the 3.25% Notes. These arise as follows:

- holders may require us to repurchase their 7.25% Notes and their 3.25% Notes if a fundamental change occurs; and
- holders may exercise their conversion rights upon the occurrence of certain events, which would require us to pay the conversion settlement amount in cash.

For specific criteria related to contingent interest, conversion or redemption features of the 7.25% Notes and the 3.25% Notes, see Note 11. Long-Term Debt.

We have issued or are party to guarantees and related contractual support obligations undertaken pursuant to agreements to construct and operate waste and energy facilities. For some projects, such performance guarantees include obligations to repay certain financial obligations if the project revenues are insufficient to do so, to repurchase interests of project investors under limited circumstances, or to obtain or guarantee financing for a project. With respect to our businesses, we have issued guarantees to municipal clients and other parties that our subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. Additionally, damages payable under such guarantees for our energy-from-waste facilities could expose us to recourse liability on project debt. If we must perform under one or more of such guarantees, our liability for damages upon contract termination would be reduced by funds held in trust and proceeds from sales of the facilities securing the project debt and is presently not estimable. Depending upon the circumstances giving rise to such damages, the contractual terms of the applicable contracts, and the contract counterparty s choice of remedy at the time a claim against a guarantee is made, the amounts owed pursuant to one or more of such guarantees could be greater than our then-available sources of funds. To date, we have not incurred material liabilities under such guarantees.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

NOTE 21. QUARTERLY DATA (UNAUDITED)

The following table presents quarterly unaudited financial data for the periods presented on the consolidated statements of income (in millions, except per share amounts):

	0000	0000	0000	0000	0000	0000	0000	0000
	Calendar Quarter Ended							
	March 31,		**June 30,**		**September 30,**		**December 31,**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Operating revenue	$ 377	$ 368	$ 411	$ 393	$ 432	$ 403	$ 430	$ 419
Operating (loss) income	(2)	(4)	53	50	87	46	80	63
(Loss) income from continuing operations	(14)	(15)	18	17	51	12	29	21
Income (loss) from discontinued operations	149	10	2	11	(7)	11	(1)	4
Net income (loss)	135	(5)	20	28	44	23	28	25
Net income (loss) attributable to Covanta Holding Corporation	133	(7)	18	26	42	20	26	23
Earnings (loss) per share:								
Basic:								
Continuing operations	$ (0.09)	$ (0.10)	$ 0.12	$ 0.10	$ 0.35	$ 0.07	$ 0.20	$ 0.13
Discontinued operations	1.00	0.05	0.01	0.07	(0.05)	0.06	(0.01)	0.02
Covanta Holding Corporation	$ 0.91	$ (0.05)	$ 0.13	$ 0.17	$ 0.30	$ 0.13	$ 0.19	$ 0.15
Diluted:								
Continuing operations	$ (0.09)	$ (0.10)	$ 0.12	$ 0.10	$ 0.35	$ 0.07	$ 0.20	$ 0.13
Discontinued operations	1.00	0.05	0.01	0.07	(0.05)	0.06	(0.01)	0.02
Covanta Holding Corporation	$ 0.91	$ (0.05)	$ 0.13	$ 0.17	$ 0.30	$ 0.13	$ 0.19	$ 0.15
Cash dividend declared per share:	$ 0.075	$	$ 0.075	$ 1.50	$ 0.075	$	$ 0.075	$

NOTE 22. SUBSEQUENT EVENTS

Stanislaus EfW Facility

On January 14, 2012, our Stanislaus, California energy-from-waste facility experienced a turbine generator failure. Damage to the turbine generator was extensive and operations at the facility were suspended promptly to assess the cause and extent of damage. The facility is capable of processing waste without utilizing the turbine generator to generate electricity, and we expect to resume waste processing operations during the first quarter of 2012. We expect the facility will not be able to generate electricity for a substantial portion of 2012. The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. We believe this event will not have a material impact our results of operations.

1.00% Senior Convertible Debentures due 2027

In 2007, we completed an underwritten public offering of $374 million aggregate principal amount of Debentures. In November 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027. During the year ended December 31, 2011 and 2010, $32 million and $317 million, respectively, of the Debentures were purchased. As of December 31, 2011, there were $25 million aggregate principal amount of the Debentures outstanding.

At our option, the Debentures were subject to redemption at any time on or after February 1, 2012, in whole or in part, at a redemption price equal to 100% of the principal amount of the Debentures being redeemed, plus accrued and unpaid interest (including contingent interest, if any). In January 2012, we provided notice to the holders of the remaining Debentures related to our option to repurchase all of their Debentures, or any portion thereof that is a multiple of $1,000 principal amount, on February 1, 2012. On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012.

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Schedule II Valuation and Qualifying Accounts

Receivables Valuation and Qualifying Accounts

		00000 Balance Beginning of Year	00000 Additions Charged to Costs and Expense	00000 Charged to Other Accounts (In millions)	00000 Deductions	00000 Balance at End of Period
2011	Reserves for doubtful accounts(1)	$ 3	$ 2	$	$	$ 5
2010	Reserves for doubtful accounts(1)	$ 3	$ 3	$	$ 3	$ 3
2009	Reserves for doubtful accounts(1)	$ 4	$ 2	$	$ 3	$ 3

(1) Reserves for doubtful accounts are primarily current assets.

Item 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***
There were no disagreements with accountants on accounting and financial disclosure.

Item 9A. ***CONTROLS AND PROCEDURES***
Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Covanta s disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the Exchange Act) as of December 31, 2011. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Our Chief Executive Officer and Chief Financial Officer have concluded that, based on their review, our disclosure controls and procedures are effective to provide such reasonable assurance.

Our management, including the 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 unauthorized override of the control. 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.

Our management has conducted an assessment of its internal control over financial reporting as of December 31, 2011 as required by Section 404 of the Sarbanes-Oxley Act. Management s report on our internal control over financial reporting is included on page 129. The Independent Registered Public Accounting Firm s report with respect to the effectiveness of our internal control over financial reporting is included on page 130. Management has concluded that internal control over financial reporting is effective as of December 31, 2011.

Changes in Internal Control over Financial Reporting

There has not been any change in our system of internal control over financial reporting during the fiscal quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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Management s Report on Internal Control over Financial Reporting

The management of Covanta Holding Corporation (Covanta) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

All internal control systems, no matter how well designed, have inherent limitations including the possibility of human error and the circumvention or overriding of controls. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even those systems determined to be effective can provide us only with reasonable assurance with respect to financial statement preparation and presentation.

Covanta s management has assessed the effectiveness of internal control over financial reporting as of December 31, 2011, following the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework.* Based on our assessment under the framework in *Internal Control Integrated Framework*, Covanta s management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Our independent auditors, Ernst & Young LLP, have issued an attestation report on our internal control over financial reporting. This report appears on page 130 of this report on Form 10-K for the year ended December 31, 2011.

/s/ Anthony J. Orlando
Anthony J. Orlando
President and Chief Executive Officer

/s/ Sanjiv Khattri
Sanjiv Khattri
Executive Vice President and Chief Financial Officer

February 15, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Covanta Holding Corporation

We have audited Covanta Holding Corporation s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Covanta Holding Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Covanta Holding Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Covanta Holding Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 15, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey

February 15, 2012

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Item 9B. ***OTHER INFORMATION***
None.

PART III

Item 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***
Information regarding our executive officers is incorporated by reference herein from the discussion under *Item 1. Business Executive Officers* of this Annual Report on Form 10-K. We have a Code of Conduct and Ethics for Senior Financial Officers and a Policy of Business Conduct. The Code of Conduct and Ethics applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Controller or persons performing similar functions. The Policy of Business Conduct applies to all of our directors, officers and employees and those of our subsidiaries. Both the Code of Conduct and Ethics and the Policy of Business Conduct are posted on our website at www.covantaholding.com on the Corporate Governance page. We will post on our website any amendments to or waivers of the Code of Conduct and Ethics or Policy of Business Conduct for executive officers or directors, in accordance with applicable laws and regulations. The remaining information called for by this Item 10 is incorporated by reference herein from the discussions under the headings Election of Directors, Board Structure and Composition Committees of the Board, and Security Ownership of Certain Beneficial Owners and Management Section 16(a) Beneficial Ownership Reporting Compliance in our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 11. ***EXECUTIVE COMPENSATION***
The information required by Item 11 of Form 10-K is incorporated by reference herein from the discussions under the headings Compensation Committee Report, Board Structure and Composition Compensation of the Board, and Executive Compensation in our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***
The information required by Item 12 of Form 10-K with respect to directors, executive officers and certain beneficial owners is incorporated by reference herein from the discussion under the heading Security Ownership of Certain Beneficial Owners and Management in our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Equity Compensation Plans

The following table sets forth information regarding the number of our securities which could be issued upon the exercise of outstanding options, the weighted average exercise price of those options in the 2004 and 1995 Stock and Incentive Plans and the number of securities remaining for future issuance under the 2004 Stock and Incentive Plan as of December 31, 2011. Upon adoption of the 2004 Stock and Incentive Plans, future issuances under the 1995 Stock and Incentive Plan were terminated. We do not have any equity compensation plans that have not been approved by our security holders.

Plan Category	00000 Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (A)	00000 Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (B)	00000 Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)

			(C)
Equity Compensation Plans Approved By Security Holders	2,052,227	$ 18.24	3,648,128[1]
Equity Compensation Plans Not Approved By Security Holders	N/A	N/A	N/A
Total	2,052,227	$ 18.24	3,648,128

(1) Of the 3,648,128 shares that remain available for future issuance, 3,281,677 shares are currently reserved for issuance under the equity compensation plans.

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Item 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by Item 13 of Form 10-K is incorporated by reference herein from the discussions under the headings Board Structure and Composition and Certain Relationships and Related Transactions in the definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The information required by Item 14 of Form 10-K is incorporated by reference herein from the discussion under the heading Independent Auditor Fees in the definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

PART IV

Item 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a) Documents filed as part of this report:

(1) Consolidated Financial Statements of Covanta Holding Corporation:

Included in Part II of this Report:

Consolidated Statements of Income for the years ended December 31, 2011, 2010, and 2009

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010, and 2009

Consolidated Statements of Equity for the years ended December 31, 2011, 2010, and 2009

Notes to Consolidated Financial Statements, for the years ended December 31, 2011, 2010, and 2009

Report of Ernst & Young LLP, Independent Auditors, on the consolidated financial statements of Covanta Holding Corporation for the years ended December 31, 2011, 2010, and 2009

(2) Financial Statement Schedules of Covanta Holding Corporation:

Included in Part II of this report: Schedule II Valuation and Qualifying Accounts

Included as Exhibit F in this Part IV: Separate financial statements of fifty percent or less owned persons. See Appendix F-1 through F-28.

All other schedules are omitted because they are not applicable, not significant or not required, or because the required information is included in the financial statement notes thereto.

(3) Exhibits:

EXHIBIT INDEX

Exhibit No.	Description
Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.	
2.1	Share Purchase Agreement by and among Covanta Holding Corporation and Veolia Environmental Services North America Corp. (incorporated herein by reference to Exhibit 2.1 of Covanta Holding Corporation s Current Report on Form 8-K dated July 3, 2009 and filed with the SEC on July 6, 2009).
2.2	Sale and Purchase Agreement, dated December 13, 2010, by and between Covanta Energy International Investments Ltd. and New Growth V.B.
Articles of Incorporation and By-Laws.	
3.1	Restated Certificate of Incorporation of Covanta Holding Corporation (incorporated herein by reference to Exhibit 3.1 of Covanta Holding Corporation s Current Report on Form 8-K dated January 19, 2007 and filed with the SEC on January 19, 2007).
3.2	Amended and Restated Bylaws of Covanta Holding Corporation, effective December 8, 2011 (incorporated herein by reference to Exhibit 3.1(ii) of Covanta Holding Corporation s Current Report on Form 8-K dated December 8, 2011 filed with the SEC on December 9, 2011).

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Instruments Defining Rights of Security Holders, Including Indentures.

4.1 Specimen certificate representing shares of Covanta Holding Corporation s common stock (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Amendment No. 3 to Registration Statement on Form S-1 filed with the SEC on December 19, 2005).

4.2 Registration Rights Agreement dated November 8, 2002 among Covanta Holding Corporation and SZ Investments, L.L.C. (incorporated herein by reference to Exhibit 10.6 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 27, 2002 and filed with the SEC on March 27, 2003).

4.3 Registration Rights Agreement between Covanta Holding Corporation, D.E. Shaw Laminar Portfolios, L.L.C., SZ Investments, L.L.C., and Third Avenue Trust, on behalf of The Third Avenue Value Fund Series, dated December 2, 2003 (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Current Report on Form 8-K dated December 2, 2003 and filed with the SEC on December 5, 2003).

4.4 Indenture dated as of January 18, 2007 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Registration Statement on Form S-3 (Reg. No. 333-140082) filed with the SEC on January 19, 2007).

4.5 First Supplemental Indenture dated as of January 31, 2007 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (including the Form of Global Debenture) (incorporated herein by reference to Exhibit 4.2 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2007 and filed with the SEC on February 6, 2007).

4.6 Second Supplemental Indenture dated as of December 1, 2010 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (including the Form of Note) (incorporated herein by reference to Exhibit 4.3 of Covanta Holding Corporation s Current Report on Form 8-K dated December 1, 2010 and filed with the SEC on December 1, 2010).

4.7 Indenture dated May 22, 2009 by and among Covanta Holding Corporation and Wells Fargo Bank, National Association (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).

4.8 First Supplemental Indenture dated as of June 10, 2009 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Current Report on Form 8-K dated June 15, 2009 and filed with the SEC on June 15, 2009).

Material Contracts.

10.1 Tax Sharing Agreement, dated as of March 10, 2004, by and between Covanta Holding Corporation, Covanta Energy Corporation, and Covanta Power International Holdings, Inc. (incorporated herein by reference to Exhibit 10.25 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2003 and filed with the SEC on March 15, 2004).

10.2 Corporate Services and Expenses Reimbursement Agreement, dated as of March 10, 2004, by and between Covanta Holding Corporation and Covanta Energy Corporation (incorporated herein by reference to Exhibit 10.26 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2003 and filed with the SEC on March 15, 2004).

10.3 Management Services and Reimbursement Agreement, dated March 10, 2004, among Covanta Energy Corporation, Covanta Energy Group, Inc., Covanta Projects, Inc., Covanta Power International Holdings, Inc., and certain Subsidiaries listed therein (incorporated herein by reference to Exhibit 10.30 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2003 and filed with the SEC on March 15, 2004).

10.4 * Covanta Energy Savings Plan, as amended by December 2003 amendment (incorporated herein by reference to Exhibit 10.25 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2004 and filed with the SEC on March 16, 2005).

10.5 *	Covanta Holding Corporation Equity Award Plan for Directors, as amended (incorporated herein by reference to Exhibit B of Covanta Holding Corporation s 2008 Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 1, 2008).
10.6 *	Covanta Holding Corporation Equity Award Plan for Employees and Officers, as amended (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 12, 2009 and filed with the SEC on May 12, 2009).
10.7 *	Form of Covanta Holding Corporation Stock Option Agreement for Employees and Officers (incorporated herein by reference to Exhibit 4.3 of Covanta Holding Corporation s Registration Statement on Form S-8 filed with the SEC on May 7, 2008).
10.8 *	Form of Covanta Holding Corporation Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 4.4 of Covanta Holding Corporation s Registration Statement on Form S-8 filed with the SEC on May 7, 2008).
10.9 *	Covanta Holding Corporation 1995 Stock and Incentive Plan (as amended effective December 12, 2000 and as further amended effective July 24, 2002) (incorporated herein by reference to Appendix A to Covanta Holding Corporation s Proxy Statement filed with the SEC on June 24, 2002).
10.10 *	Form of Growth Equity Award Agreement (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated February 24, 2010 and filed with the SEC on March 2, 2010).
10.11 *	Covanta Energy Corporation Senior Officers Severance Plan (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated February 24, 2010 and filed with the SEC on March 2, 2010).
10.12 *	Form of Covanta Holding Corporation Amendment to Stock Option Agreement for Employees and Officers (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 18, 2005 and filed with the SEC on March 24, 2005).
10.13 *	Summary Description of Covanta Holding Corporation Cash Bonus Program, dated February 2008 (incorporated herein by reference to Exhibit 10.14 of Covanta Holding Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2007).
10.14	Amendment No. 1 to Tax Sharing Agreement, dated as of June 24, 2005, by and between Covanta Holding Corporation, Covanta Energy Corporation and Covanta Power International Holdings, Inc., amending Tax Sharing Agreement between Covanta Holding Corporation, Covanta Energy Corporation and Covanta Power International Holdings, Inc. dated as of March 10, 2004 (incorporated herein by reference to Exhibit 10.8 of Covanta Holding Corporation s Current Report on Form 8-K dated June 24, 2005 and filed with the SEC on June 30, 2005).
10.15 *	Offer Letter between Sanjiv Khattri and Covanta Holding Corporation dated August 3, 2010 (incorporated by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated August 9, 2010 and filed with the SEC on August 10, 2010).
10.16	Rehabilitation Plan Implementation Agreement, dated January 11, 2006, by and between John Garamendi, Insurance Commissioner of the State of California, in his capacity as Trustee of the Mission Insurance Company Trust, the Mission National Insurance Company Trust and the Enterprise Insurance Company Trust, on the one hand, and Covanta Holding Corporation, on the other hand (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 2, 2006 and filed with the SEC on March 6, 2006).
10.17	Amendment to Rehabilitation Plan Implementation Agreement, accepted and agreed to on March 17, 2006 (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 17, 2006 and filed with the SEC on March 20, 2006).
10.18	Amendment to Agreement Regarding Closing (Exhibit A to the Rehabilitation Plan Implementation Agreement), dated January 10, 2006, by and between John Garamendi, Insurance Commissioner of the State of California, in his capacity as Trustee of the Mission Insurance Company Trust, the Mission National Insurance Company Trust, and the Enterprise Insurance Company Trust, on the one hand, and Covanta Holding Corporation, on the other hand (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated March 2, 2006 and filed with the SEC on March 6, 2006).

10.19	Latent Deficiency Claims Administration Procedures Agreement (Exhibit B to the Rehabilitation Plan Implementation Agreement), dated January 11, 2006, by and between John Garamendi, Insurance Commissioner of the State of California, in his capacity as Trustee of the Mission Insurance Company Trust, the Mission National Insurance Company Trust and the Enterprise Insurance Company Trust, on the one hand, and Covanta Holding Corporation on the other hand (incorporated herein by reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated March 2, 2006 and filed with the SEC on March 6, 2006).
10.20 *	Form of Covanta Holding Corporation Restricted Stock Award Agreement for Directors (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 31, 2006 and filed with the SEC on June 2, 2006).
10.21	Credit and Guaranty Agreement, dated as of February 9, 2007, among Covanta Energy Corporation, Covanta Holding Corporation, certain subsidiaries of Covanta Energy Corporation, as guarantors, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent, Revolving Issuing Bank and a Funded LC Issuing Bank, UBS AG, Stamford Branch, as a Funded LC Issuing Bank, Lehman Commercial Paper Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agents, and Bank of America, N.A. and Barclays Bank PLC, as Documentation Agents (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.22	Pledge and Security Agreement, dated as of February 9, 2007, between each of Covanta Energy Corporation and the other grantors party thereto, and JPMorgan Chase Bank, N.A., as Collateral Agent (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.23	Pledge Agreement, dated as of February 9, 2007, between Covanta Holding Corporation and JPMorgan Chase Bank, N.A., as Collateral Agent (incorporated herein by reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.24	Intercompany Subordination Agreement, dated as of February 9, 2007, among Covanta Energy Corporation, Covanta Holding Corporation, certain subsidiaries of Covanta Energy Corporation, as Guarantor Subsidiaries, certain other subsidiaries of Covanta Energy Company, as Excluded Subsidiaries or Unrestricted Subsidiaries, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.4 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.25	Form of Covanta Holding Corporation Indemnification Agreement, entered into with each of the following: David M. Barse, Ronald J. Broglio, Peter C.B. Bynoe, Linda J. Fisher, Joseph M. Holsten, Anthony J. Orlando, William C. Pate, Robert S. Silberman, Jean Smith, Samuel Zell, Timothy J. Simpson, Sanjiv Khattri, Thomas E. Bucks, John M. Klett and Seth Myones (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated December 6, 2007 and filed with the SEC on December 12, 2007.
10.26	Equity Commitment for Rights Offering between Covanta Holding Corporation and SZ Investments L.L.C. dated February 1, 2005 (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2005 and filed with the SEC on February 2, 2005).
10.27	Equity Commitment for Rights Offering between Covanta Holding Corporation and EGI-Fund (05-07) Investors, L.L.C. dated February 1, 2005 (incorporated herein by reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2005 and filed with the SEC on February 2, 2005).
10.28	Equity Commitment for Rights Offering between Covanta Holding Corporation and Third Avenue Trust, on behalf of The Third Avenue Value Fund Series dated February 1, 2005 (incorporated herein by reference to Exhibit 10.4 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2005 and filed with the SEC on February 2, 2005).

10.29	Purchase Agreement dated May 18, 2009 by and among Covanta Holding Corporation and Barclays Capital Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as representatives of the several initial purchasers named therein (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).
10.30	Form of Confirmation of Cash Convertible Note Hedge Transaction (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).
10.31	Form of Confirmation of Warrant (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).
10.32	Sale and Purchase Agreement, dated December 13, 2010, by and between Covanta Energy International Investments Ltd. and New Growth B.V. (incorporated herein by reference to Exhibit 2.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 28, 2011 and filed with the SEC on March 28, 2011).
12.1	Computation of Ratio of Earnings to Fixed Charges.
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm of Covanta Holding Corporation and Subsidiaries: Ernst & Young LLP.
23.2	Consent of Independent Registered Public Accounting Firm of Quezon Power, Inc.: Sycip Gorres Velayo & Co., a member practice of Ernst & Young Global.
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended).
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Chief Executive Officer and the Chief Financial Officer of Covanta Holding Corporation.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase**
101.DEF	XBRL Taxonomy Extension Definition Document**
101.LAB	XBRL Taxonomy Extension Labels Linkbase**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase**

Not filed herewith, but incorporated herein by reference.
* Management contract or compensatory plan or arrangement.
** XBRL information is furnished, not filed.

Pursuant to paragraph 601(b)(4)(iii)(A) of Regulation S-K, the registrant has omitted from the foregoing list of exhibits, and hereby agrees to furnish to the Securities and Exchange Commission, upon its request, copies of certain instruments, each relating to long-term debt not exceeding 10% of the total assets of the registrant and its subsidiaries on a consolidated basis.

(b) Exhibits: See list of Exhibits in this Part IV, Item 15(a)(3) above.

(c) Financial Statement Schedules: See Part IV, Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

COVANTA HOLDING CORPORATION

(Registrant)

By: /s/ Anthony J. Orlando
Anthony J. Orlando
President and Chief Executive Officer

Date: February 15, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Anthony J. Orlando Anthony J. Orlando	President and Chief Executive Officer and Director (Principal Executive Officer)	February 15, 2012
/s/ Sanjiv Khattri Sanjiv Khattri	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 15, 2012
/s/ Thomas E. Bucks Thomas E. Bucks	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 15, 2012
/s/ Samuel Zell Samuel Zell	Chairman of the Board	February 15, 2012
/s/ David M. Barse David M. Barse	Director	February 15, 2012
/s/ Ronald J. Broglio Ronald J. Broglio	Director	February 15, 2012
/s/ Peter C. B. Bynoe Peter C. B. Bynoe	Director	February 15, 2012
/s/ Linda J. Fisher Linda J. Fisher	Director	February 15, 2012
/s/ Joseph M. Holsten Joseph M. Holsten	Director	February 15, 2012
/s/ William C. Pate	Director	February 15, 2012

William C. Pate		
/s/ ROBERT S. SILBERMAN	Director	February 15, 2012
Robert S. Silberman		
/s/ JEAN SMITH	Director	February 15, 2012
Jean Smith		

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Quezon Power, Inc.
Consolidated Financial Statements
December 31, 2010 and 2009
and Years Ended December 31, 2010, 2009 and 2008
(In United States Dollars)

and

Report of Independent Registered Public Accounting Firm

SyCip Gorres Velayo & Co.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Management Committee of

Quezon Power, Inc.

We have audited the accompanying consolidated balance sheets of Quezon Power, Inc. (incorporated in the Cayman Islands, British West Indies) and subsidiary (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Quezon Power, Inc. and subsidiary as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Sycip Gorres Velayo & Co.

a Member Practice of Ernst & Young Global

Makati City, Philippines

January 25, 2011

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QUEZON POWER, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31	
	2010	2009
ASSETS		
Current Assets		
Cash	**$59,420,264**	$48,083,678
Accounts receivable - trade (Note 9)	**39,242,064**	34,615,934
Fuel inventories	**12,002,766**	22,930,156
Spare parts	**17,997,484**	16,328,184
Due from related parties (Note 7)	**106,518**	262,841
Deferred income taxes (Note 4)		748,659
Prepaid expenses and other current assets	**7,607,816**	8,331,404
Total Current Assets	**136,376,912**	131,300,856
Property, Plant and Equipment - net (Notes 3 and 6)	**592,594,199**	609,508,348
Deferred Financing Costs (Notes 5 and 6)	**6,106,075**	9,257,834
Deferred Income Taxes - net (Note 4)	**8,408,679**	13,066,407
Deferred Input Value-added Tax	**138,543**	240,518
	$743,624,408	$763,373,963

LIABILITIES AND EQUITY		
Current Liabilities		
Short-term notes payable (Note 5)	**$19,000,000**	$19,000,000
Accounts payable and accrued expenses	**18,418,678**	18,542,175
Due to related parties (Note 7)	**464,406**	348,699
Current portion of (Notes 5 and 6):		
Long-term notes payable	**6,250,000**	6,250,000
Long-term loans payable	**35,389,726**	35,389,726
Bonds payable	**12,900,000**	12,900,000
Income taxes payable (Note 4)	**8,070,606**	5,916,040
Deferred income taxes (Note 4)	**129,783**	
Total Current Liabilities	**100,623,199**	98,346,640
Long-term Notes Payable - net of current portion (Note 5)	**81,250,000**	87,500,000
Long-term Loans Payable - net of current portion (Note 6)	**35,389,725**	70,779,451
Bonds Payable - net of current portion (Note 6)	**120,400,000**	133,300,000
Asset Retirement Obligation (Note 2)	**5,441,629**	5,143,495
Deferred Income Tax (Note 4)	**58,170,228**	53,640,893
Other Noncurrent Liability (Note 9)	**2,610,338**	1,196,616
Total Liabilities	**403,885,119**	449,907,095

(Forward)

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	As of December 31	
	2010	2009
Equity		
Capital Stock - $0.01 par value (Note 8)		
Class A - 26,151 shares issued and outstanding	**$262**	$262
Class B - 2,002 shares issued and outstanding	**20**	20
Class C - 71,947 shares issued and outstanding	**719**	719
Class D - 10 shares issued and outstanding		
Total Capital Stock	**1,001**	1,001
Additional Paid-in Capital	**207,641,266**	207,641,266
Retained Earnings	**124,246,927**	98,590,742
Total Quezon Power, Inc s Equity	**331,889,194**	306,233,009
Noncontrolling Interest	**7,850,095**	7,233,859
Total Equity	**339,739,289**	313,466,868
	$743,624,408	$763,373,963

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31		
	2010	2009	2008
OPERATING REVENUES (Note 9)	**$338,207,261**	$324,127,186	$311,983,231
OPERATING EXPENSES			
Fuel costs	**133,935,368**	130,494,648	116,811,397
Operations and maintenance	**36,192,836**	39,752,110	35,344,253
Depreciation and amortization (Note 3)	**17,837,895**	17,819,243	17,989,675
General and administrative	**3,997,045**	3,855,125	4,864,729
	191,963,144	191,921,126	175,010,054
INCOME FROM OPERATIONS	**146,244,117**	132,206,060	136,973,177
OTHER INCOME (CHARGES)			
Discount on non-interest bearing advances (Note 9)	**1,618,053**	1,734,410	
Foreign exchange gains (losses) - net	**542,757**	997,107	(1,176,568)
Interest income	**86,305**	101,820	1,392,288
Interest expense (Notes 5 and 6)	**(27,630,840)**	(31,807,496)	(35,484,934)
Amortization of deferred financing costs	**(3,151,759)**	(3,814,342)	(4,425,569)
Others - net	**(1,172,799)**	(729,247)	(1,489,522)
	(29,708,283)	(33,517,748)	(41,184,305)
INCOME BEFORE INCOME TAX	**116,535,834**	98,688,312	95,788,872
PROVISIONS FOR (BENEFITS FROM) INCOME TAX (Note 4)			
Current	**40,959,908**	33,896,873	43,911,685
Deferred	**10,065,505**	9,106,407	(13,361,437)
	51,025,413	43,003,280	30,550,248
NET INCOME	**65,510,421**	55,685,032	65,238,624
Net income attributable to noncontrolling interest in subsidiary [Note 1(a)]	**(1,536,236)**	(1,305,690)	(1,530,043)
NET INCOME ATTRIBUTABLE TO QUEZON POWER, INC.	**$63,974,185**	$54,379,342	$63,708,581

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$65,510,421**	$55,685,032	$65,238,624
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**17,837,895**	17,819,243	17,989,675
Deferred income taxes - net	**10,065,505**	9,106,407	(13,361,437)
Amortization of deferred financing costs	**3,151,759**	3,814,342	4,425,569
Accretion expense on asset retirement obligation	**298,134**	280,644	325,808
Amortization of discount on non-interest bearing advances	**181,775**	81,026	
Unrealized foreign exchange losses (gains) - net	**148,462**	(560,196)	1,186,126
Losses on retirement of property, plant and equipment	**727**	223,980	118,902
Discount on non-interest bearing advances	**(1,618,053)**	(1,734,410)	
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable - trade	**(4,850,538)**	4,060,230	(2,233,802)
Fuel inventories	**10,927,390**	(4,476,878)	2,892,792
Spare parts	**(1,669,300)**	(566,622)	93,406
Prepaid expenses and other current assets	**825,563**	(4,849,532)	1,595,826
Increase (decrease) in:			
Accounts payable and accrued expenses	**(245,121)**	(1,294,409)	(1,047,878)
Income taxes payable	**2,154,566**	(4,281,007)	3,853,498
Net cash generated from operating activities	**102,719,185**	73,307,850	81,077,109
CASH FLOW USED IN INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(924,473)**	(1,273,548)	(1,727,856)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term notes payable	**10,666,667**	8,333,333	
Cash advances from Meralco	**2,850,000**	2,850,000	
Payments of:			
Long-term loans payable	**(35,389,726)**	(35,389,726)	(35,389,726)
Bonds payable	**(12,900,000)**	(12,900,000)	(12,900,000)
Short-term notes payable	**(10,666,667)**	(8,333,333)	
Long-term notes payable	**(6,250,000)**	(6,250,000)	
Distributions to noncontrolling interest in subsidiary	**(920,000)**	(652,000)	(1,414,000)
Dividends paid to holders of capital stock	**(38,318,000)**	(27,155,800)	(58,893,100)
Net changes in accounts with related parties	**276,474**	(621,731)	434,468
Net cash used in financing activities	**(90,651,252)**	(80,119,257)	(108,162,358)
(Forward)			

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	For the Years Ended December 31		
	2010	2009	2008
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**$193,126**	$434,139	($987,701)
NET INCREASE (DECREASE) IN CASH	**11,336,586**	(7,650,816)	(29,800,806)
CASH AT BEGINNING OF YEAR	**48,083,678**	55,734,494	85,535,300
CASH AT END OF YEAR	**$59,420,264**	$48,083,678	$55,734,494
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	**$27,864,944**	$32,077,577	$36,122,989
Income taxes	**38,805,342**	38,177,880	40,058,187

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Quezon Power, Inc. Stockholders				
	Capital Stock (Note 8)	Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest in Subsidiary	Total
Balances at January 1, 2008	$1,001	$207,641,266	$66,551,719	$6,464,126	$280,658,112
Comprehensive income					
Net income			63,708,581	1,530,043	65,238,624
Other comprehensive income					
Total comprehensive income			63,708,581	1,530,043	65,238,624
Distributions to noncontrolling interest in subsidiary				(1,414,000)	(1,414,000)
Dividends declared to holders of capital stock at $600.3 per share			(58,893,100)		(58,893,100)
Balances at December 31, 2008	1,001	207,641,266	71,367,200	6,580,169	285,589,636
Comprehensive income					
Net income			54,379,342	1,305,690	55,685,032
Other comprehensive income					
Total comprehensive income			54,379,342	1,305,690	55,685,032
Distributions to noncontrolling interest in subsidiary				(652,000)	(652,000)
Dividends declared to holders of capital stock at $276.8 per share			(27,155,800)		(27,155,800)
Balances at December 31, 2009	1,001	207,641,266	98,590,742	7,233,859	313,466,868
Comprehensive income					
Net income			63,974,185	1,536,236	65,510,421
Other comprehensive income					
Total comprehensive income			63,974,185	1,536,236	65,510,421
Distributions to noncontrolling interest in subsidiary				(920,000)	(920,000)
Dividends declared to holders of capital stock at $390.6 per share			(38,318,000)		(38,318,000)
Balances at December 31, 2010	$1,001	$207,641,266	$124,246,927	$7,850,095	$339,739,289

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization and Business**

(a) Organization

Quezon Power, Inc. (QPI; the Company), an exempted company with limited liability, was incorporated in the Cayman Islands, British West Indies on August 4, 1995 primarily: (i) to be a promoter, a general or limited partner, member, associate, or manager of any general or limited partnership, joint venture, trust or other entity, whether established in the Republic of the Philippines or elsewhere and (ii) to engage in the business of power generation and transmission and in any development or other activity related thereto; provided that the Company shall only carry on the business for which a license is required under the laws of the Cayman Islands when so licensed under the terms of such laws. The Philippine Branch (the Branch) was registered with the Philippine Securities and Exchange Commission on March 15, 1996 to carry out the Company s business in the Republic of the Philippines to the extent allowed by law including, but not limited to, developing, designing and arranging financing for a 470-megawatt (MW; net) base load pulverized coal-fired power plant and related electricity transmission line (the Project) located in Quezon Province, Republic of the Philippines. In addition, the Branch is responsible for the organization and is the sole general partner of Quezon Power (Philippines), Limited Co. (the Partnership), a limited partnership in the Philippines. The Partnership is responsible for financing, constructing, owning and operating the Project.

The Branch is the legal and beneficial owner of (i) the entire general partnership interest in the Partnership representing 21% of the economic interest in the Partnership and (ii) a limited partnership interest representing 77% of the economic interest in the Partnership. The remaining 2% economic interest in the Partnership is in the form of a limited partnership interest held by PMR Limited Co. (PMRL). PMRL does not have any equity funding obligation. The accompanying financial statements include the consolidated results of operations of the Company and the Partnership.

Ultimately, 100% of the aggregate capital contributions of QPI to the Partnership were indirectly made by Quezon Generating Company, Ltd. (QGC), a Cayman Islands limited liability company, and Ogden Power Development - Cayman, Inc. (OPD), an indirect wholly-owned subsidiary of Covanta Energy Corporation (CEC), a Delaware corporation. The shareholders of QGC are QGC Holdings, Ltd. (QGCHL) and GPI Quezon, Ltd. (GPIQ), both Cayman Islands companies.

QGCHL is a wholly-owned subsidiary of InterGen N.V. InterGen N.V. is a limited liability company organized under the laws of the Netherlands and is jointly owned by Ontario Teachers Pension Plan and GMR Infrastructure Limited (GMR), a company listed on the Bombay Stock Exchange. In November 2010, GMR signed a purchase and sale agreement to sell its 50% stake to an affiliate of the China Huaneng Group. The acquisition is expected to close during the first half of 2011 and will be subject to relevant consents and closing conditions.

Following its acquisition of a 90% interest in GPIQ in November 2008, EGCO International (B.V.I.) Limited (EGCO), a British Virgin Islands company, which is a subsidiary of Electricity Generating Public Company Limited, a company listed on the Stock Exchange of Thailand, completed the acquisition of the remaining interest in GPIQ in March 2009.

The economic ownership percentages among QGC, OPD and PMRL in the Partnership are 71.875%, 26.125% and 2%, respectively.

On December 13, 2010, EGCO entered into a definitive agreement with Covanta Energy International Investments, Ltd. (CEIIL) for the acquisition of CEIIL s beneficial economic interest in QPI and its equity interest in Covanta Philippines Operating, Inc. [CPOI; see Note 9(d)]. The acquisition is expected to close during the first half of 2011 and will be subject to customary consents and closing conditions.

(b) Allocation of Earnings

Each item of income and loss of the Partnership for each fiscal year (or portion thereof) shall be allocated 21% to the Company, as a general partner; 77% to the Company, as a limited partner; and 2% to PMRL, as a limited partner.

(c) The Project

The Project is a 470-MW base load pulverized coal-fired electricity generation facility and related transmission line. The Project receives substantially all of its revenue from a 25-year take-or-pay Power Purchase Agreement (PPA) and a Transmission Line Agreement (TLA) with Manila Electric Company (Meralco). Construction of the Project commenced in December 1996 and started commercial operations on May 30, 2000. The total cost of the Project was $895.4 million.

(d) Principal Business Risks

The principal risks associated with the Project include operating risks, dependence on one customer (Meralco), environmental matters, permits and political and economic factors.

The risks associated with operating the Project include the breakdown or failure of equipment or processes and the performance of the Project below expected levels of output or efficiency due to operator fault and/or equipment failure. Meralco is subject to regulation by the Energy Regulatory Commission (ERC) with respect to sales charged to consumers. In addition, pursuant to the Philippine Constitution, the Philippine government at any time may purchase Meralco s property upon payment of just compensation. If the Philippine government was to purchase Meralco s property or the ERC ordered any substantial disallowance of costs, Meralco would remain obligated under the PPA to make the firm payments to the Partnership. Such purchase or disallowance, however, could result in Meralco being unable to fulfill its obligations under the PPA, which would have a material adverse effect on the ability of the Partnership to meet its obligations under the credit facilities [see Notes 5, 6, 9(a) and 9(b)].

The Partnership evaluated all subsequent events through January 25, 2011, the date the consolidated financial statements were available to be issued.

2. **Summary of Significant Accounting Policies**

Basis of Presentation

The accompanying consolidated financial statements of the Company include the financial position and results of operations of the Partnership and have been prepared in conformity with U.S. generally accepted accounting principles (US GAAP).

Principles of Consolidation

The accompanying consolidated financial statements reflect the results of operations, cash flows and financial position of the Partnership, a 98%-owned and controlled limited partnership. All intercompany transactions have been eliminated. Noncontrolling interest in subsidiary is the portion of equity (net assets) in the Partnership not attributable to the Company.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include useful lives of long-lived property, plant and equipment, impairment of property, plant and equipment, realizability of the deferred income tax assets, measurement of inventories and asset retirement obligation.

Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable based on an assessment of specific evidence indicating troubled collection, historical experience and prevailing market conditions. An accounts receivable is written off after all collection efforts have ceased.

Inventories

Fuel and spare parts inventories are valued at the lower of cost and market value, net of any provision for inventory losses. Cost is determined using the moving average cost method.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Cost includes the fair value of asset retirement obligation, capitalized interest and amortized deferred financing costs incurred in connection with the construction of the Power Plant. Capitalization of interest and amortization of deferred financing costs ceased upon completion of the Power Plant.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Category	Number of years
Power plant	50
Transmission lines	25
Others	3 to 5

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The cost of routine maintenance and repairs is charged to income as incurred while significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Deferred Financing Costs

Deferred financing costs represent the costs incurred in connection with the Partnership s various financing arrangements. These costs are amortized using the effective interest rate method over the terms of the related loans.

Revenue Recognition

Revenue is recognized when electric capacity and energy are delivered to Meralco [see Note 9(a)]. Commencing on the Commercial Operations Date and continuing throughout the term of the PPA, the Partnership receives payment, net of penalty obligation for each kilowatt hour (kWh) of shortfall deliveries, consisting of a Monthly Capacity Payment, Monthly Operating Payment and Monthly Energy Payment as defined in the PPA.

Revenue from transmission lines consists of Capital Cost Recovery Payment (CCRP) and the Transmission Line Monthly Operating Payment as defined in the TLA. Transmission Line Monthly Operating Payment is recognized as revenue in the period it is intended for.

Income Taxes

Under the present Philippine taxation laws, a regular corporate income tax (RCIT) rate of 35% is levied against Philippine taxable income effective November 1, 2005 and 30% starting January 1, 2009 (see Note 4). Net operating losses can be carried forward for three immediately succeeding years.

The Partnership accounts for corporate income taxes in accordance with Accounting Standard Codification (ASC) 740, *Income Taxes*, which requires an asset and liability approach in determining income tax liabilities. The standard recognizes deferred income tax assets and liabilities for the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred income tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets are reduced by a valuation allowance if, based on weight of available evidence, it is more likely than not that some or all of the deferred income tax assets will not be realized.

The Company is not subject to RCIT as a result of the Company s incorporation in the Cayman Islands. However, the Philippine branch profit remittance tax of 15% is levied against the total profit applied or earmarked for remittance by the Branch to the Company.

Accounting for Uncertain Income Tax Positions

Uncertain income tax provisions are accounted for under ASC 740. ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is more likely than not of being realized upon ultimate settlement. The Company and the Partnership elected to classify interest due on any underpayment of income taxes, if and when required, to general and administrative expenses.

Functional Currency

The functional currency of the Company and the Partnership has been designated as the US dollar because borrowings under the credit facilities are made and repaid in US dollars. In addition, all major agreements are primarily denominated in US dollars or are US dollar linked. Consequently, the transactions and the consolidated financial statements of the Company and the Partnership have been recorded in US dollars.

Valuation of Long-lived Assets

Long-lived assets are evaluated for impairment in accordance with ASC 360, *Property, Plant, and Equipment.* The Partnership periodically evaluates its long-lived assets for events or changes in circumstances that might indicate that the carrying amount of the assets may not be recoverable. The Partnership assesses the recoverability of the assets by determining whether the amortization of such long-lived assets over their estimated lives can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on the fair value of the assets. For each of the three years in the period ended December 31, 2010, no such impairment was recorded in the accompanying consolidated statements of income.

Asset Retirement Obligation

The Partnership accounts for asset retirement obligations in accordance with ASC 410, *Asset Retirement and Environmental Obligations*. The Partnership recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. In estimating fair value, the Partnership did not use a market risk premium since a reliable estimate of the premium is not obtainable given that the retirement activities will be performed many years into the future and the Partnership has insufficient information on how much a third party contractor would charge to assume the risk that the actual costs will change in the future. The associated asset retirement costs are capitalized as part of the carrying amount of the Power Plant. No payments of asset retirement obligation were made in 2010 and 2009.

The following table describes all changes to the Partnership s asset retirement obligation as of December 31, 2010 and 2009:

	2010	2009
Asset retirement obligation at beginning of year	**$ 5,143,495**	$ 4,862,851
Accretion expense for the year	**298,134**	280,644
Asset retirement obligation at end of year	**$ 5,441,629**	$ 5,143,495

Fair Value Measurement and Disclosures

The Company and the Partnership apply ASC 820, *Fair Value Measurements and Disclosures,* to determine the fair value of financial instruments measured at fair value and the nonrecurring fair value measurements of nonfinancial assets and liabilities.

Fair value, as defined in ASC 820, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price. To increase consistency and enhance disclosure of the fair value of financial instruments, ASC 820 creates a fair value hierarchy to prioritize the inputs used to measure fair value into three categories. The level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest. The three levels are defined as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

None of the Company s and the Partnership s financial instruments are measured at fair value on a recurring basis and no adjustment has been made to any of the nonfinancial assets or liabilities measured at fair value on a nonrecurring basis to fair value for each of the three years in the period ended December 31, 2010.

Fair Value Disclosures of Financial Instruments

As described in Note 10, the estimated fair value amounts of financial instruments have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company and the Partnership would realize in a current market exchange. The methods and assumptions are described in Note 10 to the consolidated financial statements.

New Accounting Pronouncements Adopted During the Year

Fair Value Measurement and Disclosures

In August 2009, the FASB issued Accounting Standard Update (ASU) No. 2009-05 which amended the fair value measurement and disclosure accounting guidance for the fair value measurement of liabilities. ASU No. 2009-05 clarified that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs to reflect the existence of a restriction that prevents the transfer of the liability. It also clarified that Level 1 fair value measurements include a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required. Adoption of this standard did not have a material impact on the consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 which amends ASC Topic 820. This amendment focuses on the improvements on the required disclosures by introducing new ones and by clarifying those that are existing. Among the improvements introduced by this ASU are required disclosures of (1) transfers in and out of Levels 1 and 2 and (2) activity in Level 3 fair value measurements. Except for the amendments in the roll forward activity of Level 3 fair value measurements, which is effective for period beginning on or after December 15, 2010, the adoption of this standard did not have a material impact on the consolidated financial statements.

New Accounting Pronouncements Not Yet Effective

The following accounting standards have been issued, but as of December 31, 2010 are not yet effective for and have not been adopted by the Company and the Partnership. The adoption of the following accounting standards are not expected to have a material impact on the consolidated financial statements:

In July 2010, FASB issued ASU No. 2010-20 which provides disclosure requirements about the credit quality of financing receivables and the allowance for credit losses. The standard requires greater transparency about an entity s financing receivables which include loans, long-term receivables, lease receivables, and other long-term receivables. This accounting standard is effective for annual reporting periods ending on or after December 15, 2011.

In October 2009, FASB issued ASU No. 2009-13 which amends ASC Topic 605, *Revenue Recognition*. This amends the criteria for separating consideration in multiple element arrangements. As a result, multiple deliverable arrangements generally will be separated in more circumstances than under existing standard. This accounting standard is effective for annual reporting periods beginning on or after June 15, 2010.

3. **Property, Plant and Equipment**

	2010	2009
Power plant	**$ 693,239,695**	$ 692,336,748
Transmission lines	**86,596,580**	86,596,580
Furniture and fixtures	**4,259,302**	4,240,711
Transportation equipment	**341,183**	341,183
Leasehold improvements	**191,265**	191,265
	784,628,025	783,706,487
Less accumulated depreciation and amortization	**192,033,826**	174,198,139
	$ 592,594,199	$ 609,508,348

Approximately $99.0 million of interest on borrowings and $11.8 million of amortization of deferred financing costs have been capitalized as part of the cost of property, plant and equipment and depreciated over the estimated useful life of the Power Plant.

No interest on borrowings and amortization of deferred financing costs were capitalized to property, plant and equipment starting from the commercial operations of the Power Plant on May 30, 2000. Substantially all of these assets serve as collateral to the Partnership s debt (see Note 6).

Total depreciation and amortization related to property, plant and equipment charged to statement of income amounted to $17.8 million, $17.8 million and $18.0 million in 2010, 2009 and 2008, respectively.

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4. **Income Taxes**

The components of the Partnership s deferred income tax assets and liabilities are as follows:

	2010	2009
Current:		
Deferred income tax assets:		
Loss on retirement of property, plant and equipment	**$39,738**	$67,077
Unrealized foreign exchange losses		369,136
Others	**251,165**	312,446
Current deferred income tax assets	**290,903**	748,659
Deferred income tax liability:		
Unrealized foreign exchange gains	**(420,686)**	
Net current deferred income tax assets (liabilities)	**($129,783)**	$748,659
Noncurrent:		
Deferred income tax assets:		
Unrealized foreign exchange losses	**$12,239,493**	$15,938,869
Asset retirement obligation, net of the corresponding capitalized asset	**899,668**	791,439
Noncurrent deferred income tax assets	**13,139,161**	16,730,308
Deferred income tax liabilities:		
Excess of tax over book depreciation	**(3,803,584)**	(3,167,886)
Discount on cash advances from Meralco	**(926,898)**	(496,015)
Net noncurrent deferred income tax assets	**$8,408,679**	$13,066,407
Noncurrent deferred income tax liability:		
Accumulated earnings of the Partnership	**$58,170,228**	$53,640,893

A reconciliation of the statutory income tax rates to the effective income tax rates as a percentage of income before income taxes is as follows:

	2010	2009	2008
Statutory income tax rates	**30.0%**	30.0%	35.0%
Tax effects of:			
The Company s operations	**9.7**	9.7	11.7
Effect of using the local currency for tax purposes	**3.9**	3.4	(17.7)
Interest income already subject to income tax and others	**0.2**	0.5	2.9
Effective income tax rates	**43.8%**	43.6%	31.9%

In accordance with Republic Act (RA) No. 9337, the statutory income tax rate is reduced from 35% to 30% and unallowable interest rate from 42% to 33% beginning January 1, 2009.

The Partnership files income tax returns in the Philippine jurisdiction. Under current Philippine tax law, the Bureau of Internal Revenue (BIR) must perform a tax assessment within three (3) years from the last day prescribed by law for the filing of the tax return for the tax that is being subjected to assessment or from the day the return was filed, if filed late. Any assessments issued

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after the applicable period are deemed to have prescribed, and can no longer be collected from a taxpayer. Tax audits by their nature are often complex and can require several years to complete. The Company regularly assesses the potential outcome of these examinations and while it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, management believes that the tax positions taken are more-likely-than-not to be sustained upon examination by the taxing authorities.

The Partnership is no longer subject to income tax examinations by tax authorities for years before 2006. The Partnership received letters of authority covering all internal revenue taxes of 2007 and value-added taxes of 2008. As of January 25, 2011, the Partnership has not received any formal tax assessments from the BIR covering these years.

There are no uncertain tax positions both individually and in the aggregate, that if recognized, would materially affect the effective income tax rate for each of the three years in the period ended December 31, 2010.

5. **Notes Payable**

a) Credit Facility Agreement (CFA)
The Partnership entered into a CFA with Banco de Oro Universal Bank (BDO) dated May 11, 2005 for the general working capital requirements of the Partnership.

The existing facility is comprised of an $8.3 million and a $10.7 million notes payable. The Partnership has been able to extend the maturity dates of both notes payable. The latest current maturity date and details of the outstanding balances of the facility are as follows:

	Amount Outstanding			
	2010	2009	Interest Rate	Current Maturity
Tranche 1	**$8,333,333**	$8,333,333	Floating rate subject to monthly or quarterly repricing	January 14, 2011
Tranche 2	**10,666,667**	10,666,667	Floating rate subject to monthly or quarterly repricing	March 15, 2011
	$19,000,000	$19,000,000		

Total interest expense pertaining to the credit facility amounted to $0.9 million, $1.1 million and $1.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(b) Notes Facility and Purchase Agreement (NFPA)
The Partnership entered into a $100.0 million NFPA with Banco de Oro-EPCI, Inc., Bank of Philippine Islands, China Banking Corporation, Rizal Commercial Banking Corporation, BDO Capital and Investment Corporation and Banco de Oro-EPCI, Inc.-Trust Banking Group on November 12, 2007. The net proceeds from the NFPA were used by the Partnership to fund its operational, business, financing and recapitalization requirements.

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The NFPA has a seven-year term and is amortized in 12 semi-annual payments on May 15 and November 15 of each year, with the first payment date being May 15, 2009. The interest is payable semi-annually in arrears on the outstanding principal amount of notes on each interest payment date as defined in the NFPA at 6.93% (net of final tax) per annum for the first five years and 7.43% (net of final tax) per annum for the remaining years.

The NFPA shall constitute direct, unconditional, unsubordinated (except with respect to the Senior Debt under the terms of the Intercreditor and Subordination Agreement) and unsecured obligations of the Partnership, ranking pari passu with all its other present and future direct, unconditional, unsubordinated and unsecured obligations (other than subordinated obligations, the Senior Debt and those preferred pursuant to mandatory provisions of Law). The NFPA are subject to special and optional redemption by the Partnership in whole. Special redemption allows the Partnership to redeem the loan on November 15, 2012 by paying all sums then due and payable under the NFPA, whether by way of interest, principal or penalty, including any applicable fees. Optional redemption allows the Partnership to redeem the loan at any repayment date after the second anniversary of the issue date, except on November 15, 2012, by paying the sum of (a) all sums then due and payable under the NFPA, whether by way of interest, principal or penalty, including any applicable fees; (b) all unpaid and undue principal then outstanding; and (c) make-whole premium.

Total interest expense pertaining to the NFPA amounted to $7.0 million, $7.5 million and $7.7 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Annual future principal payments for the next four years ending December 31 are as follows:

2011	$6,250,000
2012	6,250,000
2013	37,500,000
2014	37,500,000
	$87,500,000

6. **Debt Financing Agreements**

The Partnership was financed through the collective arrangement of the Common Agreement, Eximbank-Supported Construction Credit Facility, Trust Agreement, Uninsured Alternative Credit Agreement, Indenture, Bank Notes, Bank Letters of Credit, Bonds, Interest Hedge Contracts, Eximbank Political Risk Guarantee, OPIC Political Risk Insurance Policy, Eximbank Term Loan Agreement, Intercreditor Agreement, Side Letter Agreements, Security Documents and Equity Documents.

The Common Agreement contains affirmative and negative covenants including, among other items, restrictions on the sale of assets, modifications to agreements, certain transactions with affiliates, incurrence of additional indebtedness, capital expenditures and distributions and collateralization of the Project s assets. The debt is collateralized by substantially all of the assets of the Partnership and a pledge of certain related parties shares of stock. The Partnership has complied with the provisions of the debt financing agreements, in all material respects, or has obtained a waiver for noncompliance from the lenders [see Note 11(c)].

(a) Term Loan Agreement

The debt financing agreements contemplated that the outstanding principal amount of the Eximbank-Supported Construction Loans will be repaid on the Eximbank Conversion Date with the proceeds of a loan from Eximbank under the Eximbank Term Loan.

Under the Eximbank Term Loan Agreement, Eximbank was to provide for a $442.1 million direct term loan, the proceeds of which could only be used to refinance the outstanding Eximbank-Supported Construction Credit Facility and to pay the Eximbank Construction Exposure Fee to Eximbank. This term loan, which would have had interest at a fixed rate of 7.10% per annum, would have had a 12-year term and would have been amortized in 24 approximately equal semi-annual payments during such term.

In April 2001, in lieu of the Eximbank Term Loan, the Partnership availed of the alternative refinancing of the Eximbank-Supported Construction Loans allowed under the Eximbank Option Agreement through an Export Credit Facility guaranteed by Eximbank and financed by Private Export Funding Corporation (PEFCO). Under the terms of the agreement, PEFCO established credit in an aggregate amount of $424.7 million which bears interest at a fixed rate of 6.20% per annum and payable under the payment terms identical with the Eximbank Term Loan. Upon compliance with the conditions precedent as set forth in the Term Loan Agreement, the PEFCO Term Loan was drawn and the proceeds were applied to the Eximbank-Supported Construction Loans. Amendments to the Omnibus Agreement were made to include, among other things, PEFCO as a party to the Agreement in the capacity of a lender.

Total interest expense pertaining to the loans payable amounted to $5.8 million, $8.0 million and $10.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Annual future principal payments for the next two years ending December 31 are as follows:

2011	$35,389,726
2012	35,389,725
	$70,779,451

(b) Trust and Retention Agreement

The Trust and Retention Agreement provides, among others, for (i) the establishment, maintenance and operation of one or more US dollar and Philippine peso accounts into which power sales revenues and other project-related cash receipts of the Partnership will be deposited and from which all operating and maintenance disbursements, debt service payments and equity distributions will be made; and (ii) the sharing by the lenders on a pari passu basis of the benefit of certain security.

(c) Bonds Payable

Bonds payable represents the proceeds from the issuance of the $215.0 million in aggregate principal amount of the Partnership s 8.86% (net of final tax) Senior Secured Bonds Due 2017 (the Series 1997 Bonds). The interest rate is 8.86% per annum and is payable quarterly on March 15, June 15, September 15 and December 15 of each year (each, a Bond Payment Date), with the first Bond Payment Date being September 15, 1997. The principal amount of the Series 1997 Bonds is payable in quarterly installments on each Bond Payment Date occurring on or after September 15, 2001 with the Final Maturity Date on June 15, 2017. The proceeds of the Series 1997 Bonds were applied primarily by the Partnership to the payment of a portion of the development, construction and certain initial operating costs of the Project.

The Series 1997 Bonds are treated as senior secured obligations of the Partnership and rank pari passu in right of payment with all other credit facilities, as well as all other existing and future senior indebtedness of the Partnership (other than a working capital facility of up to $15.0 million, subject to escalation), and senior in right of payment to all existing and future indebtedness of the Partnership that is designated as subordinate or junior in right of payment to the Series 1997 Bonds. The Series 1997 Bonds are subject to redemption by the Partnership in whole or in part, beginning five years from the date of issuance, at par plus a make-whole premium, calculated using a discount rate equal to the applicable United States Treasury rate plus 0.75%.

Total interest expense pertaining to the bonds payable amounted to $13.9 million, $15.2 million and $16.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Annual future principal payments for the next five years ending December 31 are as follows:

2011	$ 12,900,000
2012	15,050,000
2013	18,275,000
2014	20,425,000
And thereafter	66,650,000
	$ 133,300,000

7. **Related Party Transactions**

Due to the nature of the ownership structure, the majority of the transactions were among the Company, the Partnership, the stockholders, and their related entities.

The following amounts were paid to related parties of the stockholders for the operation and maintenance and management of the Project under the agreements as discussed in Note 9:

	2010	2009	2008
CPOI	**$ 33,753,269**	$ 44,890,181	$ 30,388,097
InterGen Management Services (Philippines), Ltd. (IMS)	**1,961,188**	2,137,583	1,814,818

As of December 31, 2010 and 2009, the net amounts due to related parties in relation to costs and expenses incurred and cash advanced by the Project were $0.4 million and $0.1 million, respectively.

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8. **Capital Stock**

	2010 Number of Shares	2010 Amount	2009 Number of Shares	2009 Amount
Class A, $0.01 par value:				
Authorized	**1,000,000**		1,000,000	
Issued	**26,151**	**$ 262**	26,151	$ 262
Class B, $0.01 par value:				
Authorized	**1,000,000**		1,000,000	
Issued	**2,002**	**20**	2,002	20
Class C, $0.01 par value:				
Authorized	**1,000,000**		1,000,000	
Issued	**71,947**	**719**	71,947	719
Class D, $0.01 par value:				
Authorized	**10**		10	
Issued	**10**		10	
		$ 1,001		$ 1,001

Class A and Class C shares have an aggregate 100% beneficial economic interest and 98% voting interest in the Company divided among the holders of the Class A and Class C shares. Class B shares have a 2% voting interest in the Company. On October 18, 2004, the shareholders of the Company entered into a Third Amended and Restated Development and Shareholders Agreement (D&S Agreement) to, among others, add GPI as party to the D&S Agreement as a shareholder and holder of newly issued Class D shares. Class D shares have no economic interest, no right to dividends and other distributions and no voting rights other than the power to appoint a director and an alternate director.

During 2010, 2009 and 2008, the Company s BOD approved the declaration of cash dividends at $390.6, $276.8 and $600.3 per share, respectively, out of its unrestricted retained earnings to all Class A and C stockholders.

9. **Commitments and Contingencies**

The Partnership has entered into separate site lease, construction, energy sales, electric transmission, coal supply and transportation, operations and maintenance and project management agreements.

In connection with the construction and operation of the Project, the Partnership is obligated under the following key agreements:

(a) Offtake Agreements - General Terms

PPA

The Partnership and Meralco are parties to the PPA (as amended on June 9, 1995 and December 1, 1996). The PPA provides for the sale of electricity from the Partnership s Generation Facility to Meralco. The term extends 25 years from the Commercial Operations Date, as defined in the PPA. As disclosed in Note 1(c), the Commercial Operations Date occurred on May 30, 2000.

The PPA provides that commencing on the Commercial Operations Date, the Partnership is required to deliver to Meralco, and Meralco is required to take and pay for, in each year a Minimum Guaranteed Electricity Quantity (MGEQ) of kWhs of Net Electrical Output (NEO). The Partnership s delivery obligations are measured monthly and annually.

Meralco is obligated to pay to the Partnership each month a monthly payment consisting of the following: (i) a Monthly Capacity Payment, (ii) a fixed Monthly Operating Payment, (iii) a variable Monthly Operating Payment and (iv) a Monthly Energy Payment. Under the PPA and related foreign exchange protocols between the parties, Meralco may pay the dollar-denominated components of the Monthly Capacity Payment, the Monthly Energy Payment and the Monthly Operating Payment in US dollars or in Philippine pesos based on prevailing exchange rates at the time of payment.

Under the PPA, the Partnership has provided Meralco with a letter of credit in the amount of $6.5 million to secure its obligations under the PPA.

TLA

Under the TLA dated June 13, 1996 (as amended on December 1, 1996) between the Partnership and Meralco, the Partnership accepted responsibility for obtaining all necessary rights-of-way for, and the siting, design, construction, operation and maintenance of the Transmission Line. The term of the TLA will extend for the duration of the term of the PPA, commencing on the date of execution of the TLA and expiring on the 25th anniversary of the Commercial Operations Date. Under the TLA, Meralco is obligated to make a monthly CCRP and a Monthly Operating Payment to the Partnership.

(b) Offtake Agreements - Re-Negotiation

PPA and TLA Settlement Discussions

On February 21, 2008 (the Amendment Date), the parties signed certain key agreements to finally resolve outstanding issues on the PPA and TLA. This includes Amendment No. 2 to the TLA which reduces the CCRP by approximately 30% from the Amendment Date and retroactively reduced each monthly CCRP from March 27, 2003 through the Amendment Date by approximately $350,000; a side letter agreement which resulted in Meralco paying the Partnership in 2008, without interest and penalties, $8.5 million representing the aggregate amount previously withheld by Meralco in 2001, net of applicable shortfall payments payable by the Partnership; and a side letter agreement to the PPA relating to excess generation arrangements.

The side letter agreement relating to excess generation sets out an arrangement that allows Meralco to dispatch the Power Plant and increase the Partnership s near-term revenues based on sales of excess generation output at the discounted per kWh tariff for such generation. Meralco agreed to a base generation and a Target Excess Generation (TEG) of the Power Plant during each December 26 to December 25 Annual Period ending 2008 to 2017 (each, a Guarantee Year).

The TEG is equal to 74,000,000 kWh per annum. Meralco will pay for each kWh of excess generation during the Guarantee Years in accordance with the existing terms of the PPA relating to excess generation. If the TEG is not reached in a Guarantee Year, Meralco will pay the Partnership an amount (an Advance Payment) reflecting the difference in the TEG and Actual Excess Generation (AEG) on January 25 of the following contract year based on the following formula:

Advance Payment = $2,850,000 - [$2,850,000 x (AEG / TEG)]

Where AEG is greater than the TEG, Meralco will be entitled to bank each such excess kWh for use in calculating AEG in a subsequent Guarantee Year. The Excess Generation Side Letter does not alter Meralco s obligation to pay for each kWh it actually receives at either the base tariff rate or the excess generation tariff rate. The terms of the side letter relating to excess generation apply irrespective of the actual performance of the Power Plant.

During the Annual Periods ending 2018 to 2025, the Partnership will be obligated to repay the aggregate Advance Payments to Meralco in eight approximately equal annual installments without interest. The Partnership will not be obligated to repay any amounts that constituted payments for actual deliveries of power by it to Meralco.

During 2010 and 2009, the Partnership received a cash advance from Meralco amounting to $2.85 million for each year in accordance with the provision of the side letter agreement on excess generation. The cash advance from Meralco is carried at amortized cost using the effective interest rate at the time the advances was received from Meralco of 7.70% and 7.92% as of December 31, 2010 and 2009, respectively. The carrying value of the cash advance received from Meralco amounting to $2.6 million and $1.2 million as of December 31, 2010 and 2009, respectively, is presented as Other noncurrent liability in the consolidated balance sheets.

Proposal from Meralco to Renegotiate the PPA

In July 2008 and February 2009, the Partnership received letters from Meralco citing the section on stranded costs of the Electric Power Industry Reform Act (EPIRA) and requesting a further negotiation of the PPA with the aim of exploring areas to reduce contract cost.

The Partnership expressed its disagreement in reopening discussions on potential PPA amendments and mentioned, among others, the recent resolution of all issues under the PPA and the TLA with the signing on February 21, 2008 of the side letter agreements and the amendment to the TLA.

(c) Coal Supply Agreements (CSA)

In order to ensure that there is an adequate supply of coal to operate the Generation Facility, the Partnership has entered into two CSA with the intent to purchase approximately 70% of its coal requirements from PT Adaro Indonesia (Adaro) and the remainder of its coal requirements from PT Kaltim Prima Coal (Kaltim Prima, and together with Adaro, the Coal Suppliers). The agreement with Adaro (the Adaro CSA) will continue to be in effect until October 1, 2022. If the term of the Coal Cooperation Agreement between Adaro and the Ministry of Mines and Energy of the Government of the Republic of Indonesia is extended beyond October 1, 2022, the Partnership may elect to extend the Adaro CSA until the earlier of the expiration of the PPA or the expiration of the extended Coal Cooperation Agreement, subject to certain conditions. The agreement with Kaltim Prima (the Kaltim Prima CSA) has a scheduled termination date 15 years after the Commercial Operations Date.

The Partnership may renew the Kaltim Prima CSA for two additional five-year periods by giving not less than one year prior written notice. The second renewal period will be subject to the parties agreeing to the total base price to be applied during that period.

The Partnership is subject to minimum take obligations of 900,000 Metric Tonnes (MT) for Adaro and 360,000 MT for Kaltim Prima.

In 2004, the Adaro CSA was amended to reflect the change in the benchmark price from the Australian-Japanese benchmark price to the six-month rolling average of the ACR Asia Index with a certain discount. The new benchmark price was applied retroactively to April 1, 2003.

For the year ended December 31, 2010, the Partnership was able to meet the minimum take obligations both for Adaro and Kaltim Prima. For the year ended December 31, 2009, the Partnership did not meet its minimum take obligations for Adaro by 84,000 MT. However, the Partnership was able to secure a waiver from Adaro for this shortfall.

(d) Operations and Maintenance Agreement (O&M Agreement)

The Partnership and CPOI (the Operator), a wholly-owned subsidiary of Covanta Projects, Inc. (CPI), a subsidiary of CEC, have entered into the Plant O&M Agreement dated December 1, 1995 (as amended on February 29, 1996, December 10, 1996 and October 18, 2004, the O&M Agreement) under which the Operator assumed responsibility for the operation and maintenance of the Project pursuant to a cost-reimbursable contract. CPI, pursuant to an O&M Agreement Guarantee, guarantees the obligations of the Operator. The initial term of the O&M Agreement extends 25 years from the Commercial Operations Date. Two automatic renewals for successive five year periods are available to the Operator, provided that (i) the PPA has been extended; (ii) no default by the Operator exists; and (iii) the O&M Agreement has not been previously terminated by either party. The Partnership is obligated to compensate the Operator for services under the O&M Agreement, to reimburse the Operator for all reimbursable costs one month in advance of the incurrence of such costs and to pay the Operator a base fee and certain bonuses. In certain circumstances, the Operator could be required to pay liquidated damages depending on the operating performance of the Project, subject to contractual limitations. Beginning on Provisional Acceptance, as defined in the O&M Agreement, the Partnership is obligated to pay the Operator a monthly fee of $160,000, subject to escalation.

The Operator may earn additional fees or reduced fees based on defined results with respect to output or reduced operating costs. The 2004 amendments to the O&M Agreement brought several changes including changes in the terms concerning material breach of the O&M Agreement; introduction of surviving service fees to the Operator in case the agreement is pre-terminated; changes in the methodology of computing additions or reduction in fees when NEO is greater or less than the MGEQ of each contract year; and introduction of banked hours that can be applied to future reductions in fees or exchanged for cash subject to a 5-year expiration period. The adjustments in Operator s fee, including the cash value of all banked hours accrued during a contract year, shall not exceed $1.0 million, adjusted pursuant to an escalation index. These amendments in the O&M Agreement were effective beginning December 26, 2003.

See Note 1(a) for CEIIL s sale of its equity interest in CPOI.

(e) Management Services Agreement (MSA)

The Partnership has entered into the Project MSA, dated September 20, 1996 (as amended, the MSA), with IMS (as assignee of International Generating Company, Inc.), an affiliate of InterGen N.V., (the Manager), pursuant to which, the Manager is providing management services for the Project. Pursuant to the MSA, the Manager nominates a person to act as a General Manager of the Partnership, and, acting on behalf of the Partnership, to be responsible for the day-to-day management of the Project. The initial term of the MSA extends for a period ending 25 years after the Commercial Operations Date, unless terminated earlier, with provisions for extension upon mutually acceptable terms and conditions. InterGen N.V., pursuant to a Project MSA Guarantee dated December 10, 1996, guarantees the obligations of the Manager.

The Partnership is obligated to pay the Manager an annual fee equal to $400,000 subject to escalation after the first year relative to an agreed-upon index payable in 12 equal monthly installments.

Similar to the O&M Agreement, amendments to the MSA were made in 2004. Significant changes to the MSA include, among others, amendments to the duties of the Manager, General Manager, rights of the Partnership, acting through the BOD of QPI, to audit the Manager s procedures and past practices, changes in termination provisions and the introduction of a Surviving Management Fee in case the agreement is pre-terminated. The amendments to the MSA also have a retroactive effect beginning December 26, 2003.

(f) Project Site Lease, Transmission Line Site Lease and Foreshore Lease Agreements

Due to Philippine legal requirements that limit the ownership interests in real properties and foreshore piers and utilities to Philippine nationals and in order to facilitate the exercise by Meralco of its power of condemnation should it be obligated to exercise such powers on the Partnership s behalf, Meralco owns the Project Site and leases the Project Site to the Partnership. Meralco has also agreed in the Foreshore Lease Agreement dated January 1, 1997, as amended, to lease from the Philippine government the foreshore property on which the Project piers were constructed, to apply for and maintain in effect the permits necessary for the construction and operation of the Project piers and to accept ownership of the piers.

The Partnership has obtained rights-of-way for the Transmission Line for a majority of the sites necessary to build, operate and maintain the Transmission line. Meralco has agreed, pursuant to a letter agreement dated December 19, 1996, that notwithstanding the provisions of the TLA that anticipates that Meralco would be the lessor of the entire Transmission Line Site, Meralco will only be the Transmission Line Site Lessor with respect to rights-of-way acquired through the exercise of its condemnation powers.

Meralco, as a lessor, and the Partnership, as a lessee, have entered into the Transmission Line Site Leases, dated December 20, 1996, with respect to real property required for the construction, operation and maintenance of the Transmission Line other than rights-of-way to be acquired through the exercise of Meralco s condemnation powers. The initial term of each of the Project Site Leases and each of the Transmission Line Site Leases (collectively, the Site Leases) extends for the duration of the PPA, commencing on the date of execution of such Site Lease and expiring 25 years following the Commercial Operations Date. The Partnership has the right to extend the term of any Site Lease for consecutive periods of five years each, provided that the extended term of such Site Lease may not exceed 50 years in the aggregate.

(g) Community Memorandum of Agreement (MOA)

The Partnership has entered into a Community MOA with the Province of Quezon, the Municipality of Mauban, the Barangay of Cagsiay and the Department of Environmental and Natural Resources (DENR) of the Philippines. Under the MOA, the Partnership is obligated to consult with local officials and residents of the Municipality and Barangay and other affected parties about Project related matters and to provide for relocation and compensation of affected families, employment and community assistance funds. The funds include an electrification fund, development and livelihood fund and reforestation, watershed management, health and/or environmental enhancement fund. Total estimated amount to be contributed by the Partnership over the 25-year life and during the construction period is approximately $16.0 million. In accordance with the MOA, a certain portion of this amount will be in the form of advance financial assistance to be given during the construction period.

In addition, the Partnership is obligated to design, construct, maintain and decommission the Project in accordance with existing rules and regulations. The Partnership deposited the amount of ?5.0 million (about $94,000) to an Environmental Guarantee Fund for rehabilitation of areas affected by damage in the environment, monitoring compensation for parties affected and education activities.

10. **Fair Value of Financial Instruments**

The required disclosures under ASC 825, *Financial Instruments*, are as follows:

The financial instruments recorded in the consolidated balance sheets include cash, accounts receivable - trade, due from (to) related parties, short-term notes payable, accounts payable and accrued expenses, long-term notes payable, loans payable, bonds payable and other noncurrent liability.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Due from (to) Related Parties and Short-term Notes Payable

The carrying amounts of cash, due from (to) related parties and short-term notes payable approximate their fair values due to the short-term maturity of these financial instruments.

Accounts Receivable - Trade and Accounts Payable and Accrued Expenses

The carrying amounts of accounts receivable - trade and accounts payable and accrued expenses, which are all subject to normal trade credit terms, approximate their fair values.

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Other Noncurrent Liability

The fair values of the noncurrent non-interest bearing advances from Meralco were calculated based on discounted value of future cash flows using the applicable risk free rates for similar types of accounts adjusted for credit risk. The discount rates used were 9.22% and 7.74% in 2010 and 2009, respectively.

Long-term Debt

The fair values of long-term debt were based on the following:

Debt Type	*Fair Value Assumptions*
NFPA	Estimated fair value is based on the discounted value of future cash flows using the applicable risk free rates for similar types of loans adjusted for credit risk. The discount rate used was 7.28% and 8.66% in 2010 and 2009, respectively.
Term loan	Estimated fair value is based on the discounted value of future cash flows using the applicable risk free rates for similar types of loans adjusted for credit risk. The discount rate used was 6.39% and 7.71% in 2010 and 2009, respectively.
Bonds payable	Estimated fair value is based on the discounted value of future cash flows using the latest available yield percentage of the Partnership s bonds prior to reporting dates. The discount rate used was 8.23% and 9.33% in 2010 and 2009, respectively. Bonds payable yield percentage is based on market quotes from Bloomberg.

Following is a summary of the estimated fair value (in millions) of the Partnership s financial instruments other than those whose carrying amounts approximate their fair values as of December 31, 2010 and 2009:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Bonds payable	**$ 133.3**	**$ 136.1**	$ 146.2	$ 143.9
Term loan	**70.8**	**71.1**	106.2	104.4
NFPA	**87.5**	**87.8**	93.8	89.8
Other noncurrent liability	**2.6**	**2.1**	1.2	1.2

11. **Other Matters**

(a) EPIRA

RA No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include, among others:

(i) The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with independent power producers and electricity rates;
(ii) Creation of a Wholesale Electricity Spot Market; and
(iii) Open and non discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effective date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effective date of the EPIRA. In 2005, the Partnership has requested for clarification from the ERC on the applicability of the public offering requirement under the provisions of the EPIRA since it is in the form of a limited partnership and not a stock corporation. As of January 25, 2011, the Partnership has not yet received any confirmation from ERC on this matter.

The ERC is currently in the process of drafting the IRR in connection with the public offering requirement.

There are also certain sections of the EPIRA which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

The Partnership is complying with the applicable provisions of the EPIRA and its law.

(b) Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole, and to the Partnership in particular, that needs to be complied with within 44 months from the effective date or by July 2004. Based on the assessment made on the Partnership s existing facilities, the Partnership believes it complies with the provisions of the Clean Air Act and the related IRR.

(c) Insurance Coverage Waiver

In November 2010, the Partnership obtained a renewal of its Industrial All Risk Insurance Coverage from December 1 to May 31, 2012. However, the insurance coverage amounts required by the lenders under the debt financing agreements still have not been met due to market unavailability on commercially reasonable terms, based on determinations of the Partnership s insurance advisor and the lenders insurance advisor. Consequently, the Partnership requested, and was granted by the requisite lender representatives a waiver of certain insurance requirements for a period of 18 months until May 31, 2012.

(d) Environmental Compliance Certificate (ECC) on Quezon Power Plant 500-MW Coal-Fired Expansion Project

On June 4, 2007, the DENR issued an ECC to the Partnership. The ECC covers the proposed Quezon Power Plant 500 MW (Maximum Gross) Coal-Fired Expansion Project to be located within the existing 100 hectare facility of the Partnership in Barangay Cagsiay I, Mauban, Quezon. The proposed expansion includes the construction of a second generating unit utilizing existing support facilities such as the coal unloading pier and coal stockpile.