

COVANTA HOLDING CORP

Form 424B5

January 19, 2007

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The information contained in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated January 19, 2007

**Filed Pursuant to Rule 424(b)(5)
File No. 333-134173**

PROSPECTUS SUPPLEMENT

(To Prospectus dated May 16, 2006)

Shares

Common Stock

This is an offering of \$125,000,000 in gross proceeds of shares of the common stock of Covanta Holding Corporation. We will receive all of the net proceeds from the sale of such common stock.

Our common stock is listed on The New York Stock Exchange under the symbol CVA. The closing sale price of our common stock on January 18, 2007 was \$21.66 per share.

Concurrently with the offering of our common stock, we are offering, pursuant to a separate prospectus supplement, \$325.0 million aggregate principal amount of % Senior Convertible Debentures due 2027. Our subsidiary, Covanta Energy Corporation, is also negotiating the terms of new senior secured first lien credit facilities with the intention of entering into the new credit facilities in the amount of \$1,300 million, after the closing of this offering. The closing of this offering of our common stock is not conditioned on the closing of the concurrent offering of the % Senior Convertible Debentures due 2027 or the closing of the new credit facilities.

Investing in our common stock involves risks. See Risk Factors beginning on page S-5 of this prospectus supplement.

	Per Share	Total
Price to the public	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to Covanta (before expenses)	\$	\$

We have granted the underwriters an option to purchase \$18,750,000 in gross proceeds of additional shares of common stock on the same terms and conditions set forth above if the underwriters sell more than \$125,000,000 in gross proceeds of shares of common stock in this offering.

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

The underwriters expect to deliver the shares on or about January , 2007.

Lehman Brothers *Joint Book-Running Managers* **JPMorgan** **Merrill Lynch & Co.**

Banc of America Securities LLC
Barclays Capital **Pacific Growth Equities, LLC**
UBS Investment Bank

January , 2007

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of our common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

The second part is the accompanying prospectus, which gives more general information, some of which does not apply to this offering. If the description of this offering of our common stock varies between this prospectus supplement and the accompanying prospectus, you should rely only on the information contained in or incorporated by reference in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on this prospectus supplement or the documents incorporated by reference subsequent to the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date. You should read this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, when making your investment decision. You should also read and consider the information in the documents we have referred you to in the [Where You Can Find More Information](#) section.

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WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act in this prospectus supplement, under which we file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, referred to as the SEC in this prospectus supplement. You may read and copy any materials we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Copies of such material also can be obtained at the SEC's website, www.sec.gov or by mail from the SEC's public reference room, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public on our corporate website, www.covantaholding.com. Our common stock is traded on the New York Stock Exchange, referred to as the NYSE in this prospectus supplement. Materials filed by us can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, NY 10005.

Information on our website is not incorporated into this prospectus supplement or other filings made by us with the SEC and is not a part of this prospectus supplement.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below which have been filed with the SEC:

1. Our Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 14, 2006;
2. Our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, filed on May 4, 2006, our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006, filed on August 3, 2006, and our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, filed on October 30, 2006;
3. Covanta Energy's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004, filed on April 22, 2005 (only with respect to the consolidated financial statements of Covanta Energy and subsidiaries for the fiscal year ended December 31, 2003);
4. Exhibit No. 99.2 of our Current Report on Form 8-K filed on April 7, 2005 (only with respect to the consolidated financial statements of ARC Holdings, Inc. (f/k/a American Ref-Fuel Holdings Corp.) as of December 31, 2004 and 2003 and for the year ended December 31, 2004, the period from December 12, 2003 through December 31, 2003 and the period from January 1, 2003 through December 12, 2003 and the consolidated financial statements of Ref-Fuel Holdings LLC as of December 31, 2004 and 2003 and for the year ended December 31, 2004, the period from December 12, 2003 through December 31, 2003, the period from January 1, 2003 through December 12, 2003 and the year ended December 31, 2002);
5. Exhibit No. 99.4 of our Current Report on Form 8-K/A filed on May 12, 2005 (only with respect to the consolidated financial statements of ARC Holdings, Inc. (f/k/a American Ref-Fuel Holdings Corp.) as of and for the three months ended March 31, 2005);

6. Our Current Reports on Form 8-K filed on February 24, 2006, March 6, 2006, March 15, 2006 (as amended by our Current Report on Form 8-K/A filed on January 19, 2007), March 20, 2006, April 3, 2006, April 7, 2006, May 31, 2006, June 2, 2006, August 17, 2006, September 25, 2006, November 17, 2006, and January 19, 2007; and

7. The description of our common stock on Form 8-A/A filed on November 17, 2006.

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All documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than any information furnished pursuant to Item 2.02 or Item 7.01 of any Current Report on Form 8-K unless we specifically state in such Current Report that such information is to be considered filed under the Exchange Act, or we incorporate it by reference into a filing under the Securities Act of 1933, as amended, or the Exchange Act) from the date of this prospectus supplement until the sale of all securities registered hereunder shall be deemed to be incorporated by reference in this prospectus supplement. Any statement contained in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in any subsequently filed document which is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

We will provide to each person, including any beneficial owner, to whom a prospectus supplement is delivered, upon written or oral request, a copy of any or all of the reports or documents that have been incorporated by reference in this prospectus supplement but not delivered with the prospectus supplement. You may access a copy of any or all of these filings, free of charge, at our web site, www.covantaholding.com, or by writing us at the following address or telephoning us at the number below:

Covanta Holding Corporation
Attn: Gavin A. Bell
40 Lane Road
Fairfield, New Jersey 07004
(973) 882-7001

You may also direct your requests via e-mail to gbell@covantaholding.com

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all the information that you should consider before investing in our common stock. You should read the entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section and our financial statements (including the notes thereto) included or incorporated by reference in this prospectus supplement and the accompanying prospectus before making an investment decision. This prospectus supplement and the accompanying prospectus contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors described under the Risk Factors section and elsewhere in this prospectus supplement.

Unless the context otherwise requires, references in this prospectus supplement to Covanta, we, our, us and similar terms refer to Covanta Holding Corporation and our subsidiaries; references to Covanta Energy refer to Covanta Energy Corporation and its subsidiaries; references to ARC Holdings refer to Covanta ARC Holdings, Inc. and its subsidiaries; and references to TransRiver refer to TransRiver Marketing Company, L.P.

Unless otherwise specifically indicated, all information in this prospectus supplement assumes that the underwriters option to purchase additional shares of common stock is not exercised.

Overview

We are a leading developer, owner and operator of infrastructure for the conversion of energy-from-waste, waste disposal, renewable energy production and independent power production in the United States and abroad. Through our operating subsidiaries, we own or operate 51 energy generation facilities, 41 of which are in the United States and 10 of which are located outside of the United States. Our energy generation facilities use a variety of fuels, including municipal solid waste, water (hydroelectric), natural gas, coal, wood waste, landfill gas and heavy fuel oil. We also own or operate several businesses that are associated with our energy-from-waste business, including a waste procurement business, two landfills and several waste transfer stations. We also operate one water treatment facility which is located in the United States.

The fundamental purpose of our energy-from-waste projects is to provide waste disposal services, typically to municipal clients who sponsor the projects. The electricity or steam generated 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 or steam generated under long-term contracts, which expire on various dates between 2008 and 2027. Many of our service contracts may be renewed for varying periods of time, at the option of the municipal client.

We receive revenue in the form of fees pursuant to the waste disposal services contracts, and in some cases, energy purchase agreements, at facilities we own or operate. TransRiver, one of our subsidiaries, markets waste disposal services to third parties predominantly to efficiently utilize that portion of the waste disposal capacity of our energy-from-waste projects which is not dedicated to municipal clients.

Our Business Strategy

We believe our business offers solutions to public sector leaders around the world in two related elements of critical infrastructure: post-recycling waste disposal and energy generation. We further believe the environmental benefits of energy-from-waste, as an alternative to landfilling, are clear and compelling: utilizing energy-from-waste reduces greenhouse gas emissions, lowers the risk of groundwater contamination and conserves land. At the same time, energy-from-waste generates clean reliable energy from a renewable fuel source, thus reducing dependence on fossil fuels. As public planners address their needs for more environmentally sensitive waste disposal and energy generation in the years ahead, we believe energy-from-waste will be an increasingly attractive alternative.

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

leverage our core competencies by:

- providing outstanding client service,
- utilizing an experienced management team,
- developing and utilizing world-class technologies and operational expertise, and
- applying proven asset management and cost control;

maximize the long-term value of our existing portfolio by:

- continuing to operate at historical production levels,
- continuing to execute effective maintenance programs,
- extending operating contracts, and
- enhancing the value of facilities we own after expiration of existing contracts; and

capitalize on growth opportunities by:

- expanding our existing energy-from-waste facilities in attractive markets,
- seeking new ownership opportunities or operating contracts for energy-from-waste and other energy generation and waste disposal projects,
- seeking to expand our business in selected international markets where our energy-from-waste expertise adds value and market and regulatory conditions are favorable, and
- developing TransRiver and seeking additional opportunities in businesses ancillary to our existing business, including additional waste transfer, transportation, processing and landfill businesses.

Our principal executive offices are located at 40 Lane Road, Fairfield, New Jersey 07004, and our telephone number is (973) 882-9000.

Concurrent Offering of Debentures

Concurrently with this offering of our common stock, we are offering \$325.0 million aggregate principal amount of % Senior Convertible Debentures due 2027, which we refer to as the Debentures in this prospectus supplement, plus up to an additional \$48.75 million aggregate principal amount of Debentures if the underwriters' overallotment option to purchase additional Debentures from us is exercised in full. This prospectus supplement is not an offer of the Debentures or a solicitation of an offer to buy the Debentures. The completion of this offering of our common stock is

not conditioned on the completion of the offering of the Debentures.

Proposed New Credit Facilities

Concurrently with this offering of our common stock and the concurrent offering of the Debentures, Covanta Energy is negotiating the terms of new senior secured first lien credit facilities in the amount of \$1,300 million, which it intends to enter into after the closing of this offering. We refer to these proposed credit facilities as the **New Credit Facilities** in this prospectus supplement. Under the **New Credit Facilities**, the lenders are expected to provide borrowings in the amount of up to \$1,300 million, consisting of a secured term loan facility in the amount of \$680 million that matures in 2014, a secured revolving credit facility in the amount of \$300 million that terminates in 2013 and a secured funded letter of credit facility in the amount of \$320 million that terminates in 2014. The **New Credit Facilities** are expected to be guaranteed by us and certain subsidiaries of Covanta Energy and secured by a first priority lien on substantially all of the assets of

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Covanta Energy and certain of its subsidiaries, subject to certain exclusions. Our guarantee of the obligations under the New Credit Facilities will be secured by a first priority lien on all of the capital stock of Covanta Energy owned by us. The closing of this offering of our common stock is not conditioned on the closing of the New Credit Facilities, which will occur, if at all, after the closing of this offering of our common stock. The closing of the New Credit Facilities, which will occur, if at all, after the closing of this offering. The closing of the New Credit Facilities is conditioned upon our raising in this offering and our concurrent offering of the Debentures, a minimum amount to be agreed with the lenders, which amount will be at least \$400 million but no more than \$450 million. See Description of Proposed New Credit Facilities.

Tender Offers and Consent Solicitations

Concurrently with this offering of our common stock, we expect to commence cash tender offers and related consent solicitations to purchase any and all of the following outstanding notes, with principal amounts as of September 30, 2006:

\$195.8 million aggregate principal amount of 8.50% senior secured notes due 2010 of MSW Energy Finance Co., Inc. and MSW Energy Holdings, LLC, referred to as the MSW I Notes in this prospectus supplement;

\$224.1 million aggregate principal amount of 7.375% senior secured notes due 2010 of MSW Energy Finance Co. II, Inc. and MSW Energy Holdings II, LLC, referred to as the MSW II Notes in this prospectus supplement; and

\$211.6 million aggregate principal amount of 6.26% senior notes due 2015 of ARC, referred to as the ARC Notes and, collectively with the MSW I Notes and the MSW II Notes, as the Outstanding Notes in this prospectus supplement.

Subsequent to September 30, 2006, we made scheduled principal repayments on the ARC Notes in the amount of \$19.6 million. Therefore, the principal amount of ARC Notes we intend to repurchase is \$192.0 million.

We refer to such tender offers and related consent solicitations as the tender offers in this prospectus supplement. We intend to use the net proceeds from this offering, together with the net proceeds from the concurrent offering of the Debentures, a portion of the borrowings under the New Credit Facilities and available cash on hand, to repurchase the Outstanding Notes. See Use of Proceeds. The completion of each tender offer is conditioned upon, among other things, the closings of this offering of our common stock, the concurrent offering of the Debentures and the New Credit Facilities. Nothing in this prospectus supplement should be construed as an offer to purchase any Outstanding Notes.

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THE OFFERING

Common stock offered by us \$125 million in gross proceeds of shares (\$143.75 million in gross proceeds of shares if the underwriters' option to purchase additional shares is exercised in full).

Common stock outstanding immediately after this offering shares (shares if the underwriters' option to purchase additional shares is exercised in full).

Use of proceeds We estimate that our net proceeds from this offering will be approximately \$118.5 million, after deducting the underwriting discounts and commission and estimated offering expenses totaling \$6.5 million (\$136.3 million if the underwriters' option to purchase additional shares is exercised in full). We intend to use the net proceeds of this offering, together with the net proceeds from the concurrent offering of the Debentures and available cash on hand, to repurchase the Outstanding Notes, pursuant to the tender offers or by redemptions, pay accrued and unpaid interest and related premiums thereon and pay other related expenses. In the event we do not enter into the New Credit Facilities, or such tender offers are not successfully consummated, we intend to use the net proceeds of this offering and the concurrent offering of the Debentures for general corporate purposes, which may include construction of new facilities, expansions of existing facilities, or possible investments or acquisitions permitted under Covanta Energy's existing credit facilities or, if we receive waivers from the lenders under Covanta Energy's existing credit facilities, the repurchase of the MSW I Notes and/or MSW II Notes. See Use of Proceeds.

Dividend policy We do not intend to declare cash dividends on our common stock in the foreseeable future. See Dividend Policy.

Risk factors An investment in our common stock is very risky. You should consider carefully the risk factors beginning on page S-5 of this prospectus supplement, and additional risks described in the documents incorporated by reference in this prospectus supplement, before investing in our common stock.

NYSE Symbol for our common stock Our common stock is listed on the NYSE under the symbol CVA.

The number of shares of our common stock to be outstanding immediately after this offering shown above is based on the number of shares of our common stock outstanding as of January 17, 2007. All share information in this prospectus supplement:

includes 935,533 shares of restricted stock granted as compensation to our employees, which may be forfeited and cancelled in the future, if restrictions are not satisfied; and

excludes 1,029,664 shares issuable upon the exercise of outstanding options and 158,399 shares held as treasury stock.

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RISK FACTORS

An investment in our common stock is very risky. The following risk factors could have a material adverse effect on our business, financial condition and results of operations. You should carefully consider the following factors and other information contained or incorporated by reference in this prospectus supplement before deciding to invest in our common stock. Any of these risks could materially affect our business, financial condition, results of operations and cash flows, which could, in turn, materially affect the price of our common stock.

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.

We do not currently have any indebtedness other than our guarantee of indebtedness under Covanta Energy's existing credit facilities. As of September 30, 2006, our subsidiaries had \$3,909 million of outstanding indebtedness and other liabilities, including \$629 million under Covanta Energy's existing credit facilities and approximately \$3,280 million of the Outstanding Notes, non-recourse project level indebtedness and other liabilities. As described more fully under the Description of Proposed New Credit Facilities section, Covanta Energy is currently negotiating the terms of the New Credit Facilities with a syndicate of lenders. If Covanta Energy is successful in entering into the New Credit Facilities and we are successful in consummating this offering of our common stock and the concurrent offering of the Debentures, as described under Capitalization, Covanta Energy would repay the outstanding indebtedness under its existing credit facilities and would incur up to \$1,300 million of secured indebtedness under the New Credit Facilities, for which we would be a guarantor, and we would repurchase or redeem the Outstanding Notes by other indirect subsidiaries. Assuming this recapitalization occurs, we would have no indebtedness, outstanding other than the Debentures and our guarantee of indebtedness under the New Credit Facilities, and our subsidiaries would have approximately \$3,307 million of indebtedness, including Covanta Energy's indebtedness under the New Credit Facilities, non-recourse project level indebtedness and other liabilities outstanding.

Whether or not Covanta Energy is successful in entering into the New Credit Facilities, 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, including the Debentures;

resulting in an event of default if our subsidiaries fail to comply with the financial and other restrictive covenants contained in their debt agreements, which event of default could result in all of such debt becoming immediately due and payable;

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 our indebtedness under Covanta's existing credit facilities or indebtedness under the New 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, our ability to meet our subsidiaries' debt and the price of our common stock.

We cannot be certain that our net operating loss carryforwards will continue to be available to offset tax liability.

Our net operating loss carryforwards, referred to as NOLs in this prospectus supplement, will expire in various amounts, if not used, between 2007 and 2023. The Internal Revenue Service, referred to in this

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prospectus supplement as the IRS, has not audited any of our tax returns for any of the years during the carryforward period including those returns for the years in which the losses giving rise to the NOLs were reported. We cannot assure you that we would prevail if the IRS were to challenge the availability of the NOLs. If the IRS were successful in challenging our NOLs, all or some portion of the NOLs would not be available to offset our future consolidated taxable income, and we may not be able to satisfy our obligations to Covanta Energy under a tax sharing agreement, or to pay taxes that may be due from our consolidated tax group. The loss of a significant portion of NOLs could also trigger an event of default under Covanta Energy's existing credit facilities.

As of December 31, 2005, we estimated that we had approximately \$489 million of NOLs. In order to utilize the NOLs, we must generate consolidated taxable income which can offset such carryforwards. The NOLs are also utilized by 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 a result of uncertainty regarding the administration of certain of these grantor trusts during June 2006, we reduced the aggregate amount of our available NOLs by \$46 million. During or at the conclusion of the administration of these grantor trusts, taxable income could result, which could utilize a portion of our NOLs and, in turn, could accelerate the date on which we may be otherwise obligated to pay incremental cash taxes.

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

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

The price of our common stock on the NYSE constantly changes. We expect that the market price of our common stock will continue to fluctuate. Consequently, there can be no assurance as to the liquidity of an investment in our common stock or as to the price you may realize upon the sale of our common stock.

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

changes in the waste and energy market conditions;

quarterly variations in our operating results;

our operating results that vary from the expectations of management, securities analysts and investors;

changes in expectations as to our future financial performance;

announcements of strategic developments, significant contracts, acquisitions and other material events by us or our competitors;

the operating and securities price performance of other companies that investors believe are comparable to us;

future sales of our equity or equity-related securities;

changes in the economy and the financial markets;

departures of key personnel;

changes in governmental regulations; and

geopolitical conditions, such as acts or threats of terrorism or military conflicts.

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

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

Except as described under the Underwriting section, we are not restricted from issuing additional shares of our common stock, or securities convertible into or exchangeable for our common stock, and have no obligation to consider your interests for any reason. Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could materially and adversely affect prevailing trading prices of our common stock. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

Concentrated stock ownership may discourage unsolicited acquisition proposals.

As of November 22, 2006, SZ Investments, L.L.C., together with its affiliate, EGI-Fund (05-07) Investors, L.L.C., referred to as Fund 05-07 and, collectively with SZ Investments, L.L.C. SZ Investments, Third Avenue Trust, on behalf of Third Avenue Value Fund, referred to as Third Avenue, and D. E. Shaw Laminar Portfolios, L.L.C., referred to as Laminar, separately own or will have the right to acquire approximately 15.71%, 5.97% and 9.9%, respectively, or when aggregated, approximately 31.6% of our outstanding common stock. Although there are no agreements among SZ Investments, Third Avenue and Laminar regarding their voting or disposition of shares of our common stock, the level of their combined ownership of shares of our common stock could have the effect of discouraging or impeding an unsolicited acquisition proposal.

Further, as a result, these stockholders may continue to have the ability to influence the election or removal of our directors and influence the outcome of matters presented for approval by our stockholders. Circumstances may occur in which the interests of these stockholders could be in conflict with the interests of other stockholders.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of our restated certificate of incorporation, as amended, and bylaws 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. These provisions could make it more difficult for a third-party to acquire us even if an acquisition might be in the best interest of our stockholders.

Covanta Energy's debt agreements contain covenant restrictions that may limit our ability to operate our business.

Covanta Energy's existing credit facilities contain, Covanta Energy's New Credit Facilities are expected to contain, and any of our other future debt agreements may contain covenants that impose significant operating and financial restrictions on Covanta Energy and certain of its subsidiaries and require Covanta Energy 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;

creating liens;

making certain investments;

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entering into transactions with our affiliates;

selling certain assets;

redeeming capital stock or making other restricted payments;

declaring or paying dividends or making other distributions to stockholders; and

merging or consolidating with any person.

Covanta Energy's 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 significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, the failure to comply with these covenants in Covanta Energy's existing credit facilities or in the New Credit Facilities could result in a default thereunder [and a default under the Debentures]. Upon the occurrence of such an event of default, the lenders under Covanta Energy's existing credit facilities or in the New 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 Covanta Energy's existing credit facilities or the New 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.

We may not have access to the cash flow and other assets of our subsidiaries that may be needed to make payment on our debt.

All of our business is conducted through our subsidiaries. Our ability to make payments on our debt is dependent on the earnings and the distribution of funds from our subsidiaries.

Certain of our subsidiaries and affiliates are currently subject to project and other financing arrangements that restrict their ability to make dividends or distributions to us. Covanta Energy derives its cash flow principally from its domestic and international project operations and businesses. A material portion of Covanta Energy's domestic cash flows are expected to be derived from projects where financial test and other covenants contained in respective debt arrangements must be satisfied in order for project subsidiaries to make cash distributions to Covanta Energy's intermediate subsidiaries and, in turn, to us. We cannot assure you that our project subsidiaries will be able to satisfy such financial tests and covenants in the future, and that we, indirectly through Covanta Energy, will be able to receive cash distributions from such subsidiaries. In addition, Covanta Energy's existing credit facilities limit Covanta Energy from making cash distributions or dividends to us in respect of any of our cash payment obligations on the Debentures, and the New Credit Facilities may similarly limit Covanta Energy from making such distributions or dividends. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Management's Discussion and Analysis of Liquidity and Capital Resources Waste and Energy Services Segment, of the 2005 Form 10-K and also see Note 18 Long-Term Debt to the Notes to the Consolidated Financial Statements for a more complete description of the terms of Covanta Energy's existing credit facilities and the Description of Proposed New Credit Facilities section for a description of the proposed terms of the New Credit Facilities. We cannot assure you that certain of the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund payments on our indebtedness when due.

Operation of our facilities and the expansion of facilities involve significant risks.

The operation of our waste and energy facilities and the construction of new or expanded facilities involve many risks, including:

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

supply interruptions;

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the breakdown or failure of equipment or processes;

difficulty or inability to find suitable replacement parts for equipment;

the unavailability of sufficient quantities of waste;

decreases in the fees for solid waste disposal;

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

the exercise of the power of eminent domain; and

performance below expected levels of output or efficiency.

We cannot predict the impact of these risks on our business or operations. These risks, if they were to occur, could prevent Covanta Energy and its subsidiaries from meeting their obligations under their operating contracts.

A failure to identify suitable acquisition candidates and to complete acquisitions could have an adverse effect on our strategy and growth plans.

As part of our business strategy, we intend to continue to pursue acquisitions of complementary businesses. Although we regularly evaluate acquisition opportunities, we may not be able successfully to identify suitable acquisition candidates; to obtain sufficient financing on acceptable terms to fund acquisitions or to complete acquisitions.

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

We have experienced rapid growth and 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 continue to improve 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 of our business as a whole.

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

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

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Development, construction and operation of new projects may not commence as scheduled, or at all.

The development and construction of new waste and energy facilities involves many risks including siting, permitting, financing and construction delays and expenses, start-up problems, the breakdown of equipment and performance below expected levels of output and efficiency. New facilities have no operating history and may employ recently developed technology and equipment. Our businesses maintain insurance to protect against risks relating to the construction of new projects; however, such insurance may not be adequate to cover lost revenues or increased expenses. As a result, a new facility may be unable to fund principal and interest payments under its debt service obligations or may operate at a loss. In certain situations, if a facility fails to achieve commercial operation, at certain levels or at all, termination rights in the agreements governing the facility's financing may be triggered, rendering all of the facility's debt immediately due and payable. As a result, the facility may be rendered insolvent and we may lose our interest in the facility.

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.

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

obligations under such guarantees or that, if Covanta Energy did incur such obligations, that Covanta Energy would have the cash resources to pay them.

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Our businesses generate 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.

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

Covanta Energy and certain of its subsidiaries have provided guarantees and support in connection with its subsidiaries' projects.

Covanta Energy and certain of its subsidiaries are obligated to guarantee or provide financial support for its subsidiaries' projects in one or more of the following forms: