COVANTA HOLDING CORP
Form 10-Q
July 22, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

or

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

Commission file number 1-06732

COVANTA HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No þ

Applicable Only to Corporate Issuers:

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

Class	Outstanding at July 16, 2009
Common Stock, $0.10 par value	154,989,004 shares

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended June 30, 2009

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the Securities Act), Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Covanta Holding Corporation and its subsidiaries (Covanta) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words plan, believe, expect, anticipate, intend, estimate, project, may, will, would, could, should, seeks, similar words, or the negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws. Covanta cautions investors that any forward-looking statements made by Covanta are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to Covanta include, but are not limited to, the risks and uncertainties affecting their businesses described in Item 1A. Risk Factors of Covanta s Annual Report on Form 10-K for the year ended December 31, 2008 and in other filings by Covanta with the SEC.

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

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PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008 (As Adjusted)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (As Adjusted)
	(Unaudited) (In thousands, except per share amounts)			
OPERATING REVENUES:				
Waste and service revenues	$ 227,842	$ 242,689	$ 434,111	$ 460,312
Electricity and steam sales	136,540	163,832	278,409	316,897
Other operating revenues	11,404	16,475	22,026	34,553
Total operating revenues	375,786	422,996	734,546	811,762
OPERATING EXPENSES:				
Plant operating expenses	214,556	238,608	470,598	497,619
Depreciation and amortization expense	51,162	51,590	102,660	100,164
Net interest expense on project debt	12,108	13,776	24,877	27,537
General and administrative expenses	26,906	23,135	52,421	47,289
Other operating expenses	9,722	19,358	19,466	31,859
Total operating expenses	314,454	346,467	670,022	704,468
Operating income	61,332	76,529	64,524	107,294
Other income (expense):				
Investment income	1,156	1,052	2,184	2,692
Interest expense	(8,532)	(11,563)	(16,448)	(25,283)
Non-cash convertible debt related expense	(6,395)	(4,453)	(11,097)	(8,827)
Total other expenses	(13,771)	(14,964)	(25,361)	(31,418)
Income before income tax expense, equity in net income from unconsolidated investments and noncontrolling interests in subsidiaries	47,561	61,565	39,163	75,876
Income tax expense	(17,901)	(24,361)	(14,583)	(30,032)
Equity in net income from unconsolidated investments	5,671	7,320	11,480	12,812

NET INCOME	35,331	44,524	36,060	58,656
Less: Net income attributable to noncontrolling interests in subsidiaries	(2,164)	(2,225)	(3,544)	(4,094)
NET INCOME ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$ 33,167	$ 42,299	$ 32,516	$ 54,562
Weighted Average Common Shares Outstanding:				
Basic	153,731	153,387	153,600	153,276
Diluted	154,953	154,848	154,846	154,710
Earnings Per Share:				
Basic	$ 0.22	$ 0.28	$ 0.21	$ 0.36
Diluted	$ 0.21	$ 0.27	$ 0.21	$ 0.35

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of	
	June 30, 2009 (Unaudited)	December 31, 2008
	(In thousands, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$ 551,166	$ 192,393
Marketable securities available for sale	300	300
Restricted funds held in trust	139,207	175,093
Receivables (less allowances of $3,419 and $3,437)	246,210	243,791
Unbilled service receivables	49,123	49,468
Deferred income taxes	36,350	
Prepaid expenses and other current assets	124,257	123,214
Total Current Assets	1,146,613	784,259
Property, plant and equipment, net	2,497,055	2,530,035
Investments in fixed maturities at market (cost: $26,612 and $26,620, respectively)	27,112	26,737
Restricted funds held in trust	139,675	149,818
Unbilled service receivables	35,051	44,298
Waste, service and energy contracts, net	200,479	223,397
Other intangible assets, net	86,614	83,331
Goodwill	202,996	195,617
Investments in investees and joint ventures	117,284	102,953
Other assets	291,303	139,544
Total Assets	$ 4,744,182	$ 4,279,989
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$ 6,639	$ 6,922
Current portion of project debt	179,901	198,034
Accounts payable	27,414	24,470
Deferred revenue	13,565	15,202
Accrued expenses and other current liabilities	175,614	215,046
Total Current Liabilities	403,133	459,674
Long-term debt	1,416,767	941,596
Project debt	779,857	880,336
Deferred income taxes	553,194	493,919
Waste and service contracts	107,970	114,532
Other liabilities	163,236	165,881

Total Liabilities	3,424,157	3,055,938
Commitments and Contingencies (Note 14)		
Equity:		
Covanta Holding Corporation stockholders equity:		
Preferred stock ($0.10 par value; authorized 10,000 shares; none issued and outstanding)		
Common stock ($0.10 par value; authorized 250,000 shares; issued 155,561 and 154,797 shares; outstanding 154,889 and 154,280 shares)	15,556	15,480
Additional paid-in capital	892,273	832,595
Accumulated other comprehensive loss	(3,452)	(8,205)
Accumulated earnings	381,735	349,219
Treasury stock, at par	(67)	(52)
Total Covanta Holding Corporation stockholders equity	1,286,045	1,189,037
Noncontrolling interests in subsidiaries	33,980	35,014
Total Equity	1,320,025	1,224,051
Total Liabilities and Equity	$ 4,744,182	$ 4,279,989

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008 (As Adjusted)
	(Unaudited) (In thousands)	
OPERATING ACTIVITIES:		
Net income	$ 36,060	$ 58,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	102,660	100,164
Amortization of long-term debt deferred financing costs	2,074	1,856
Amortization of debt premium and discount	(4,382)	(5,547)
Non-cash convertible debt related expense	11,097	8,827
Stock-based compensation expense	7,669	8,061
Equity in net income from unconsolidated investments	(11,480)	(12,812)
Dividends from unconsolidated investments	2,566	15,668
Deferred income taxes	4,997	12,599
Other, net	2,332	6,606
Decrease (increase) in restricted funds held in trust	6,654	(14,018)
Change in working capital, net of effects of acquisitions	(22,925)	(18,709)
Net cash provided by operating activities	137,322	161,351
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	4,596	18,177
Purchase of investment securities	(5,544)	(11,106)
Purchase of property, plant and equipment	(42,098)	(53,764)
Purchase of equity interest	(8,938)	(18,503)
Acquisition of businesses, net of cash acquired	(17,517)	(20,128)
Loan issued to client community to fund certain facility improvements	(7,646)	(1,000)
Property insurance proceeds		6,315
Other, net	422	(146)
Net cash used in investing activities	(76,725)	(80,155)
FINANCING ACTIVITIES:		
Proceeds from borrowings on long-term debt	460,000	
Proceeds from issuance of warrants	53,958	
Purchase of convertible note hedge	(112,378)	
Payment of long-term debt deferred financing costs	(12,650)	
Proceeds from borrowings on project debt	2	4,102
Principal payments on long-term debt	(3,345)	(3,361)
Principal payments on project debt	(115,458)	(65,164)
Decrease (increase) in restricted funds held in trust	39,856	(12,148)

Proceeds from the exercise of options for common stock, net		147		221
Financings of insurance premiums, net		(6,259)		(6,911)
Distributions to partners of noncontrolling interests in subsidiaries		(6,085)		(3,746)
Net cash provided by (used in) financing activities		297,788		(87,007)
Effect of exchange rate changes on cash and cash equivalents		388		111
Net increase (decrease) in cash and cash equivalents		358,773		(5,700)
Cash and cash equivalents at beginning of period		192,393		149,406
Cash and cash equivalents at end of period	$	551,166	$	143,706

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

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COVANTA HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	Covanta Holding Corporation Stockholders Equity								
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Earnings	Treasury Stock Shares	Treasury Stock Amount	Noncontrolling Interests in Subsidiaries	Total
	(Unaudited, In thousands)								
Balance as of December 31, 2008 (As Adjusted)	154,797	$ 15,480	$ 832,595	$ (8,205)	$ 349,219	517	$ (52)	$ 35,014	$ 1,224,051
Stock-based compensation expense			7,669						7,669
Issuance of Warrants			53,846						53,846
Shares forfeited for terminated employees			1			15	(1)		
Shares repurchased for tax withholdings for vested stock awards			(1,909)			140	(14)		(1,923)
Exercise of options to purchase common stock	25	3	144						147
Shares issued in non-vested stock award	739	73	(73)						
Distributions to partners of noncontrolling interests in subsidiaries								(6,085)	(6,085)
Comprehensive income, net of income taxes:									
Net income					32,516			3,544	36,060
Foreign currency translation				4,348				1,507	5,855
SFAS 158 unrecognized net				(84)					(84)

loss									
Net unrealized gain on available-for-sale securities				489					489
Total comprehensive income				4,753	32,516			5,051	42,320
Balance as of June 30, 2009	155,561	$ 15,556	$ 892,273	$ (3,452)	$ 381,735	672	$ (67)	$ 33,980	$ 1,320,025

	Covanta Holding Corporation Stockholders Equity								
	Common Stock		Additional	Accumulated Other		Treasury Stock		Noncontrolling Interests in	
	Shares	Amount	Paid-In Capital	Comprehensive Income	Accumulated Earnings	Shares	Amount	Subsidiaries	Total
	(Unaudited, In thousands)								
Balance as of December 31, 2007 (As Adjusted)	154,281	$ 15,428	$ 821,338	$ 16,304	$ 220,259	359	$ (36)	$ 40,773	$ 1,114,066
Stock-based compensation expense			8,061						8,061
Shares forfeited for terminated employees			1			12	(1)		
Shares repurchased for tax withholdings for vested stock awards			(3,706)			137	(14)		(3,720)
Exercise of options to purchase common stock	16	2	220						222
Shares issued in non-vested stock award	491	49	(49)						
Distributions to partners of noncontrolling interests in subsidiaries								(3,746)	(3,746)

Comprehensive (loss) income, net of income taxes:									
Net income					54,562			4,094	58,656
Foreign currency translation				(1,254)				(1,852)	(3,106)
SFAS 158 unrecognized net loss				(339)					(339)
Net unrealized gain on available-for-sale securities				(372)					(372)
Total comprehensive (loss) income				(1,965)	54,562			2,242	54,839
Balance as of June 30, 2008	154,788	$ 15,479	$ 825,865	$ 14,339	$ 274,821	508	$ (51)	$ 39,269	$ 1,169,722

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

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

Note 1. Organization and Basis of Presentation

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

Organization

We are a leading developer, owner and operator of infrastructure for the conversion of waste to energy (known as energy-from-waste), as well as other waste disposal and renewable energy production businesses in the Americas, Europe and Asia. We conduct all of our operations through subsidiaries which are engaged predominantly in the businesses of waste and energy services. We also engage in the independent power production business outside the Americas.

We own, have equity investments in, and/or operate 60 energy generation facilities, 50 of which are in the United States and 10 of which are located outside the United States. Our energy generation facilities use a variety of fuels, including municipal solid waste, wood waste (biomass), landfill gas, water (hydroelectric), natural gas, coal, and heavy fuel-oil. We also own or operate several businesses that are associated with our energy-from-waste business, including a waste procurement business, a biomass procurement business, four landfills, which we use primarily for ash disposal, and several waste transfer stations. We have two reportable segments, Domestic and International, which are comprised of our domestic and international waste and energy services operations, respectively.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for fair presentation have been included in our financial statements. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ended December 31, 2009. This Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements in our Form 8-K for the year ended December 31, 2008 filed on May 18, 2009.

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

All intercompany accounts and transactions have been eliminated. Significant events which occurred subsequent to June 30, 2009 but prior to July 22, 2009, the filing date of this report, have been disclosed in Note 15. Subsequent Events.

Effective January 1, 2009, we adopted the following pronouncements which require us to retrospectively restate previously disclosed condensed consolidated financial statements. Certain prior period amounts have thus been reclassified in the unaudited condensed consolidated financial statements to conform to the current period presentation.

We adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin (ARB) No. 51 (SFAS 160). SFAS 160 amends the accounting and reporting for noncontrolling interests in a consolidated subsidiary and the deconsolidation of a subsidiary. Under SFAS 160, we now report minority interests in

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

subsidiaries (now referred to as noncontrolling interests in subsidiaries) as a separate component of equity in our condensed consolidated financial statements and show both net income attributable to the noncontrolling interest and net income attributable to the controlling interest on the face of the condensed consolidated income statement. SFAS 160 applies prospectively, except for presentation and disclosure requirements, which are applied retrospectively.

We adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 is effective for our $373.8 million aggregate principal amount of 1.00% Senior Convertible Debentures (the Debentures) and requires retrospective application for all periods presented. The FSP requires the issuer of convertible debt instruments with cash settlement features to separately account for the liability ($276.0 million as of the date of the issuance of the Debentures) and equity components ($97.8 million as of the date of the issuance of the Debentures) of the instrument. The debt component was recognized at the present value of its cash flows discounted using a 7.25% discount rate, our borrowing rate at the date of the issuance of the Debentures for a similar debt instrument without the conversion feature. The equity component, recorded as additional paid-in capital, was $56.1 million, which represents the difference between the proceeds from the issuance of the Debentures and the fair value of the liability, net of deferred taxes of $41.7 million as of the date of the issuance of the Debentures. For additional information, see Note 6. Changes in Capitalization.

FSP APB 14-1 also requires accretion of the resultant debt discount over the expected life of the Debentures, which is February 1, 2007 to February 1, 2012, based on the first permitted redemption date of the Debentures. The condensed consolidated income statements were retrospectively modified compared to previously reported amounts as follows (in millions, except per share amounts):

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Additional pre-tax non-cash convertible debt related expense	$ (4.5)	$ (8.8)
Additional deferred tax benefit	1.9	3.7
Retrospective change in net income and retained earnings	$ (2.6)	$ (5.1)
Change to basic earnings per share	$ (0.01)	$ (0.03)
Change to diluted earnings per share	$ (0.02)	$ (0.04)

For the three and six months ended June 30, 2009, the additional pre-tax non-cash convertible debt related expense recognized in our condensed consolidated income statement related to the adoption of FSP APB 14-1 was $4.8 million and $9.5 million, respectively.

Note 2. Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all then-existing non-SEC accounting and reporting standards. SFAS 168 is effective for our financial statements issued for interim and annual periods commencing with the quarterly period ended September 30, 2009. In the FASB s view, the issuance of SFAS 168 and the Codification will not change GAAP, and therefore we do not expect the adoption of SFAS 168 to have an effect on our financial statements or disclosures.

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

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), which is a revision to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities . SFAS 167 changes how a company determines when an entity that is insufficiently capitalized or when an entity is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. SFAS 167 is effective for us on January 1, 2010. We do not expect the adoption of SFAS 167 to have a material impact on our consolidated financial statements and we are continuing to assess the potential effects of this pronouncement.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS 166), which is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . SFAS 166 requires more information about transfers of financial assets, including securitization transactions and risks related to transferred financial assets. SFAS 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 is effective for us on January 1, 2010. We do not expect the adoption of SFAS 166 to have a material impact on our consolidated financial statements and we are continuing to assess the potential effects of this pronouncement.

In December 2008, the FASB issued FSP SFAS No. 132R-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP SFAS 132R-1) which significantly expands the disclosures required by employers for postretirement plan assets. The FSP requires plan sponsors to provide extensive new disclosures about assets in defined benefit postretirement benefit plans as well as any concentrations of associated risks. In addition, the FSP requires new disclosures similar to those in SFAS No. 157, Fair Value Measurements (SFAS 157), in terms of the three-level fair value hierarchy. The disclosure requirements are annual and do not apply to interim financial statements and are required by us in disclosures related to the year ended December 31, 2009. We do expect the adoption of FSP SFAS 132R-1 to result in additional annual financial reporting disclosures and we are continuing to assess the potential effects of this pronouncement.

Note 3. Acquisitions, Business Development and Dispositions

Acquisitions made prior to December 31, 2008 were accounted for in accordance with SFAS No. 141, Business Combinations (SFAS 141). Effective January 1, 2009, all business combinations are accounted for in accordance with SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). In April 2009, the FASB issued FSP SFAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies (FSP SFAS 141(R)-1). The FSP amends SFAS 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies (referred to as pre-acquisition contingencies) be recognized at fair value, in accordance with SFAS 157, if the fair value can be determined during the measurement period. If the fair value of a pre-acquisition contingency cannot be determined during the measurement period, the FSP requires that the contingency be recognized at the acquisition date in accordance with SFAS No. 5, Accounting for Contingencies , and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss , if it meets the criteria for recognition in that guidance. FSP SFAS 141(R)-1 has the same effective date as SFAS 141R, which was effective for us for business combinations for which the acquisition date is on or after January 1, 2009.

Our growth strategy includes the acquisition of waste and energy related businesses located in markets with significant growth opportunities and the development of new projects and expansion of existing projects. We will also consider acquiring or developing new technologies and businesses that are complementary with our existing renewable energy and waste services business. Acquisitions are accounted for under the purchase method of accounting. 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 condensed

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

consolidated financial statements individually or in the aggregate and therefore, disclosures of pro forma financial information have not been presented.

Acquisitions and Business Development

Domestic

Detroit Michigan Energy-from-Waste Facility

On June 30, 2009, our long-term operating contract with the Greater Detroit Resource Recovery Authority (GDRRA) to operate the 2,832 tons per day (tpd) energy-from-waste facility located in Detroit, Michigan (the Detroit Facility) expired. Effective June 30, 2009, we entered into the following transactions, which extend our interest in the Detroit Facility:

We purchased an undivided 30% owner participant interest in the Detroit Facility and final working capital for total cash consideration of approximately $7.9 million.

We entered into an operating and maintenance agreement with owners of the Detroit Facility, pursuant to which we will operate, maintain and provide certain other services for the owners at the Detroit Facility for a term of one year.

We entered into a waste disposal agreement with GDRRA pursuant to which we will dispose of the waste of the City of Detroit for a term of at least one year. The term of the waste disposal agreement will automatically renew for successive one-year terms unless either party provides advance written notice of termination in accordance with the provisions thereof. In addition, as an owner participant we have the right, on one or more occasions, to call upon GDRRA to deliver the waste of the City of Detroit to the Detroit Facility at market-based rates. The call right continues for the duration of the participation agreement, which expires in 2035.

We have not finalized negotiation of pricing for a new steam agreement for the Detroit Facility. Securing a steam agreement with appropriate pricing is important for the long-term economic viability of the Detroit Facility.

Philadelphia Transfer Stations

On May 1, 2009, we acquired two waste transfer stations with combined capacity of 4,500 tpd in Philadelphia, Pennsylvania for cash consideration of approximately $17.5 million, subject to final working capital adjustments. The preliminary purchase price allocation, which includes $5.9 million of identifiable intangible assets primarily related to customer relationships and goodwill of approximately $1.3 million, is based on estimates and assumptions, any changes to which could affect the reported amounts of assets, liabilities and expenses resulting from this acquisition.

Maine Biomass Energy Facili