COVANTA HOLDING CORP
Form 10-K
March 02, 2009

Table of Contents

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, 2008

or

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

Commission file number: 1-06732
COVANTA HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**95-6021257**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employee Identification No.)*
40 Lane Road, Fairfield, N.J.	**07004**
(Address of Principal Executive Offices)	*(Zip Code)*

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

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: N/A

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 o

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 o 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 o

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 Form 10-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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting Company o

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

As of June 30, 2008, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $3,218,393,843. 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	**February 12, 2009**
Common Stock, $0.10 par value per share	154,280,908 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 Annual Meeting of Stockholders.

TABLE OF CONTENTS

		Page
Cautionary Note Regarding Forward-Looking Statements		3
Availability Of Information		3
	PART I	
Item 1.	Business	4
	About Covanta Holding Corporation	4
	Our Business Strategy	4
	Business Segments	5
	Domestic Business	6
	International Business	11
	Markets, Competition And Business Conditions	16
	Regulation Of Business	19
	Employees	24
	Executive Officers	25
Item 1A.	Risk Factors	25
Item 1B.	Unresolved Staff Comments	38
Item 2.	Properties	38
Item 3.	Legal Proceedings	38
Item 4.	Submission Of Matters To A Vote Of Security Holders	38
	PART II	
Item 5.	Market For Registrant s Common Equity, Related Stockholder Matters, And Issuer Purchases Of Equity Securities	39
Item 6.	Selected Financial Data	39
Item 7.	Management s Discussion And Analysis Of Financial Condition And Results Of Operations	40
	Overview	40
	Results Of Operations	48
	Year Ended December 31, 2008 vs. Year Ended December 31, 2007	49
	Year Ended December 31, 2007 vs. Year Ended December 31, 2006	53
	Liquidity And Capital Resources	57
Item 7A.	Quantitative And Qualitative Disclosures About Market Risk	69
Item 8.	Financial Statements And Supplementary Data	73
Item 9.	Changes In And Disagreements With Accountants On Accounting And Financial Disclosure	128
Item 9A.	Controls And Procedures	128
Item 9B.	Other Information	132
	PART III	
Item 10.	Directors, Executive Officers And Corporate Governance	132
Item 11.	Executive Compensation	132
Item 12.	Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters	132
Item 13.	Certain Relationships And Related Transactions, And Director Independence	133
Item 14.	Principal Accountant Fees And Services	133
	PART IV	

Item 15.	Exhibits And Financial Statement Schedules	133
	OTHER	
	Signatures	139

EX-12.1
EX-21.1
EX-23.1
EX-31.1
EX-31.2
EX-32.1

Table of Contents

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, 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 its businesses described in Item 1A. Risk Factors of this 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 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 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 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.

Table of Contents

PART I

Item 1. *BUSINESS*

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

About Covanta Holding Corporation

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 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. We also engage in the independent power production business outside the Americas. We have investments in subsidiaries engaged in insurance operations in California primarily in property and casualty insurance.

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 renewable energy business, including a waste procurement business, a biomass procurement business, four landfills, which we use primarily for ash disposal, and several waste transfer stations.

Revenues were $1,664 million, $1,433 million, and $1,269 million and operating income was $256 million, $237 million, and $227 million for the years ended December 31, 2008, 2007 and 2006, respectively. The increase in revenues and operating income over the past three years is primarily attributable to the successful execution of our operating and growth strategies described below and in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Acquisitions and Business Development*.

Our Business Strategy

Our mission is to be the world s leading energy-from-waste company, with a complementary network of other renewable energy generation and waste disposal 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 and create additional value for our stockholders, we are focused on:

- providing customers with superior service and effectively managing our existing businesses;
- generating sufficient cash to meet our liquidity needs and invest in the business; and
- developing new projects and making acquisitions to grow our business in the Americas, Europe and Asia.

We believe that our business offers solutions to public sector leaders around the world in two related elements of critical infrastructure: waste disposal and renewable energy generation. We believe that the environmental benefits of energy-from-waste, as an alternative to landfilling, are clear and compelling: utilizing energy-from-waste reduces greenhouse gas (GHG) 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, the combustion of which is itself a major contributor to GHG emissions. As public planners in the Americas, Europe and Asia address their needs for more environmentally sustainable waste disposal and energy

generation in the years ahead, we believe that energy-from-waste will be an increasingly attractive alternative. We will also consider, for application in domestic and international markets, acquiring or developing new technologies that complement our existing renewable energy and waste services businesses.

Our business offers sustainable solutions to energy and environmental problems, and our corporate culture is increasingly focused on themes of sustainability in all of its forms. We aspire to continuous improvement in environmental performance, beyond mere compliance with legally required standards. This ethos is embodied in our Clean World Initiative , an umbrella program under which we are:

- investing in research and development of new technologies to enhance existing operations and create new business opportunities in renewable energy and waste management;

Table of Contents

exploring and implementing processes and technologies at our facilities to improve energy efficiency and lessen environmental impacts; and

partnering with governments and non-governmental organizations to pursue sustainable programs, reduce the use of environmentally harmful materials in commerce, and communicate the benefits of energy-from-waste.

Our Clean World Initiative is designed to be consistent with our mission to be the world s leading energy-from-waste company by providing environmentally superior solutions, advancing our technical expertise and creating new business opportunities. It represents an investment in our future that we believe will enhance stockholder value.

Business opportunities also may be created as a result of policy changes currently being considered by public officials, particularly in the United States. 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. 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.

Our senior management team has extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We anticipate that a significant part of our future growth will come from acquiring or investing in additional energy-from-waste, waste disposal and renewable energy production businesses in the Americas, Europe and Asia. Our business is capital intensive because it is based on building and operating municipal solid waste processing and energy generating facilities. 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.

In our domestic business, we are pursuing additional growth opportunities through project expansions, new energy-from-waste and other renewable energy projects, contract extensions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing and disposal businesses.

We are also pursuing international waste and/or renewable energy business opportunities, particularly in locations where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste in order to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce GHG emissions. In particular, we are focusing on the United Kingdom, Ireland and China, and are also pursuing opportunities in certain other markets in Europe and in Canada and other markets in the Americas.

During 2008 and 2007, we expanded our network of waste and energy services businesses through acquisitions, equity investments and additional operating and development contracts. In our domestic business, we added four energy-from-waste facilities, two ashfills, five transfer stations and four biomass projects. In addition, we completed the expansion of the energy-from-waste facility located in and owned by Lee County, Florida, and continued to make progress on the expansion of the Hillsborough County, Florida energy-from-waste facility. We also entered into various contract extensions or new service agreements with existing energy-from-waste facilities, such as in Wallingford, Connecticut; Pasco County, Florida; Indianapolis, Indiana; Kent County, Michigan; and Hempstead, New York. In our international business, we announced that we have entered into definitive agreements for the development of a 1,700 metric ton per day (tpd) energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. We also purchased equity interests in three companies which are located in China and will be used to develop energy-from-waste projects in China, and one of which has equity interests in two existing energy-from-waste facilities. Additional information related to our acquisitions and business development during 2008 and 2007 is described in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Acquisitions and Business Development*.

Business Segments

Our reportable segments are Domestic and International, which are comprised of our domestic and international waste and energy services operations, respectively.

Table of Contents

Additional information about our business segments is contained in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Business Segments* and in Note 5. Financial Information by Business Segments of the Notes to the Consolidated Financial Statements (Notes).

DOMESTIC BUSINESS

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 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 2009 and 2034. Many of our service contracts may be renewed for varying periods of time, at the option of the municipal client.

For all energy-from-waste projects, we receive revenue from two primary sources: fees charged for operating projects or processing waste received and payments for electricity and steam sales. We also operate, and in some cases have ownership interests in, transfer stations and landfills which generate revenue from waste and ash disposal fees or operating fees. In addition, we own and in some cases operate, other renewable energy projects in the United States which generate electricity from wood waste (biomass), landfill gas, and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities 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 renewable energy credits, and in some cases cash from equity distributions.

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

For the domestic energy-from-waste projects we own, financing is generally accomplished through tax-exempt and taxable revenue bonds issued by or on behalf of the client community. 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 revenues pledged under the respective indentures and is collateralized by the facility and the contracts and other assets of our project subsidiary.

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

We have 22 domestic energy-from-waste projects where we charge a fixed fee (which escalates over time pursuant to contractual indices that we believe are appropriate to reflect price inflation) for operation and maintenance services. We refer to these projects as having a Service Fee structure. Our contracts at Service Fee projects provide revenue that does not materially vary based on the amount of waste processed or energy generated and as such is relatively stable for the contract term. In addition, at most of our Service Fee projects, the operating subsidiary retains only a small fraction of the energy revenues generated, with the balance used to provide a credit to the municipal client against its disposal

Table of Contents

costs. Therefore, in these projects, the municipal client derives most of the benefit and risk of energy production and changing energy prices.

At projects we own where a Service Fee structure exists, a portion of the revenue we receive represents payments by the client community of debt service on project debt, which we pass along to a bond trustee for payment to bondholders of principal and interest when due. These payments will continue until cash in project debt service reserves is sufficient to pay all remaining debt service payments. Generally, this occurs in the final year of the service contracts, and during that year we will receive little or no payments representing project debt principal, and as a result we record little or no cash provided by operating activities during that period with respect to the debt for such projects.

We also have 13 domestic energy-from-waste projects at which we receive a per-ton fee under contracts for processing waste. We refer to these projects as having a Tip Fee structure. At Tip Fee projects, we generally enter into long-term waste disposal contracts for a substantial portion of project disposal capacity and retain all of the energy revenue generated. These Tip Fee service agreements include stated fixed fees earned by us for processing waste up to certain base contractual amounts during specified periods. These Tip Fee service agreements also set forth the per-ton fees that are payable if we accept waste in excess of the base contractual amounts. The waste disposal and energy revenue from these projects is more dependent upon operating performance and, as such, is subject to greater revenue fluctuation to the extent performance levels fluctuate.

We generally sell the energy output from our projects to local utilities pursuant to long-term contracts. Where a Service Fee structure exists, our client community usually retains most (generally 90%) of the energy revenues generated and pays the balance to us. Where Tip Fee structures exist, we generally retain 100% of the energy revenues. At several of our energy-from-waste projects, we sell energy output under short-term contracts or on a spot-basis into the regional electricity grid. At our Tip Fee projects, we generally have a greater exposure to energy market price fluctuation, as well as a greater exposure to variability in project operating performance.

Under both structures, our returns are expected to be stable if we do not incur material unexpected operation and maintenance costs or other expenses. In addition, most of our energy-from-waste project contracts are structured so that contract counterparties generally bear, or share in, the costs associated with events or circumstances not within our control, such as uninsured force majeure events and changes in legal requirements. The stability of our revenues and returns could be affected by our ability to continue to enforce these obligations. Also, at some of our energy-from-waste facilities, commodity price risk is mitigated by passing through commodity costs to contract counterparties.

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 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. 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

Table of Contents

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 limited circumstances without cause.

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 begin to 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. See discussion under *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Contract Duration* for additional information concerning the expiration of existing contracts.

To date, we have been successful in extending 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 Acquisitions and Business 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 cash flow and profitability. See *Item 1A. Risk Factors We may face increased risk of market influences on our revenues after our contracts expire.*

In conjunction with our domestic energy-from-waste business, we also own and/or operate ten transfer stations, two ashfills and two 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 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 derive revenue from our biomass facilities from sales of electricity, capacity, and where available, renewable energy credits. Four of these facilities sell their energy output at fixed rates pursuant to contracts, while the other four facilities sell into local power pools 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. In 2008, revenue from our biomass projects represented approximately 6% of our domestic revenue.

Table of Contents

Other Renewable Energy Projects

We also engage domestically in developing, owning and/or operating renewable energy production facilities utilizing a variety of energy sources such as water (hydroelectric) and landfill gas. We derive our revenues from these facilities primarily from the sale of energy, capacity, and where available, renewable energy credits. We generally operate and maintain these projects for our own account or we do so on a cost-plus basis rather than a fixed-fee basis.

Hydroelectric We own a 50% equity interest in two run-of-river hydroelectric facilities which have a combined gross generating capacity of 17 MW. Both facilities are located in the State of Washington and both sell energy and capacity to Puget Sound Energy under long-term energy contracts.

Landfill Gas We own and operate four landfill gas projects located in California and one in Massachusetts which produce electricity by burning methane gas produced in landfills. The combined gross energy output from these facilities is 17 MW. These projects sell energy to various utilities. Upon the expiration of the energy contracts, we expect that these projects will enter into new power off-take arrangements or will be shut down.

Summary information with respect to our domestic projects that are currently operating 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.	Alexandria/Arlington	Virginia	975	22.0	Owner/Operator	2013	2023
2.	Delaware Valley	Pennsylvania	2,688	87.0	Lessee/Operator	2017	2016
3.	Haverhill	Massachusetts	1,650	44.6	Owner/Operator	N/A	2019
4.	Hempstead(1)	New York	2,505	72.0	Owner/Operator	2034	2009
5.	Indianapolis(2)(3)	Indiana	2,362	6.5	Owner/Operator	2018	2028
6.	Kent County(2)(4)	Michigan	625	16.8	Operator	2023	2023
7.	Niagara(2)	New York	2,250	50.0	Owner/Operator	N/A	2014
8.	Pittsfield	Massachusetts	240	8.6	Owner/Operator	2015	2015
9.	Southeast Massachusetts(5)	Massachusetts	2,700	78.0	Owner/Operator	N/A	2015
10.	Springfield	Massachusetts	400	9.4	Owner/Operator	2014	2010
11.	Tulsa	Oklahoma	1,125	16.5	Owner/Operator	N/A	2009
12.	Union County	New Jersey	1,440	42.1	Lessee/Operator	2023	2009
13.	Warren County	New Jersey	450	13.5	Owner/Operator	N/A	2013
	SERVICE FEE STRUCTURES						
14.	Babylon	New York	750	16.8	Owner/Operator	2019	2018
15.	Bristol	Connecticut	650	16.3	Owner/Operator	2014	2014
16.	Detroit(2)(5)(6)	Michigan	2,832	68.0	Lessee/Operator	2009	2024
17.	Essex County	New Jersey	2,277	66.0	Owner/Operator	2020	2020
18.	Fairfax County	Virginia	3,000	93.0	Owner/Operator	2011	2015
19.	Harrisburg(7)	Pennsylvania	800	20.8	Operator	2018	2009

20.	Hartford(5)(8)	Connecticut	2,000	68.5	Operator	2012	2012
21.	Hennepin County	Minnesota	1,212	38.7	Operator	2018	2018
22.	Hillsborough County(9)	Florida	1,800	46.5	Operator	2027	2010
23.	Honolulu(5)(6)	Hawaii	2,160	57.0	Lessee/Operator	2010	2015
24.	Huntington(10)	New York	750	24.3	Owner/Operator	2012	2012
25.	Huntsville(2)	Alabama	690		Operator	2016	2014
26.	Lake County	Florida	528	14.5	Owner/Operator	2014	2014
27.	Lancaster County	Pennsylvania	1,200	33.1	Operator	2016	2016
28.	Lee County	Florida	1,836	57.3	Operator	2024	2015
29.	Marion County	Oregon	550	13.1	Owner/Operator	2014	2014
30.	Montgomery County	Maryland	1,800	63.4	Operator	2016	2010
31.	Onondaga County	New York	990	39.2	Owner/Operator	2015	2025
32.	Pasco County(11)	Florida	1,050	29.7	Operator	2016	2024
33.	Southeast Connecticut	Connecticut	689	17.0	Owner/Operator	2015	2017
34.	Stanislaus County	California	800	22.4	Owner/Operator	2010	2010
35.	Wallingford(12)	Connecticut	420	11.0	Owner/Operator	2020	2010
		SUBTOTAL	48,194	1,283.6			

Table of Contents

		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 and LANDFILLS						
36.	CMW Semass	Massachusetts	1,700	N/A	Operator	2016	N/A
37.	Haverhill	Massachusetts	555	N/A	Lessee/Operator	N/A	N/A
38.	Peabody (ash only)	Massachusetts	700	N/A	Owner/Operator	N/A	N/A
39.	Springfield (ash only)	Massachusetts	175	N/A	Owner/Operator	N/A	N/A
		SUBTOTAL	3,130				
	TRANSFER STATIONS						
40.	Braintree	Massachusetts	1,200	N/A	Owner/Operator	2015	N/A
41.	Canaan	New York	600	N/A	Owner/Operator	N/A	N/A
42.	Derwood	Maryland	2,500	N/A	Operator	2015	N/A
43.	Danvers	Massachusetts	250	N/A	Operator	2011	N/A
44.	Essex	Massachusetts	6	N/A	Operator	2015	N/A
45.	Holliston	Massachusetts	700	N/A	Owner/Operator	N/A	N/A
46	Lynn	Massachusetts	885	N/A	Owner/Operator	N/A	N/A
47.	Mamaroneck	New York	800	N/A	Owner/Operator	2015	N/A
48.	Mt. Kisco	New York	350	N/A	Owner/Operator	2018	N/A
49.	Springfield	Massachusetts	500	N/A	Owner/Operator	N/A	N/A
		SUBTOTAL	7,791				
C.	**OTHER RENEWABLE ENERGY PROJECTS**						
	BIOMASS						
50.	Burney Mountain	California	N/A	11.4	Owner/Operator	N/A	2015
51.	Delano	California	N/A	49.5	Owner/Operator	N/A	2017
52.	Jonesboro	Maine	N/A	24.5	Owner/Operator	N/A	N/A
53.	Mendota	California	N/A	25.0	Owner/Operator	N/A	2014
54.	Mount Lassen	California	N/A	11.4	Owner/Operator	N/A	2015
55.	Pacific Oroville	California	N/A	18.7	Owner/Operator	N/A	2016
56.	Pacific Ultrapower Chinese Station(13)	California	N/A	25.6	Part Owner	N/A	2017
57.	West Enfield	Maine	N/A	24.5	Owner/Operator	N/A	N/A
		SUBTOTAL		190.6			
	HYDROELECTRIC						
58.	Koma Kulshan(14)	Washington	N/A	12.0	Part Owner/Operator	N/A	2037
59.	Weeks Falls(14)	Washington	N/A	5.0	Part Owner	N/A	2022
		SUBTOTAL		17.0			
	LANDFILL GAS						
60.	Haverhill	Massachusetts	N/A	1.6	Lessee/Operator	N/A	N/A

61.	Otay	California	N/A	7.4	Owner/Operator	N/A	2009-2015
62.	Oxnard	California	N/A	5.6	Owner/Operator	N/A	2009
63.	Salinas	California	N/A	1.5	Owner/Operator	N/A	2012
64.	Stockton	California	N/A	0.8	Owner/Operator	N/A	2012
		SUBTOTAL		16.9			

(1) We entered into a new Tip Fee contract with the Town of Hempstead for a term of 25 years commencing upon expiration of the existing contract in August 2009. This contract provides approximately 50% of the facility s capacity. We also entered into new Tip Fee contracts with other customers that expire between February 2011 and December 2014. These contracts provide an additional 40% of the facility s capacity.

(2) These facilities have been designed to export steam for sale.

(3) We entered into a new Tip Fee contract with the City of Indianapolis for a term of 10 years which commenced upon expiration of the existing Service Fee contract in December 2008. This contract represents approximately 50% of the facility s capacity.

(4) We entered into a new Tip Fee contract with Kent County in Michigan which commenced on January 1, 2009 and extended the existing contract from 2010 to 2023. This contract is expected to supply waste utilizing most or all of the facility s capacity. Previously this was a Service Fee contract.

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

(6) We lease these projects from third party lessors under arrangements where the lease benefits and burdens are primarily those of the related client community.

Table of Contents

(7) We entered into a ten year agreement to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania and have a right of first refusal to purchase the facility. See Note 3. Acquisitions, Business Development and Dispositions of the Notes.

(8) Under contracts with the Connecticut Resource Recovery Authority, we operate only the boilers and turbines for this facility.

(9) With respect to this project, we have entered into agreements to expand waste processing capacity from 1,200 tpd to 1,800 tpd and to increase gross electricity capacity from 29.0 MW to 46.5 MW. The agreements also extended the contract term from 2007 to 2027. Completion of the expansion, and commencement of the operation of the expanded project, is expected in 2009.

(10) Owned by a limited partnership in which the limited partners are not affiliated with us.

(11) We entered into a new Service Fee contract with the Pasco County Commission in Florida which commenced on January 1, 2009 and extended the existing contract from 2011 to 2016.

(12) We entered into Tip Fee contracts which will supply waste to the Wallingford, Connecticut facility, following the expiration of the existing Service Fee contract in 2010. These contracts in total are expected to supply waste utilizing most or all of the facility s capacity through 2020.

(13) We have a 55% ownership interest in this project.

(14) We have a 50% ownership interest in these projects.

INTERNATIONAL BUSINESS

General Approach to International Projects

We have ownership interests in and/or operate facilities internationally, including independent power production facilities in the Philippines, Bangladesh and India where we generate electricity by combusting coal, natural gas and heavy fuel-oil, and energy-from-waste facilities in China and Italy. We receive revenue from operating fees, electricity and steam sales, and in some cases cash from equity distributions. The projects sell the electricity and steam they generate under either short-term or long-term contracts or market concessions to utilities, governmental agencies providing power distribution, creditworthy industrial users, or local governmental units. Energy-from-waste facilities also sell waste disposal services.

In developing our international business, we have employed the same general approach to projects as is described above with respect to domestic projects. We intend to seek to develop or participate in additional international projects, particularly energy-from-waste projects, where the regulatory or market environment is attractive. 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.* 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.

Some of the countries in which we currently operate are lesser developed countries or developing countries where the political, social and economic conditions are quite different, and are often less stable, than those

conditions prevailing in the United States or other developed countries. In order to mitigate these risks both at the outset of project development and over time, we often develop projects jointly with experienced and respected local companies.

When a project is developed, we undertake a credit analysis of the proposed power purchaser and/or fuel suppliers (which for energy-from-waste projects are often municipal governments).

We have typically sought to negotiate long-term contracts for the supply of fuel with reliable suppliers. For our projects that are not energy-from-waste facilities, we have sought, to the extent practicable, to shift the consequences of interruptions in the delivery of fuel (whether due to the fault of the fuel supplier or due to reasons beyond the fuel supplier s control) to the electricity purchaser or service recipient by securing a suspension of the project s operating responsibilities under the applicable agreements and an extension of our operating concession under such agreements. In some instances, we require the energy purchaser or service recipient to continue to make payments of fixed costs if such interruptions occur. In order to mitigate

Table of Contents

the effect of short-term interruptions in the supply of fuel, we have also endeavored to provide on-site storage of fuel in sufficient quantities to address such interruptions.

For our energy-from-waste projects in international markets, we expect that a significant portion of each project s waste supply would be under long-term contracts with sponsoring municipalities, thus reducing the risk of fuel supply interruptions or price instability. Where market conditions are favorable, we may also reserve a portion of a facility s capacity for shorter term contracts, or receive waste on a spot basis.

At some of our international independent power projects, our operating subsidiaries purchase fuel in the open market. However, in most cases, the fuel price risk is borne by the energy purchaser because such risk from changes in fuel prices is passed through under the contract. In some of our international projects, the project entity has entered into long-term fuel purchase contracts that protect the project from changes in fuel prices, provided counterparties to such contracts perform their commitments.

Payment for services that we provide will often be made in whole or in part in the domestic currencies of the host countries. Local governments generally do not assure conversion of such currencies into U.S. dollars, which may be subject to limitations in the currency markets, as well as restrictions of the host country. In addition, fluctuations in the value of such currencies against the value of the U.S. dollar may cause our participation in such projects to yield less return than expected. Transfer of earnings, capital and profits in any form beyond the borders of the host country may be subject to special taxes or limitations imposed by host country laws. 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. In some cases, components of project costs incurred or funded in U.S. dollars are recovered without risk of currency fluctuation through negotiated contractual adjustments to the price charged for electricity or service provided. This contractual structure may cause the cost in local currency to the project s power purchaser or service recipient to rise from time to time in excess of local inflation, and consequently there is risk in such situations that such power purchaser or service recipient will, at least in the near-term, be less able or willing to pay for the project s power or service.

We have sought to manage and mitigate these risks through all appropriate means, including:

developing projects jointly with experienced local partners;
political and financial analysis of the host countries and the key participants in each project;
guarantees of relevant agreements with creditworthy entities;
political risk and other forms of insurance; and/or
participation by United States and/or international development finance institutions in the financing of projects.

We determine which mitigation measures to apply based on our ability to balance the risks presented, the availability of such measures and their cost.

We have generally participated in projects which provide services that are treated as a matter of national or key economic importance by the laws and politics of the host country. Therefore, there is a risk that the assets constituting the facilities of these projects could be temporarily or permanently expropriated or nationalized by a host country, made subject to local or national control or be subject to unfavorable legislative action, regulatory decisions or changes in taxation. We believe that working with experienced and reputable local joint venture partners mitigates this risk as well.

In certain cases, we have issued guarantees on behalf of our international operating subsidiaries with respect to contractual obligations to operate certain international power projects and energy-from-waste projects. The potential

damages we may owe under such arrangements may be material. 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 any material liabilities under such guarantees on international projects.

Table of Contents

International Projects

We presently have interests in international power projects with an aggregate generating capacity of approximately 969 MW (gross), with our portion of the ownership in these facilities representing approximately 365 MW. In addition to our headquarters in Fairfield, New Jersey, our international business is facilitated through field offices in Shanghai, Beijing and Guangzhou, China; Chennai, India; Manila, Philippines; Dublin, Ireland; and Birmingham, England. The following describes the important features of these projects, by fuel type:

Energy-From-Waste

In Operation

We purchased a 40% equity interest in Chongqing Sanfeng Covanta Environmental Industry Co., Ltd. (Sanfeng), a company located in Chongqing Municipality, People s Republic of China. Sanfeng is engaged in the business of owning and operating energy-from-waste projects and providing design and engineering, procurement and construction services for energy-from-waste facilities in China. Sanfeng currently owns minority equity interests in two 1,200 metric tpd, 24 MW mass-burn energy-from-waste projects (Fuzhou project and Tongqing project). Chongqing Iron & Steel Company (Group) Limited 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. In December 2008, we entered into an agreement with Beijing Baoluo Investment Co., Ltd. (Beijing Baoluo) to purchase a direct 58% equity interest in the Fuzhou project for approximately $14 million. This purchase is conditional upon various regulatory and other conditions precedent and is expected to close in early 2009.

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.

Under Advanced Development/Construction

China
We and Chongqing Iron & Steel Company (Group) Limited have entered into a 25 year contract to build, own, and operate an 1,800 tpd energy-from-waste facility for Chengdu Municipality in Sichuan Province, People s Republic of China. We have a 49% equity interest in the project joint venture. The Chengdu project is expected to commence construction in early 2009, and commence operations in 2011.

Ireland
We announced that we have entered into definitive agreements for the development of a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. The Dublin project, which marks our most significant entry to date into the European waste and renewable energy markets, is being developed and will be owned by Dublin Waste to Energy Limited, which we control and co-own with DONG Energy Generation A/S. Under the Dublin project agreements, several customary conditions must be satisfied before full construction can begin, including the issuance of all required licenses and permits and approvals.

We are responsible for the design and construction of the project, which is estimated to cost approximately 350 million euros and will require 36 months to complete, once full construction commences. We will operate and maintain the project for Dublin Waste to Energy Limited, which has a 25-year Tip Fee type contract with Dublin to provide disposal service for approximately 320,000 metric tons of waste annually. The project is structured on a build-own-operate-transfer model, where ownership will transfer to Dublin after the 25-year term, unless extended. The project is expected to sell electricity into the local grid under short-term arrangements. We and DONG Energy

Table of Contents

Generation A/S have committed to provide financing for all phases of the project, and we expect to arrange for project financing. The primary approvals and licenses for the project have been obtained, and any remaining consents and approvals necessary to begin full construction are expected to be obtained in due course. We have begun to perform preliminary site demolition work and expect to commence full construction during the second quarter of 2009.

Hydroelectric

We operate two hydroelectric facilities in Costa Rica through an operating subsidiary pursuant to long-term contracts. We also have a nominal equity investment in each project. The electric output from both of these facilities is sold to Instituto Costarricense de Electricidad, a Costa Rica national electric utility.

Coal

A partnership, in which we hold a 26% equity interest, owns a 510 MW (gross) coal-fired electric power generation facility located in Mauban, Quezon Province, the Philippines (Quezon). The remaining equity interests are held by an affiliate of International Generating Company, an affiliate of Electricity Generating Public Company Limited (a company listed on the Stock Exchange of Thailand) and an entity owned by the original project developer. The Quezon project sells electricity to the Manila Electric Company (Meralco), the largest electric distribution company in the Philippines, which serves the area surrounding and including metropolitan Manila.

Under an energy contract expiring in 2025, Meralco is obligated to take-or-pay for stated minimum annual quantities of electricity at an all-in price which consists of capacity, operating, energy, transmission and other fees adjusted for inflation, fuel cost and foreign exchange fluctuations. The Quezon project has entered into two coal supply contracts expiring in 2015 and 2022. Under these supply contracts, the cost of coal is determined using a base energy price adjusted to fluctuations of specified international benchmark prices. Our wholly-owned subsidiary, Covanta Philippines Operating, Inc., operates the project under a long-term agreement with the Quezon project and we have obtained political risk insurance for our equity investment in this project.

We also have a majority equity interest in a 24 MW (gross) coal-fired cogeneration facility in the 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 either a short-term basis to 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.

Natural Gas

We hold a 45% equity interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. The remaining equity interests are held by Pendekar Energy (L) Ltd (a consortium of Tanjong Energy Holdings Sdn Bhd (Malaysia) and Al-Jomaih Group (Saudi Arabia)) and an affiliate of Wartsila North America, Inc. The electrical output of the project is sold to the Bangladesh Power Development Board (BPDB) pursuant to an energy contract with minimum energy off-take provisions at an all-in price divided into a fuel component and an other component. The fuel component reimburses the fuel cost incurred by the project up to a specified heat rate. The other component consists of a pre-determined base rate which is adjusted for the actual load factor and foreign exchange fluctuations. The BPDB also supplies all of the project s natural gas requirements at a pre-determined base cost adjusted for fluctuations on actual landed cost of the fuel in Bangladesh. The Government of Bangladesh guarantees the BPDB s contractual obligations. We operate the project under a long-term agreement with the project company and we have obtained political risk insurance for our equity interest in this project.

Heavy Fuel-Oil

We hold majority equity interests in two 106 MW (gross) heavy fuel-oil fired electric power generation facilities in India. We hold a 60% equity interest in the first project (the Samalpatti project), which is located near Samalpatti, in the state of Tamil Nadu. The remaining equity interests in the Samalpatti project are held by affiliates of Shapoorji Pallonji Infrastructure Capital Co. Ltd. and by Wartsila India Power Investment, LLC. We hold a 77%

Table of Contents

equity interest in the second project (the Madurai project), which is located in Samayanallur, also in the state of Tamil Nadu. The remaining equity interest in the Madurai project is held by an Indian company controlled by the original project developer. Both projects sell their electrical output to the Tamil Nadu Electricity Board (TNEB) pursuant to long-term agreements with a full pass-through all-in pricing structure that takes into account specified heat rates, operation and maintenance costs, and equity returns. TNEB s obligations are guaranteed by the government of the state of Tamil Nadu. Indian oil companies supply the oil requirements of both projects through 15-year fuel supply agreements based on market prices. We operate both projects through subsidiaries under long-term agreements with the project companies.

Disputing several contractual provisions, TNEB has, since 2001, failed to pay the full amount due under the energy contracts for both the Samalpatti and Madurai projects. To date, TNEB has paid the undisputed portion of its payment obligations (approximately 94% of total billings) representing each project s operating costs, fuel costs, debt service and some equity return. Similar to many Indian state electricity boards, TNEB has also failed to fund an escrow account or post a letter of credit required under the project energy contracts, which failure constitutes a default under the project finance documents. Project lenders for both projects have either granted periodic waivers of such default or potential default and/or otherwise approved scheduled equity distributions. Neither such default nor potential default in the project financing arrangements constitutes a default under our financing arrangements. It is possible that the issue of the escrow account and/or letter of credit requirement will be resolved as part of the overall negotiation with TNEB with respect to the disputed receivables in both projects.

Summary information with respect to our international projects that are currently operating 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.	Fuzhou(1)(2)	China	1,200	24	Part Owner	2032	N/A
2.	Tongqing(1)	China	1,200	24	Part Owner/Operator	2027	N/A
3.	Trezzo(3)	Italy	500	18	Part Owner/Operator	2023	2023
		SUBTOTAL	2,900	66			
B.	**HYDROELECTRIC**						
4.	Don Pedro(4)	Costa Rica	N/A	14	Part Owner/Operator	N/A	2009
5.	Rio Volcan(4)	Costa Rica	N/A	17	Part Owner/Operator	N/A	2009
		SUBTOTAL		31			
C.	**COAL**						
6.	Quezon(5)	Philippines	N/A	510	Part Owner/Operator	N/A	2025
7.	Yanjiang(6)	China	N/A	24	Part Owner/Operator	N/A	N/A
		SUBTOTAL		534			

D.	**NATURAL GAS**						
8.	Haripur(7)	Bangladesh	N/A	126	Part Owner/Operator	N/A	2014
E.	**HEAVY FUEL-OIL**						
9.	Madurai(8)	India	N/A	106	Part Owner/Operator	N/A	2016
10.	Samalpatti(9)	India	N/A	106	Part Owner/Operator	N/A	2016
		SUBTOTAL		212			

(1) 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.

(2) In December 2008, we entered into an agreement with Beijing Baoluo to purchase a direct 58% equity interest in the Fuzhou project for approximately $14 million. This purchase is conditional upon various regulatory and other conditions precedent and is expected to close in early 2009. See Note 3. Acquisitions, Business Development and Dispositions of the Notes.

Table of Contents

(3) We have a 13% interest in this project and a 40% interest in the operator Ambiente 2000 S.r.l.

(4) We have nominal ownership interests in these projects.

(5) We have an approximate 26% ownership interest in this project.

(6) We have an approximate 96% ownership interest in this project. Assets of this project revert back to the local Chinese partner at the expiration of the Joint Venture Contract in 2017.

(7) We have an approximate 45% ownership interest in this project. This project is capable of operating through combustion of diesel oil in addition to natural gas.

(8) We have an approximate 77% ownership interest in this project.

(9) We have a 60% ownership interest in this project.

MARKETS, COMPETITION AND BUSINESS CONDITIONS

General Business Conditions

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. 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.

Conditions Affecting Our Existing Business

We expect that our existing domestic businesses will experience short-term effects of the current economic dislocations and softening of markets, primarily in the form of declining prices for recycled metals, and for the portion of our energy sales and waste we process at market rates (both of which represent a relatively small portion of our 2008 domestic revenue).

With respect to our existing waste-related businesses, including our energy-from-waste and waste procurement business, 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 domestic 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 all but thirteen of our 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 thirteen of our energy-from-waste facilities and at 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

Table of Contents

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 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. See discussion under *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Contract Duration* for additional information concerning the expiration of existing contracts.

With respect to our sales of electricity and other energy products, we currently sell the majority of our output pursuant to long-term contracts. Accordingly, we generally do not sell our output into markets where we must compete on price. As these contracts expire, we will participate in such markets if we are unable to (or decide not to) enter into new or renewed long-term contracts. In certain countries where we are seeking new waste and energy projects, such as China and the United Kingdom, we may sell our electricity output on short term arrangements to local or regional government entities, or directly into the local electricity grid, rather than pursuant to contract. In these markets, we will have greater exposure to electricity price fluctuations. 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 We may face increased risk of market influences on our revenues after our contracts expire* for additional information concerning the expiration of existing contracts.

The initial long term contracts we entered into when our energy-from-waste projects were originally financed will be expiring at various dates through 2017. 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. We also expect that it may be relatively more difficult to enter into medium and long term contracts for sales of energy. As a result, following the expiration of these initial long term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets. By 2010, we expect approximately 50% of our domestic energy revenue to be sold at market rates unless contractual arrangements we put in place provide otherwise.

Conditions Affecting Our Growth

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 domestic marketplace for new renewable energy projects, including energy-from-waste projects, may be affected by the current economic dislocations, as well as the outcome of current policy debates described below under *Regulation of Business Regulations Affecting our Domestic Business Recent Policy Debate Regarding Climate Change and Renewable Energy.* We are actively engaged in the discussion among policy makers regarding the benefits of energy-from-waste and other renewable energy technologies. The extent to which any resulting legislation will affect the markets in which we compete, including opportunities for new projects, may depend in part on the extent to which any such legislation recognizes those benefits.

Both domestically and internationally, 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.

Table of Contents

In our international energy-from-waste business, we compete principally for new energy-from-waste contracts and projects in China and the United Kingdom, generally in response to public tenders. In both of these markets, there are numerous local and foreign 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 and constructed, our business can be impacted by a variety of risk factors which can affect profitability 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

We have the exclusive right to market the proprietary mass-burn technology of Martin GmbH fur Umwelt und Energietechnik, referred to herein as Martin in the United States, Canada, Mexico, Bermuda and certain Caribbean countries (the Territory). Through our investment in Sanfeng, we also have access to the Martin Sity 2000 mass-burn technology in China. The principal feature of the Martin technology is the stoker grate upon which the waste is burned. The patent for the basic stoker grate technology used in the Martin technology has expired and there are various other expired and unexpired patents relating to the Martin technology. We believe that it is Martin s know-how and worldwide reputation in the energy-from-waste industry, and our know-how in designing, constructing and operating energy-from-waste facilities, rather than the use of patented technology, that is important to our competitive position in the energy-from-waste industry. We do not believe that the expiration of the remaining patents covering portions of the Martin technology will have a material adverse effect on our financial condition or competitive position.

Since 1984, our rights to the Martin technology have been provided pursuant to a cooperation agreement with Martin which gives us exclusive rights to market, and distribute parts and equipment for the Martin technology in the Territory. Martin is obligated to assist us in installing, operating and maintaining facilities incorporating the Martin technology. The cooperation agreement renews automatically each year unless notice of termination is given, in which case, the cooperation agreement would terminate ten years after such notice. Any termination would not affect our rights to design, construct, operate, maintain or repair energy-from-waste facilities for which contracts have been entered into or proposals made prior to the date of termination.

The cooperation agreement gives us exclusive rights to the Martin technologies only in the Territory. We have pursued, and intend to continue to pursue, opportunities in markets beyond the Territory, and will seek to utilize the most appropriate technology for the markets where these opportunities exist (which may include Martin technologies or those of other entities), and to obtain the necessary technology rights either on an exclusive or project-specific basis.

We believe that mass-burn technology is now the predominant technology used for the combustion of municipal solid waste. We believe that the Martin technology is a proven and reliable mass-burn technology, and that our association with Martin has created significant name recognition and value for our domestic energy-from-waste business. Through facility acquisitions, we own and/or operate energy-from-waste facilities which utilize additional technologies, including non-Martin mass-burn 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 and other technologies, including technologies other than those offered by Martin, which best fit the needs of the local environment of a

particular project.

We believe that 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 domestic and international businesses will be enhanced by the development of additional technologies in such fields as emission controls, residue disposal, alternative waste treatment processes, and combustion controls. During 2008 and 2007, we advanced our research and development efforts in these areas, and have developed new and cost-effective

Table of Contents

technologies that represented major advances in controlling nitrogen oxide (NOx) 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 several of our facilities. We also developed and have patents pending for a proprietary process to improve the handling of the residue from our energy-from-waste facilities. In 2008, we entered into various agreements with multiple partners to invest in the development, testing or licensing of new technologies related to the transformation of waste materials into renewable fuels or the generation of energy. We intend to maintain a focus in the years ahead 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 Domestic Business

Environmental Regulations

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. In addition, our landfill gas projects have access rights to landfill sites pursuant to certain leases that permit the installation, operation and maintenance of landfill gas collection systems.

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 unit, 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

Table of Contents

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 often be more expensive than the technology we use currently.

In 2006, the Environmental Protection Agency (EPA) issued revisions to the New Source Performance Standards (NSPS) and Emission Guidelines (EG) applicable to new and existing municipal waste combustion (MWC) units (the Revised MACT Rule). The Revised MACT Rule lowered the emission limits for most of the regulated air pollutants emitted by MWCs. The general compliance deadline for the revised EG is April 28, 2009; however, the actual compliance date for a particular facility may be earlier or later depending on the state in which the facility is located. Certain capital improvements to comply with revised EG were required and are being implemented at one of our existing energy-from-waste facilities, which we operate on behalf of a municipality. Most existing facilities also will incur increased operating and maintenance costs to meet the revised EG requirements, none of which are expected to be material.

In February 2008, in response to a lawsuit, EPA was granted a voluntary remand of the Revised MACT Rule for the purpose of reconsidering the MWC emission limits. A new rulemaking is expected which may result in more stringent MWC emission limits than are currently included in the Revised MACT Rule; however, pending any such revisions, the requirements and compliance deadlines included in the Revised MACT Rule, discussed above, would remain applicable to subject MWCs. We are not able to predict the timing and potential outcome of any such new rulemaking with respect to MWC emission limits at this time.

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 counties 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 December 2008, 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; however, those designations are subject to review by the Obama Administration. SIP revisions to meet the Revised PM2.5 Rule presently are not due until April 2012. We are not able to predict the timing and potential outcome of any new PM2.5 emission control requirements for MWCs at this time.

The costs to meet new rules for existing facilities owned by municipal clients generally will be borne by the municipal clients. For projects we own or lease, some municipal clients have the obligation to fund such capital improvements, and at certain of our projects we may be required to fund a portion of the related costs. In certain cases, we are required to fund the full cost of capital improvements.

We believe that most costs incurred to meet the Revised MACT Rule and Revised PM2.5 Rule at facilities we operate may be recovered from municipal clients and other users of our facilities through increased fees permitted to be charged under applicable contracts.

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 domestic facilities. 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

Table of Contents

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 U.S. 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 an 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. 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.

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. Certain of our generating companies in the United States have sales of electricity pursuant to market-based rates authorized by FERC. FERC s orders that grant our generating companies market-based rate authority reserve the right to revoke or revise that authority 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 sales are subject to certain market behavior rules and, if any of our generating companies were deemed to have violated any one of those rules, such generating company would be subject to potential disgorgement of profits associated with the violation and/or suspension or revocation of their market-based rate authority, as well as criminal and civil penalties.

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. We 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, each of our entities must comply with the requirements of the regional reliability council for the region in which that entity is located.

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

Table of Contents

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

Increased public and political debate has occurred recently over the need for additional regulation of GHG emissions (principally carbon dioxide (CO_2) and methane) as a contributor to climate change. Such regulations could in the future affect our business. As is the case with all combustion, our facilities do emit CO_2, however we believe that energy-from-waste creates 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,
- Avoids habitat destruction and contamination from landfilling, and
- Avoids GHG emissions from mining and processing metal because it recovers and recycles scrap metals from waste.

In addition, energy-from-waste facilities typically are 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.

During 2008, substantial debate occurred in United States Congress and in the course of the Presidential election regarding energy legislation and other policy changes designed to encourage electricity generation from renewable sources. Energy policy is expected to be a priority of the Obama administration, and Congress is expected to continue to debate and ultimately enact some form of legislation regarding the need to encourage renewable electricity generation. Given the current economic dislocations and related unemployment, the Obama administration is also expected to focus on economic stimulus and job creation. We believe that the construction and permanent jobs created by additional energy-from-waste development represents the type of green jobs , on critical infrastructure, that will be consistent with the administration s 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 renewable technologies that could benefit from such legislation.

Congress is also expected to debate proposed legislation addressing climate change, which would require regulation of a broad range of activities affecting the climate, potentially including the operation of our facilities. Certain proposed legislation would establish a cap and trade program for CO_2 emissions with a market-based emissions trading system aimed at reducing emissions of CO_2 below baseline levels. We cannot predict at this time whether our facilities would be included within the scope of potential regulation under such climate change legislation, or whether our business will otherwise be affected positively or negatively.

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, during 2006, a group of seven northeastern states,

Table of Contents

including Connecticut, New Jersey and New York, acting through the Regional Greenhouse Gas Initiative (RGGI), issued a model rule to implement reductions in GHG emissions. The RGGI model rule also featured a cap and trade program for regional CO_2 emissions, initially fixed at 1990 levels, followed by incremental reductions below those levels after 2014. To date, RGGI has been focused on fossil fuel-fired electric generators and does not directly affect energy-from-waste facilities; however, we continue to monitor developments with respect to state implementation of RGGI and intend to participate in rulemaking.

Efforts also are underway, through the Western Climate Initiative (WCI), to devise a model rule for GHG emission reductions, including mandatory reporting of GHG emissions and a regional cap and trade program in seven western states including California and Oregon, where we operate energy-from-waste facilities, and four Canadian provinces. Unlike RGGI, WCI is not limited in scope to fossil electric generation and may subject our energy-from-waste facilities in covered states to additional regulatory requirements, although we cannot predict the outcome of the 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.

Among states, California has assumed a leadership role in curtailing GHG emissions. During 2006, California enacted the California Global Warming Solutions Act of 2006 (AB 32). AB 32 requires annual reporting of GHG emissions for sources deemed significant by California s Air Resources Board (CARB) and sets emission limits to cut California s emissions to 1990 levels by 2020. On December 11, 2008, CARB issued its GHG emission reduction Scoping Plan as required by AB 32. The measures approved by CARB as part of the Scoping Plan will be the subject of regulations to be in place by 2012. We continue to participate in the evolving regulatory process by which the CARB will implement the requirements of AB 32. Until CARB issues its final regulations implementing the Scoping Plan, we cannot predict with certainty the impact of AB 32 on our California facilities.

During 2006, we joined the California Climate Action Registry (CCAR) for the purpose of voluntarily reporting and certifying GHG emissions from our California facilities. We have verified and reported our California GHG emissions for 2005, 2006 and 2007 with CCAR. In 2008, we have also joined The Climate Registry (TCR), a voluntary, North American GHG emissions reporting and verification program similar to CCAR. TCR presently includes all states in which we operate except Indiana. In 2009, we will voluntarily report our 2008 GHG emissions from 19 energy-from-waste and other facilities located in six states, including California. We also plan to participate in rulemaking efforts at the state and federal level which may rely on TCR as the basis for GHG regulation. To date, approximately 300 corporations, state and local governments, and other organizations have joined TCR as voluntary reporters of GHG emissions.

Regulations Affecting Our International Business

We have ownership and operating interests in energy generation facilities outside the United States. 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.*

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

Table of Contents

waste management planning and practice. For example, the European Union has adopted regulations which require member countries to reduce utilization of and reliance upon landfill disposal. The legislation emanating from the European Union is primarily in the form of Directives, which are not directly applicable within the member countries. Rather, they need enabling legislation to implement them, which results in significant variance between the legislative schemes introduced by member countries. 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 PPC 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 to the year 2020, the amount of biodegradable municipal waste which member countries may dispose of to landfill, and (3) Directive 2000/76/EC concerning the incineration of waste (known as the Waste Incineration Directive or WID), which imposes limits on emissions to air from the incineration and co-incineration of waste. Member countries have begun to implement measures such as imposing incremental fees on landfill disposal and providing rate subsidies for energy generated at energy-from-waste projects. Ireland is a European Union member nation and is 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 substantial taxes on landfilling of waste: £32/ton in the 2008/09 tax year, increasing annually by £8/ton to £48/ton in 2010/11. In addition, each waste disposal authority in the United Kingdom is limited in the amount of biodegradable waste it may landfill each year by 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 authorities, and substantial penalties of £150/ton are levied against authorities not in compliance.

In the United Kingdom, energy-from-waste plants 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 tradable (1) Renewables Obligation Certificates, which are 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) Levy Exemption Certificates, which exempt the holder from the United Kingdom Climate Change Levy, and (3) Renewable Energy Guarantees of Origin, which constitute evidence that electricity was generated from a renewable source.

Similarly, China currently has a favorable regulatory environment for the development of energy-from-waste projects. The National Plan issued by the Ministry of Housing and Urban-Rural Development sets guidelines for an increase in energy-from-waste capacity from 2% (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 500 MW by 2010, and to three gigawatts by 2020. Energy-from-waste and municipal waste disposal services are designated by the Chinese central government as encouraged industries , and accordingly, China 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, 2008, we employed approximately 3,700 full-time employees worldwide, of which a majority are employed in the United States.

Of our employees in the United States, approximately 11% are represented by organized labor. Currently, we are party to seven collective bargaining agreements: two expired in 2008 and are pending extensions; two expire in 2009, two expire in 2010, and one expires in 2011. In 2008, approximately 140 employees at a facility located in Rochester,

Massachusetts elected to be represented by organized labor. We are engaged in good faith bargaining with the union representing these employees.

We consider relations with our employees to be good.

Table of Contents

EXECUTIVE OFFICERS

A list of our executive officers and their business experience follows. Ages shown are as of February 20, 2009.

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: 49.

Mark A. Pytosh was appointed as Executive Vice President and Chief Financial Officer in December 2007. Mr. Pytosh served as Senior Vice President and Chief Financial Officer since September 2006. Previously, Mr. Pytosh served as Executive Vice President from February 2004 to August 2006 and Chief Financial Officer from May 2005 to August 2006 of Waste Services, Inc., a publicly-traded integrated waste services company. Prior to his tenure with Waste Services, Inc., Mr. Pytosh served as a Managing Director in Investment Banking at Lehman Brothers where he led the firm s Global Industrial Group, from November 2000 to February 2004. Before joining Lehman Brothers in 2000, Mr. Pytosh had 15 years of investment banking experience at Donaldson, Lufkin & Jenrette and Kidder, Peabody. Age: 44.

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 since May 2006 and as Covanta Energy s Senior Vice President, Operations since March 2003. 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: 62.

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, since January 2004. 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: 50.

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 since October 2004. 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: 50.

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: 52.

Item 1A. ***RISK FACTORS***

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

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 considered proposed legislation which would have established new

Table of Contents

renewable portfolio standards which are designed to increase the proportion of the nation s electricity that is generated from renewable technologies. Congress has also considered enacting legislation which sets declining limits on greenhouse gas emissions, and requires generators to purchase rights to emit in excess of such limits, and allows such rights to be traded. This structure is sometimes referred to as cap and trade . In addition, Congress has periodically considered extending existing tax benefits to renewable energy technologies, which would expire without such an extension. Each of these policy initiatives, and potentially others that may be considered, could provide material financial and competitive benefits to those technologies which are included among those defined as renewable in any legislation that is enacted, or are otherwise favorably treated as greenhouse gas reducing technologies in cap and trade legislation. Our business could be adversely affected if renewable technologies we use were not included among those technologies identified in any final law as being renewable and/or greenhouse gas reducing, and therefore entitled to the benefits of such laws.

Weakness in the economy may have an adverse effect on our revenue and cash flow.

The recent economic slowdown, both in the United States and internationally, has reduced demand for goods and services generally, which tends to reduce overall volumes of waste requiring disposal, and the pricing at which we can attract waste to fill available capacity. At the same time, the sharp declines in global oil and natural gas prices has pushed energy pricing lower generally, and may reduce the prices for the portion of the energy we sell under short term arrangements. Lastly, the downturn in economic activity tends to reduce global demand for and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities. These factors could have a material adverse effect on our revenue and cash flow.

Weakness in the economy may have an adverse effect on our ability to grow our business.

The same economic slowdown may reduce the demand for the waste disposal services and the energy that our facilities offer. Many of our customers are municipalities and public authorities, which are generally experiencing fiscal pressure as local and central governments seek to reduce expenses in order to address declining tax revenues, which may result from the recent economic dislocations and increases in unemployment. These factors, particularly in the absence of energy policies which encourage renewable technologies such as energy-from-waste, may make it more difficult for us to sell waste disposal services or energy at prices sufficient to allow us to grow our business through developing and building new projects.

We may face increased risk of market influences on our revenues after our contracts expire.

Our contracts to operate energy-from-waste projects expire on various dates between 2009 and 2034, and our contracts to sell energy output generally expire when the project s operating contract expires. Expiration of these contracts will subject us to greater market risk in entering into new or replacement contracts at pricing levels which will generate comparable or enhanced revenues. As our operating contracts at municipally-owned projects approach expiration, we will seek to enter into renewal or replacement contracts to continue operating such projects. However, we cannot assure you that we will be able to enter into renewal or replacement contracts on favorable terms, or at all. We will seek to bid competitively for additional contracts to operate other facilities as similar contracts of other vendors expire. The expiration of existing energy sales contracts, if not renewed, will require us to sell project energy output either into the electricity grid or pursuant to new contracts.

At some of our facilities, market conditions may allow us to effect extensions of existing operating contracts along with facility expansions. Such extensions and expansions are currently being considered at a limited number of our facilities in conjunction with our clients. If we are unable to reach agreement with our municipal clients on the terms under which they would implement such extensions and expansions, or if the implementation of these extensions, including renewals and replacement contracts, and expansions are materially delayed, this may adversely affect our

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.

Table of Contents

Recent dislocations in credit and capital markets may make it more difficult for us to borrow money or raise capital needed to finance the construction of new projects and/or the expansion of our existing projects, as well as our ability to finance the acquisitions of certain businesses.

Our business is capital intensive, and we typically borrow money in the project debt markets to pay for a portion of the cost to construct facilities. Recent dislocations in the credit markets, including the project debt markets, have resulted in less credit being made available by banks and other lending institutions. 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. We are generally able to finance acquisitions with cash on hand and by accessing our revolving loan facility. Some acquisitions may be too large for us finance in this manner and require us to obtain additional financing in the credit and/or capital markets. Recent dislocations in these 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.

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

Research and development activities are ongoing to provide alternative and more efficient technologies to dispose of waste, produce by-products from waste, or to produce power. We and many other companies are pursuing these technologies, and an increasing amount of capital is being invested to find new approaches to waste disposal, waste treatment, and power generation. It is possible that this deployment of capital may lead to advances in these or other technologies which will reduce the cost of waste disposal or power production to a level below our costs and/or provide new or alternative methods of waste disposal or energy generation that become more accepted than those we currently utilize. Unless we are able to participate in these advances, any of these changes could have a material adverse effect on our revenues, profitability and the value of our existing facilities.

Operation of our facilities involves significant risks.

The operation of our facilities involves many risks, including:

- the inaccuracy of our assumptions with respect to the timing and amount of anticipated revenues;
- 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, 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 us from meeting our obligations under our operating contracts and have an adverse affect on our results of operations.

Table of Contents

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

The development and construction of new waste and energy facilities involves many risks including:

- difficulties in identifying, obtaining and permitting suitable sites for new projects;
- the inaccuracy of our assumptions with respect to the cost of and schedule for completing construction;
- difficulty, delays or inability to obtain financing for a project on acceptable terms;
- delays in deliveries of, or increases in the prices of, equipment sourced from other countries;
- the unavailability of sufficient quantities of waste or other fuels for startup;
- permitting and other regulatory issues, license revocation and changes in legal requirements;
- labor disputes and work stoppages;
- unforeseen engineering and environmental problems;
- unanticipated cost overruns; and
- weather interferences, catastrophic events including fires, explosions, earthquakes, droughts and acts of terrorism.

In addition, new facilities have no operating history and may employ recently developed technology and equipment. Our businesses maintain insurance to protect against risks relating to the construction of new projects; however, such insurance may not be adequate to cover lost revenues or increased expenses. As a result, a new facility may be unable to fund principal and interest payments under its debt service obligations or may operate at a loss. In certain situations, if a facility fails to achieve commercial operation, at certain levels or at all, termination rights in the agreements governing the facility s financing may be triggered, rendering all of the facility s debt immediately due and payable. As a result, the facility may be rendered insolvent and we may lose our interest in the facility.

Changes in labor laws could adversely affect our relationship with our employees and cause disruptions to our business.

Legislation has been proposed in Congress which would materially change the labor laws in the United States. The proposed changes would, among other things, allow labor unions to organize employees without secret ballot employee protections; require arbitrator-imposed contracts in the event good faith bargaining was not successful within short time periods; and impose significant fines on employers under certain circumstances. Our business depends upon the professionalism, innovation, and hard work of our employees and our ability to maintain a safe workplace where employees are treated fairly, with respect, and where we have the flexibility to make operating decisions. We believe our success may be affected by the degree to which we are able to maintain a direct relationship with our employees without the imposition of third party representatives, such as labor unions. We cannot predict if such legislation will be enacted in its present form or whether and to what extent it may affect our relationship with our employees, the cost of operating our facilities and our operating discretion.

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. In part because of the high world-wide demand for new energy generating facilities and waste disposal facilities, steel prices have risen sharply and may continue to do so. In addition, this increased demand affects not only the cost of obtaining the services necessary to design and construct these facilities, but also the availability of quality firms to perform the services. These conditions may adversely affect our ability to successfully compete for new projects, or construct and complete such projects on time and within budget. Even with the recent economic downturn and reductions in world-wide demand, reductions in steel prices and the cost of design and construction generally may not occur immediately, if at all, thereby hurting our ability to

compete for the opportunities that remain in the market for new energy generating facilities and waste disposal facilities.

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

We have experienced rapid growth and intend to further grow our business. This growth has placed, and potential future growth will continue to place, a strain on our management systems, infrastructure and resources.

Table of Contents

Our ability to successfully offer services and implement our business plan in a rapidly evolving market requires an effective planning and management process. We expect that we will need to continually evaluate and maintain our financial and managerial controls, reporting systems and procedures. We will also need to expand, train and manage our workforce worldwide. Furthermore, we expect that we will be required to manage an increasing number of relationships with various customers and other third parties. Failure to expand in any of the foregoing areas efficiently and effectively could interfere with the growth and current operation of our business as a whole.

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

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

A failure to identify suitable acquisition candidates and to complete acquisitions could have an adverse effect on our business 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 to successfully identify suitable acquisition candidates, obtain sufficient financing on acceptable terms to fund acquisitions or complete acquisitions.

Our insurance and contractual protections may not always cover lost revenues, increased expenses or liquidated damages payments.

Although our businesses maintain insurance, obtain warranties from vendors, require contractors to meet certain performance levels and, in some cases, pass risks we cannot control to the service recipient or output purchaser, the proceeds of such insurance, warranties, performance guarantees or risk sharing arrangements may not be adequate to cover lost revenues, increased expenses or liquidated damages payments.

Performance reductions could materially and adversely affect us and our projects may operate at lower levels than expected.

Most service agreements for our energy-from-waste facilities provide for limitations on damages and cross-indemnities among the parties for damages that such parties may incur in connection with their performance under the service agreement. In most cases, such contractual provisions excuse our businesses from performance obligations to the extent affected by uncontrollable circumstances and provide for service fee adjustments if uncontrollable circumstances increase our costs. We cannot assure you that these provisions will prevent our businesses from incurring losses upon the occurrence of uncontrollable circumstances or that if our businesses were to incur such losses they would continue to be able to service their debt.

We have issued or are party to performance guarantees and related contractual obligations associated with our energy and waste facilities. With respect to our domestic and international businesses, we have issued guarantees to our municipal clients and other parties that we will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. The obligations guaranteed will depend upon the contract involved. Many of our subsidiaries have contracts to operate and maintain energy-from-waste facilities. In these

contracts, the subsidiary typically commits to operate and maintain the facility in compliance with legal requirements; to accept minimum amounts of solid waste; to generate a minimum amount of electricity per ton of waste; and to pay damages to contract counterparties under specified circumstances, including those where the operating subsidiary s contract has been terminated for default. Any contractual damages or other obligations incurred by us could be material, and in circumstances where one or more subsidiary s contract has been terminated for its default, such damages could include amounts sufficient to repay project debt. Additionally, damages payable under such guarantees on our owned energy-from-waste facilities could expose us to recourse liability on project

Table of Contents

debt. Certain of our operating subsidiaries which have issued these guarantees may not have sufficient sources of cash to pay such damages or other obligations. We cannot assure you that we will be able to continue to avoid incurring material payment obligations under such guarantees or that, if we did incur such obligations, that we would have the cash resources to pay them.

Our businesses generate their revenue primarily under long-term contracts and must avoid defaults under those contracts in order to service their debt and avoid material liability to contract counterparties.

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

We have provided guarantees and financial support in connection with our projects.

We are obligated to guarantee or provide financial support for our projects in one or more of the following forms:

- support agreements in connection with service or operating agreement-related obligations;
- direct guarantees of certain debt relating to our facilities;
- contingent obligations to pay lease payment installments in connection with certain of our facilities;
- agreements to arrange financing for projects under development;
- contingent credit support for damages arising from performance failures;
- environmental indemnities; and
- contingent capital and credit support to finance costs, in most cases in connection with a corresponding increase in service fees, relating to uncontrollable circumstances.

Many of these contingent obligations cannot readily be quantified, but, if we were required to provide this support, it may be material to 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. Recent economic dislocations 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.

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

Table of Contents

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

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

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

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

Some of our energy contracts involve greater risk of exposure to performance levels which could result in materially lower revenues.

Some of our energy-from-waste facilities receive 100% of the energy revenues they generate. As a result, if we are unable to operate these facilities at their historical performance levels for any reason, our revenues from energy sales could materially decrease.

Exposure to international economic and political factors may materially and adversely affect our international businesses.

Our international operations expose us to political, legal, tax, currency, inflation, convertibility and repatriation risks, as well as potential constraints on the development and operation of potential business, any of which can limit the benefits to us of an international project.

Our projected cash distributions from most of our existing international facilities come from facilities located in countries with sovereign ratings below investment grade. The financing, development and operation of projects outside the United States can entail significant political and financial risks, which vary by country, including:

- changes in law or regulations;
- changes in electricity pricing;
- changes in foreign tax laws and regulations;
- changes in United States federal, state and local laws, including tax laws, related to foreign operations;
- compliance with United States federal, state and local foreign corrupt practices laws;
- changes in government policies or personnel;
- changes in general economic conditions affecting each country, including conditions in financial markets;
- changes in labor relations in operations outside the United States;
- political, economic or military instability and civil unrest;
- expropriation and confiscation of assets and facilities; and
- credit quality of entities that purchase our power.

The legal and financial environment in foreign countries in which we currently own assets or projects could also make it more difficult for us to enforce our rights under agreements relating to such projects.

Any or all of the risks identified above with respect to our international projects could adversely affect our revenue and cash generation. As a result, these risks may have a material adverse effect on our business, consolidated financial condition and results of operations.

Table of Contents

Our reputation could be adversely affected if opposition to our efforts to grow our business results in adverse publicity or our businesses were to fail to comply with United States or foreign laws or regulations.

With respect to our efforts to renew our contracts and grow our waste and energy services business both domestically and internationally, we sometimes experience opposition from advocacy groups or others intended to halt a development effort or other opportunity we may be pursuing. Such opposition is often intended to discourage third parties from doing business with us and may be based on inaccurate, incomplete or inflammatory assertions. We cannot provide any assurance that our reputation would not be adversely affected as a result of adverse publicity resulting from such opposition. 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. We cannot provide any assurance that our reputation would not 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.

Exposure to foreign currency fluctuations may affect our results from operations.

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, currency volatility may impact the amount we are required to invest in new projects, as well our reported results.

In some cases, components of project costs incurred or funded in the currency of the United States are recovered with limited exposure to currency fluctuations through negotiated contractual adjustments to the price charged for electricity or service provided. This contractual structure may cause the cost in local currency to the project s power purchaser or service recipient to rise from time to time in excess of local inflation. As a result, there is a risk in such situations that such power purchaser or service recipient will, at least in the near term, be less able or willing to pay for the project s power or service.

Exposure to fuel supply prices may affect our costs and results of operations.

Changes in the market prices and availability of fuel supplies to generate electricity may increase our cost of producing power, which could adversely impact our energy businesses profitability and financial performance.

The market prices and availability of fuel supplies fluctuate for some of our international facilities, and for our domestic biomass facilities. Any price increase, delivery disruption or reduction in the availability of such supplies could affect our ability to operate the facilities and impair their cash flow and profitability. We may be subject to further exposure if any of our future international operations are concentrated in facilities using fuel types subject to fluctuating market prices and availability. We may not be successful in our efforts to mitigate our exposure to supply and price swings.

Our inability to obtain resources for operations may adversely affect our ability to effectively compete.

Our energy-from-waste facilities depend on solid waste for fuel, which provides a source of revenue. For most of our facilities, the prices we charge for disposal of solid waste are fixed under long-term contracts and the supply is guaranteed by sponsoring municipalities. However, for some of our energy-from-waste facilities, the availability of solid waste to us, as well as the tipping fee that we must charge to attract solid waste to our facilities, depends upon competition from a number of sources such as other energy-from-waste facilities, landfills and transfer stations competing for waste in the market area. In addition, we may need to obtain waste on a competitive basis as our

long-term contracts expire at our owned facilities. There has been consolidation and there may be further consolidation in the solid waste industry which would reduce the number of solid waste collectors or haulers that are competing for disposal facilities or enable such collectors or haulers to use wholesale purchasing to negotiate favorable below-market disposal rates. The consolidation in the solid waste industry has resulted in companies with vertically integrated collection activities and disposal facilities. Such consolidation may result in economies of scale for those companies as well as the use of disposal capacity at facilities owned by such companies or by

Table of Contents

affiliated companies. Such activities can affect both the availability of waste to us for disposal at some of our energy-from-waste facilities and market pricing.

Compliance with environmental laws could adversely affect our results of operations.

Costs of compliance with federal, state, local and foreign existing and future environmental regulations could adversely affect our cash flow and profitability. Our waste and energy services businesses are subject to extensive environmental regulation by federal, state and local authorities, primarily relating to air, waste (including residual ash from combustion) and water. We are required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in operating our facilities. Our businesses may incur significant additional costs to comply with these requirements. Environmental regulations may also limit our ability to operate our facilities at maximum capacity or at all. If our businesses fail to comply with these requirements, we could be subject to civil or criminal liability, damages and fines. Existing environmental regulations could be revised or reinterpreted and new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur. This may materially increase the amount we must invest to bring our facilities into compliance, or 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 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.

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, our domestic facilities are exempt from most provisions of the FPA and state rate regulation. Our foreign projects are also exempt from regulation under the FPA.

The Energy Policy Act of 2005 enacted comprehensive changes to the domestic energy industry 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. As a result, we may face increased competition after such expirations occur.

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 the Federal Energy Regulatory Commission, with respect to our output of electricity, which could result in lower prices for sales of electricity. In addition, depending on the terms of the project s power purchase agreement, a loss of our exemptions could allow the power

Table of Contents

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 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 both domestic and international 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, including the 1.00% Senior Convertible Debentures (the Debentures);
- 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 generate cash and 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;

Table of Contents

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; 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, and which could have a material and adverse affect on our financial condition.

Our debt agreements 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. 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, or in declaring and paying dividends to our stockholders. In addition, the failure to comply with these covenants in our 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 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, including the Debentures, and 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 2009 and 2028. The Internal Revenue Service (IRS) has not audited any of our tax returns for any of the years during the carryforward period including those returns for the years in which the losses giving rise to the NOLs were reported. We cannot assure you that we would prevail if the IRS were to challenge the availability of the NOLs. If the IRS were successful in challenging our NOLs, all or some portion of the NOLs would not be available to offset our future consolidated taxable income.

As of December 31, 2008, we estimated that we had approximately $591 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.

Table of Contents

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 (SEC) 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.

Provisions of our certificate of incorporation and Debentures could discourage an acquisition by a third party.

Provisions of our restated certificate of incorporation 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. In addition, certain provisions of the Debentures could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, the holders of the Debentures will have the right to require us to repurchase their Debentures. We may also be required to issue additional shares upon conversion or provide for conversion based on the acquirer s capital stock in the event of certain fundamental changes. These possibilities could discourage an acquisition of us.

Table of Contents

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

The price of our common stock on the New York Stock Exchange constantly changes. We expect that the market price of our common stock will continue to fluctuate. In addition, because the Debentures are convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the Debentures. Consequently, there can be no assurance as to the liquidity of an investment in 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;
purchases or sales of large blocks of our stock by existing or new holders of our common stock;
departures of key personnel;
changes in governmental regulations; and
geopolitical conditions, such as acts or threats of terrorism or military conflicts.

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.

We are not restricted from issuing additional shares of our common stock, or securities convertible into or exchangeable for our common stock. 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. In addition, the conversion of some or all of the Debentures will dilute the ownership interests of our existing stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Debentures may encourage short selling by market participants because the conversion of the Debentures could depress the trading price of our common stock.

Concentrated stock ownership may discourage unsolicited acquisition proposals.

As of February 12, 2009, 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, and Third Avenue Trust, on behalf of Third Avenue Value Fund, and their affiliates, referred to as Third Avenue, separately own approximately 10.7% and 5.9%, respectively, or when aggregated, approximately 16.6% of our outstanding common stock. Although there are no agreements among SZ Investments and Third Avenue 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 holders of the Debentures.

Table of Contents

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

None.

Item 2. ***PROPERTIES***

We own 5.4 acres in Fairfield, New Jersey where our corporate offices reside. In addition, we lease various office facilities in California aggregating approximately 25,539 square feet and we own undeveloped land in Massachusetts and California aggregating approximately 95 acres. As of December 31, 2008, we owned, had equity investment in and/or operated 64 domestic projects consisting of 35 energy-from-waste operations, four landfills, ten transfer stations, eight wood waste (biomass) energy projects, two water (hydroelectric) energy projects, and five landfill gas energy projects. Principal projects are described above under *Item 1. Business Domestic Business*. Domestic projects noted which we own or lease are conducted at properties, which we also own or lease, aggregating approximately 1,674 acres, of which approximately 1,333 acres are owned and approximately 341 acres are leased.

We operate our international projects through a network of offices located in Shanghai, Beijing and Guangzhou, China; Chennai, India; Manila, Philippines; Dublin, Ireland; and Birmingham, England, where we lease office space aggregating approximately 27,018 square feet. As of December 31, 2008, we are the part owner/operator of ten international projects of which three are owned or controlled by subsidiaries with businesses conducted at properties aggregating approximately 89 acres. Principal projects are described above under *Item 1. Business International Business*.

Item 3. ***LEGAL PROCEEDINGS***

For information regarding legal proceedings, see Note 21. Commitments and Contingencies of the Notes to the Consolidated Financial Statements in Item 8, which information is incorporated herein by reference.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2008.

Table of Contents

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 February 12, 2009, there were approximately 1,640 holders of record of our common stock. On February 12, 2009, the closing price of our common stock on the New York Stock Exchange was $19.28 per share. The following table sets forth the high and low stock prices of our common stock for the last two years.

	2008		2007	
	High	Low	High	Low
First Quarter	$ 29.50	$ 22.89	$ 24.22	$ 21.29
Second Quarter	$ 30.37	$ 26.03	$ 26.35	$ 21.69
Third Quarter	$ 29.86	$ 20.40	$ 26.50	$ 20.60
Fourth Quarter	$ 23.78	$ 15.46	$ 28.82	$ 23.16

We have not paid dividends on our common stock and do not expect to declare or pay any dividends in the foreseeable future. We currently intend to retain all earnings to fund operations and expansion of our business. 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 would likely limit the future payment of dividends on our common stock. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 6. Long-Term Debt of the Notes to the Consolidated Financial Statements in Item 8.

Item 6. *SELECTED FINANCIAL DATA*

	For the Years Ended December 31,				
	2008	2007	2006	2005(1)	2004(2)
	(In thousands, except per share amounts)				
Statements of Operations Data					
Operating revenues	$ 1,664,253	$ 1,433,087	$ 1,268,536	$ 978,763	$ 576,196
Equity in net income from unconsolidated investments	$ 23,583	$ 22,196	$ 28,636	$ 25,609	$ 17,024
Net income	$ 139,273	$ 130,513	$ 105,789	$ 59,326	$ 34,094
Income per share:					
Basic	$ 0.91	$ 0.85	$ 0.73	$ 0.49	$ 0.39
Diluted	$ 0.90	$ 0.85	$ 0.72	$ 0.46	$ 0.37
Weighted average common shares outstanding:					
Basic	153,345	152,653	145,663	122,209	88,543
Diluted	154,732	153,997	147,030	127,910	91,199

	As of December 31,				
	2008	2007	2006	2005(1)	2004(2)
	(In thousands, except per share amounts)				
Balance Sheet Data					
Cash and cash equivalents	$ 192,393	$ 149,406	$ 233,442	$ 128,556	$ 96,148
Restricted funds held in trust	$ 324,911	$ 379,864	$ 407,921	$ 447,432	$ 239,918
Property, plant and equipment, net	$ 2,530,035	$ 2,620,507	$ 2,637,923	$ 2,724,843	$ 819,400
Total assets	$ 4,279,989	$ 4,368,499	$ 4,437,820	$ 4,702,165	$ 1,939,081
Long-term debt	$ 1,012,887	$ 1,019,432	$ 1,260,123	$ 1,308,119	$ 312,896
Project debt	$ 1,078,370	$ 1,280,275	$ 1,435,947	$ 1,598,284	$ 944,737
Stockholders equity	$ 1,152,119	$ 1,026,062	$ 739,152	$ 599,241	$ 134,815
Book value per share of common stock(3)	$ 7.47	$ 6.67	$ 5.01	$ 4.24	$ 1.84
Shares of common stock outstanding	154,280	153,922	147,500	141,166	73,430

Table of Contents

(1) For the year ended December 31, 2005, Covanta ARC Holdings, Inc. s results of operations were included in our consolidated results subsequent to June 24, 2005.

(2) For the year ended December 31, 2004, Covanta Energy Corporation s results of operations were included in our consolidated results subsequent to March 10, 2004.

(3) Book value per share of common stock is calculated by dividing 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 C Energy refers to our subsidiary Covanta Energy Corporation and its subsidiaries.

OVERVIEW

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 are organized as a holding company and conduct all of our operations through subsidiaries which are engaged predominantly in the businesses of waste and energy services. We also engage in the independent power production business outside the Americas. We have investments in subsidiaries engaged in insurance operations in California primarily in property and casualty insurance.

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 continue to focus on enhancing stockholder value by implementing our financial, operating and growth strategies. Revenues were $1,664 million, $1,433 million, and $1,269 million and operating income was $256 million, $237 million, and $227 million for the years ended December 31, 2008, 2007, and 2006, respectively. The increase in revenues and operating income over the past three years is primarily attributable to the successful execution of our operating and growth strategies.

Our mission is to be the world s leading energy-from-waste company, with a complementary network of renewable energy generation and waste disposal 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 and create additional value for our stockholders, we are focused on:

- providing customers with superior service and effectively managing our existing businesses;
- generating sufficient cash to meet our liquidity needs and invest in the business; and
- developing new projects and making acquisitions to grow our business in the Americas, Europe and Asia.

We believe that our business offers solutions to public sector leaders around the world in two related elements of critical infrastructure: waste disposal and renewable energy generation. We believe that the environmental benefits of

energy-from-waste, as an alternative to landfilling, are clear and compelling: utilizing energy-from-waste reduces greenhouse gas (GHG) 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, the combustion of which is itself a major contributor to GHG emissions. As public planners in the Americas, Europe and Asia address their needs for more environmentally sustainable waste disposal and energy generation in the years ahead, we believe that energy-from-waste will be an increasingly attractive alternative. We will also consider, for application in domestic and international markets, acquiring or developing new technologies that complement our existing renewable energy and waste services businesses.

Our business offers sustainable solutions to energy and environmental problems, and our corporate culture is increasingly focused on themes of sustainability in all of its forms. We aspire to continuous improvement in

Table of Contents

environmental performance, beyond mere compliance with legally required standards. This ethos is embodied in our Clean World Initiative , an umbrella program under which we are:

- investing in research and development of new technologies to enhance existing operations and create new business opportunities in renewable energy and waste management;
- exploring and implementing processes and technologies at our facilities to improve energy efficiency and lessen environmental impacts; and
- partnering with governments and non-governmental organizations to pursue sustainable programs, reduce the use of environmentally harmful materials in commerce and communicate the benefits of energy-from-waste.

Our Clean World Initiative is designed to be consistent with our mission to be the world s leading energy-from-waste company by providing environmentally superior solutions, advancing our technical expertise and creating new business opportunities. It represents an investment in our future that we believe will enhance stockholder value.

Also 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 current economic dislocations and related unemployment, the Obama administration is also expected to focus on economic stimulus and job creation. We believe that the construction and permanent jobs created by additional energy-from-waste development represents the type of green jobs , on critical infrastructure, that will be consistent with the administration s 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.

Our senior management team has extensive experience in developing, constructing, operating, acquiring and integrating waste and energy services businesses. We intend to continue to focus our efforts on pursuing development and acquisition-based growth. We anticipate that a part of our future growth will come from acquiring or investing in additional energy-from-waste, waste disposal and renewable energy production businesses in the Americas, Europe and Asia. 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.

Economic Factors Affecting Business Conditions

The recent economic slowdown, both in the United States and internationally, has reduced demand for goods and services generally, which tends to reduce overall volumes of waste requiring disposal, and the pricing at which we can attract waste to fill available capacity. At the same time, the sharp declines in global oil prices have pushed energy pricing lower generally, and may reduce the prices for the portion of the energy we sell under short term arrangements. Lastly, the downturn in economic activity tends to reduce global demand for and pricing of certain commodities, such as the scrap metals we recycle from our energy-from-waste facilities. The combination of these factors could reduce our revenue and cash flow.

The same economic slowdown may reduce the demand for the waste disposal services and the energy that our facilities offer. Many of our customers are municipalities and public authorities, which are generally experiencing fiscal pressure as local and central governments seek to reduce expenses in order to address declining tax revenues which may result from the recent economic dislocations and increases in unemployment. At the same time, dislocations in the financial sector may make it more difficult, and more costly, to finance new projects. These factors, particularly in the absence of energy policies which encourage renewable technologies such as energy-from-waste,

may make it more difficult for us to sell waste disposal services or energy at prices sufficient to allow us to grow our business through developing and building new projects.

Table of Contents

Acquisitions and Business Development

In our domestic business, we are pursuing additional growth opportunities through project expansions, new energy-from-waste and other renewable energy projects, contract extensions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing and disposal.

We are also pursuing international waste and/or renewable energy business opportunities, particularly in locations where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce GHG emissions. In particular, we are focusing on the United Kingdom, Ireland and China, and are also pursuing opportunities in certain markets in Europe and in Canada and other markets in the Americas.

2008 acquisitions and business development

Domestic Business

We acquired Indeck Maine, LLC from co-owners Ridgewood Maine, L.L.C. and Indeck Energy Services, Inc. Indeck Maine, LLC owned and operated two biomass energy facilities. The two nearly identical facilities, located in West Enfield and Jonesboro, Maine, added a total of 49 gross megawatts (MW) to our renewable energy portfolio. We have begun to sell the electric output and intend to sell renewable energy credits from these facilities into the New England market. We acquired these two facilities for cash consideration of approximately $53.3 million, net of cash acquired, subject to final working capital adjustments.

We acquired an energy-from-waste facility in Tulsa, Oklahoma from The CIT Group/Equipment Financing, Inc. for cash consideration of approximately $12.7 million. The design capacity of the facility is 1,125 tons per day (tpd) of waste and gross electric capacity of 16.5 MW. This facility was shut down by the prior owner in the summer of 2007 and we returned two of the facility s three boilers to service in November 2008, and plan to return its third boiler to service during 2009. During the year ended December 31, 2008, we invested approximately $4.9 million in capital improvements to restore the operational performance of the facility.

We acquired a landfill for the disposal of ash in Peabody, Massachusetts for cash consideration of approximately $7.4 million. We expect to utilize this landfill for disposal of ash from energy-from-waste facilities in the Northeast United States, including those that we own or operate.

We entered into new tip fee contracts which will supply waste to the Wallingford, Connecticut facility, following the expiration of the existing service fee contract in 2010. These contracts in total are expected to supply waste utilizing most or all of the facility s capacity through 2020.

We entered into a new tip fee contract with Kent County in Michigan which commenced on January 1, 2009 and extended the existing contract from 2010 to 2023. This contract is expected to supply waste utilizing most or all of the facility s capacity. Previously this was a service fee contract.

We entered into a new service fee contract with the Pasco County Commission in Florida which commenced on January 1, 2009 and extended the existing contract from 2011 to 2016.

We entered into a new tip fee contract with the City of Indianapolis for a term of 10 years which commenced upon expiration of the existing service fee contract in December 2008. This contract represents approximately 50% of the facility s capacity.

We entered into various agreements with multiple partners to invest in the development, testing or licensing of new technologies related to the transformation of waste materials into renewable fuels or the generation of energy. Initial licensing fees and demonstration unit purchases approximated $6.5 million during 2008.

International Business

We entered into an agreement with Beijing Baoluo Investment Co., Ltd. (Beijing Baoluo) to purchase a direct 58% equity interest in the Fuzhou project, a 1,200 metric tpd 24 MW mass-burn energy-from-waste project in China, for approximately $14 million. This purchase is conditional upon various regulatory and

Table of Contents

other conditions precedent and is expected to close in early 2009. In 2007, we acquired a 40% equity interest in Chongqing Sanfeng Covanta Environmental Industry Co., Ltd. (Sanfeng), a company located in Chongqing Municipality, People s Republic of China, which is engaged in the business of owning and operating energy-from-waste projects and providing design and engineering, procurement and construction services for energy-from-waste facilities in China. Sanfeng owns a 32% equity interest in the Fuzhou project.

We and Chongqing Iron & Steel Company (Group) Limited have entered into a 25 year contract to build, own, and operate an 1,800 tpd energy-from-waste facility for Chengdu Municipality in Sichuan Province, People s Republic of China. In connection with this award, we invested $17.1 million for a 49% equity interest in the project joint venture company. The Chengdu project is expected to commence construction in early 2009, and commence operations in 2011.

2007 acquisitions and business development

Domestic Business

We acquired the operating businesses of EnergyAnswers Corporation (EnergyAnswers) for cash consideration of approximately $41 million. We also assumed net debt of $21 million ($23 million of consolidated indebtedness net of $2 million of restricted funds held in trust). These businesses include a 400 tpd energy-from-waste facility in Springfield, Massachusetts and a 240 tpd energy-from-waste facility in Pittsfield, Massachusetts. Both energy-from-waste projects have tip fee type contracts. Approximately 75% of waste revenues are contracted for at these facilities. In addition, we acquired businesses that include a landfill operation for ash disposal in Springfield, Massachusetts, and two transfer stations, one in Canaan, New York, permitted to transfer 600 tpd of waste, and the other located at the Springfield energy-from-waste facility, permitted to transfer 500 tpd of waste. We subsequently sold certain assets acquired in this transaction for a total consideration of $5.8 million during the fourth quarter of 2007 and during the first quarter of 2008.

We acquired Central Valley Biomass Holdings, LLC (Central Valley) from The AES Corporation. Under the terms of the purchase agreement, we paid cash consideration of $51 million, plus approximately $5 million in cash related to post-closing adjustments and transaction costs. Central Valley owned two biomass energy facilities and a biomass energy fuel management business, all located in California s Central Valley. These facilities added 75 MW to our portfolio of renewable energy plants. In addition, we invested approximately $8 million prior to December 31, 2007, and approximately $11 million during the year ended December 31, 2008, in capital improvements to increase the facilities productivity and improve environmental performance. These capital improvements were completed prior to September 30, 2008.

We entered into a new tip fee contract with the Town of Hempstead in New York for a term of 25 years commencing upon expiration of the existing contract in August 2009. This contract provides approximately 50% of the facility s capacity. We also entered into new tip fee contracts with other customers that expire between February 2011 and December 2014. These contracts provide an additional 40% of the facility s capacity.

We acquired two waste transfer stations in Westchester County, New York from Regus Industries, LLC for cash consideration of approximately $7.3 million. These facilities increased our total waste capacity by approximately 1,150 tpd and enhance our portfolio of transfer stations in the Northeast United States.

We acquired a waste transfer station in Holliston, Massachusetts from Casella Waste Systems Inc. for cash consideration of approximately $7.5 million. This facility increased our total waste capacity by approximately 700 tpd. In addition, we invested approximately $4.2 million prior to December 31, 2007 and approximately

$1 million during the year ended December 31, 2008 in capital improvements to enhance the environmental and operational performance of the transfer station.

We completed the expansion and commenced the operation of the expanded energy-from-waste facility located in and owned by Lee County in Florida. We expanded waste processing capacity from 1,200 tpd to

Table of Contents

1,836 tpd and increased gross electricity capacity from 36.9 MW to 57.3 MW. As part of the agreement to implement this expansion, we received a long-term operating contract extension expiring in 2024.

We entered into a ten year agreement to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania and obtained a right of first refusal to purchase the facility. Under the agreement, the term of which commenced February 1, 2008 following satisfaction of certain conditions precedent, we will earn a base annual service fee of approximately $10.5 million, which is subject to annual escalation and certain performance-based adjustments. We have also agreed to provide construction management services and to advance up to $25.5 million in funding for certain facility improvements required to enhance facility performance, the repayment of which is guaranteed by the City of Harrisburg. As of December 31, 2008, we advanced $8.2 million under this funding arrangement. The facility improvements are expected to be completed by mid 2009.

We designed, constructed, operate and maintain the 1,200 tpd mass-burn energy-from-waste facility located in and owned by Hillsborough County in Florida. In August 2005, we entered into agreements with Hillsborough County to implement an expansion, and to extend the agreement under which we operate the facility to 2027. During 2006, environmental and other project related permits were secured and the expansion construction commenced on December 29, 2006. Completion of the expansion, and commencement of the operation of the expanded project, is expected in 2009.

We acquired an additional 5% ownership interest in Pacific Ultrapower Chinese Station, a biomass energy facility located in California, which increased our equity ownership interest to 55%.

International Business

In December 2007, we entered into a joint venture with Guangzhou Development Power Investment Co., Ltd. through which we intend to develop energy-from-waste projects in Guangdong Province, People s Republic of China. We hold a 40% equity interest in the joint venture entity, Guangzhou Development Covanta Environmental Energy Co., Ltd (GDC Environmental Energy), and on June 6, 2008, we invested $1.5 million in this joint venture following receipt of final government approvals. We expect to make additional investments as and when GDC Environmental Energy is successful in developing projects.

We purchased a 40% equity interest in Sanfeng, a company located in Chongqing Municipality, People s Republic of China. Sanfeng is engaged in the business of owning and operating energy-from-waste projects and providing design and engineering, procurement and construction services for energy-from-waste facilities in China. Sanfeng currently owns minority equity interests in two 1,200 metric tpd 24 MW mass-burn energy-from-waste projects. Chongqing Iron & Steel Company (Group) Limited holds the remaining 60% equity interest in Sanfeng. We paid approximately $10 million in connection with our investment in Sanfeng. We expect to utilize Sanfeng as a key component of our effort to grow our energy-from-waste business in China. We expect to make additional investments as and when Sanfeng is successful in developing additional projects.

We announced that we have entered into definitive agreements for the development of a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. The Dublin project, which marks our most significant entry to date into the European waste and renewable energy markets, is being developed and will be owned by Dublin Waste to Energy Limited, which we control and co-own with DONG Energy Generation A/S. Under the Dublin project agreements, several customary conditions must be satisfied before full construction can begin, including the issuance of all required licenses and permits and approvals.

We are responsible for the design and construction of the project, which is estimated to cost approximately 350 million euros and will require 36 months to complete, once full construction commences. We will operate and maintain the project for Dublin Waste to Energy Limited, which has a 25-year tip fee type contract with Dublin to provide disposal service for approximately 320,000 metric tons of waste annually. The project is structured on a build-own-operate-transfer model, where ownership will transfer to Dublin after the 25-year term, unless extended. The project is expected to sell electricity into the local grid under short-term arrangements. We and DONG Energy Generation A/S have committed to provide financing for

Table of Contents

all phases of the project, and we expect to arrange for project financing. The primary approvals and licenses for the project have been obtained, and any remaining consents and approvals necessary to begin full construction are expected to be obtained in due course. We have begun to perform preliminary site demolition work and expect to commence full construction during the second quarter of 2009.

Business Segments

Our reportable segments are Domestic and International, which are comprised of our domestic and international waste and energy services operations, respectively.

Domestic

For all energy-from-waste projects, we receive revenue from two primary sources: fees charged for operating projects or processing waste received and payments for electricity and steam sales. We also operate, and in some cases have ownership interests in, transfer stations and landfills which generate revenue from waste and ash disposal fees or operating fees. In addition, we own and in some cases operate, other renewable energy projects in the United States which generate electricity from wood waste (biomass), landfill gas, and hydroelectric resources. The electricity from these other renewable energy projects is sold to utilities. For these projects, we receive revenue from electricity sales, and in some cases cash from equity distributions.

International

We have ownership interests in and/or operate facilities internationally, including independent power production facilities in the Philippines, Bangladesh and India where we generate electricity by combusting coal, natural gas and heavy fuel-oil, and energy-from-waste facilities in China and Italy. We receive revenue from operating fees, electricity and steam sales, and in some cases cash from equity distributions.

Contract Structures

Most of our energy-from-waste projects were developed and structured contractually as part of competitive procurement processes conducted by municipal entities. As a result, many of these projects have common features. However, each service agreement is different reflecting the specific needs and concerns of a client community, applicable regulatory requirements and other factors. Often, we design the facility, help to arrange for financing and then we either construct and equip the facility on a fixed price and schedule basis, or we undertake an alternative role, such as construction management, if that better meets the goals of our municipal client. Following construction and during operations, we receive revenue from two primary sources: fees we receive for operating projects or for processing waste received, and payments we receive for electricity and/or steam we sell.

We have 22 domestic energy-from-waste projects where we charge a fixed fee (which escalates over time pursuant to contractual indices that we believe are appropriate to reflect price inflation) for operation and maintenance services. We refer to these projects as having a Service Fee structure. Our contracts at Service Fee projects provide revenue that does not materially vary based on the amount of waste processed or energy generated and as such is relatively stable for the contract term. In addition, at most of our Service Fee projects, the operating subsidiary retains only a fraction of the energy revenues generated, with the balance used to provide a credit to the municipal client against its disposal costs. Therefore, in these projects, the municipal client derives most of the benefit and risk of energy production and changing energy prices.

We also have 16 energy-from-waste projects (13 domestic and 3 international) at which we receive a per-ton fee under contracts for processing waste. We refer to these projects as having a Tip Fee structure. At Tip Fee projects, we

generally enter into long-term waste disposal contracts for a substantial portion of project disposal capacity and retain all of the energy revenue generated. These Tip Fee service agreements include stated fixed fees earned by us for processing waste up to certain base contractual amounts during specified periods. These Tip Fee service agreements also set forth the per-ton fees that are payable if we accept waste in excess of the base contractual amounts. The waste disposal and energy revenue from these projects is more dependent upon operating performance and, as such, is subject to greater revenue fluctuation to the extent performance levels fluctuate.

Under both structures, our returns are expected to be stable if we do not incur material unexpected operation and maintenance costs or other expenses. In addition, most of our energy-from-waste project contracts are

Table of Contents

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 domestic renewable energy projects and international independent power projects, such structural features generally do not exist because either we operate and maintain such facilities for our own account or we do so on a cost-plus basis rather than a fixed-fee basis.

We generally sell the energy output from our projects to local utilities pursuant to long-term contracts. Where a Service Fee structure exists, our client community usually retains most (generally 90%) of the energy revenues generated and pays the balance to us. Where Tip Fee structures exist, we generally retain 100% of the energy revenues. At several of our energy-from-waste projects, we sell energy output under short-term contracts or on a spot-basis to our customers. At our Tip Fee projects, we generally have a greater exposure to energy market price fluctuation, as well as a greater exposure to variability in project operating performance.

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 this revenue is comprised of waste revenue, which has generally not been subject to material price volatility. Energy and metal pricing tends to be more volatile. During the second and third quarters of 2008, pricing for energy and recycled metals reached historically high levels and has subsequently declined materially.

At some of our domestic renewable energy and international independent power projects, our operating subsidiaries purchase fuel in the open markets which exposes us to fuel price risk. At other plants, fuel costs are contractually included in our electricity revenues, or fuel is provided by our customers. In some of our international projects, the project entity (which in some cases is not our subsidiary) has entered into long-term fuel purchase contracts that protect the project from changes in fuel prices, provided counterparties to such contracts perform their commitments.

Contract Duration

We operate energy-from-waste projects under long-term agreements. For those projects we own, our contract to sell the project s energy output (either electricity or steam) generally expires at or after the date when the initial term of our contract to operate or receive waste also expires. Expiration of these contracts will subject us to greater market risk in maintaining and enhancing revenues as we enter into new contracts. Following the expiration of the initial contracts, we intend to enter into replacement or additional contracts for waste supplies and will sell our energy output either into the regional electricity grid or pursuant to new contracts. Because project debt on these facilities will be paid off at such time, we believe that we will be able to offer disposal services at rates that will attract sufficient quantities of waste and provide acceptable revenues. For those projects we operate but do not own, prior to the expiration of the initial term of our operating contract, we will seek to enter into renewal or replacement contracts to continue operating such projects. We will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire.

Energy-from-Waste Project Ownership

In our domestic business, we operate many publicly-owned energy-from-waste facilities and own and operate many other energy-from-waste facilities. In addition, we operate several projects under a lease structure where a third party lessor owns the project. Regardless of ownership structure, we provide the same service to our municipal clients and customers.

Under any of these ownership structures, the municipalities typically borrow funds to pay for the facility construction by issuing bonds. In a private ownership structure, the municipal entity loans the bond proceeds to the project subsidiary, the facility is recorded as an asset, and the project debt is recorded as a liability, on our consolidated balance sheet. In a public ownership structure, the municipality would fund the construction costs without loaning the bond proceeds to us.

Table of Contents

At all projects where a Service Fee structure exists (regardless of ownership structure), our municipal clients are generally responsible contractually for paying the project debt after construction is complete. At the 10 publicly-owned Service Fee projects we operate, the municipality pays periodic debt service directly to a trustee under an indenture. We own 13 projects where a Service Fee structure exists, and at the majority of these projects the municipal client pays debt service as a component of a monthly service fee payment to us.

At projects we own where a Service Fee structure exists, a portion of the revenue we receive represents payments by the client community of debt service on project debt, which we pass along to a bond trustee for payment to bondholders of principal and interest when due. These payments will continue until cash in project debt service reserves is sufficient to pay all remaining debt service payments. Generally, this occurs in the final year of the service contracts, and during that year we will receive little or no payments representing project debt principal, and as a result we record little or no cash provided by operating activities during that period with respect to the debt for such projects.

For all projects where a Tip Fee structure exists, neither debt service nor lease rent is expressly included in the fee paid to us. Accordingly, we do not record revenue reflecting principal on this project debt or on lease rent. In most cases, our operating subsidiaries for these projects make equal monthly deposits with their respective project trustees in amounts sufficient for the trustees to pay principal and interest, or lease rent, when due.

The term of our operating contracts with municipal clients generally coincides with the term of the bonds issued to pay for the project construction. In many cases, the municipality has contractual rights (not obligations) to extend the contract. If a contract is not extended on a publicly-owned project, our role, and our revenue, with respect to that project would cease. If a contract is not extended on a project that we own, we would be free to enter into new revenue generating contracts for waste supply (with the municipality, other municipalities, or private waste haulers) and for electricity or steam sales. We would, in such cases, have no remaining project debt to repay from project revenue, and would be entitled to retain 100% of energy sales revenue.

Seasonal Trends

Our quarterly operating income from domestic and international operations 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 units temporarily cease operations. During these scheduled maintenance periods, we incur material repair and maintenance expenses and receive less revenue, until the boiler units resume operations. This scheduled maintenance typically occurs during periods of off-peak electric demand in the spring and fall. The spring scheduled maintenance period is typically more extensive than scheduled maintenance conducted during the fall. As a result, we typically incur the highest maintenance expense in the first half of the year. Given these factors, we typically experience lower operating income from our projects during the first six months of each year and higher operating income during the second six months of each year.

Other Factors Affecting Performance

We have historically performed our operating obligations without experiencing material unexpected service interruptions or incurring material increases in costs. In addition, with respect to many of our contracts, we generally have limited our exposure for risks not within our control. With respect to projects acquired in acquisitions, we have assumed contracts where there is less contractual protection against such risks and more exposure to market influences. 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 geographic changes in the price and availability of wood waste as fuel for our biomass facilities;

Table of Contents

- 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 following:

- Changes in fuel price for projects in which such costs are not completely passed through to the electricity purchaser through revenue adjustments, or delays in the effectiveness of revenue adjustments;
- The amounts of electricity actually requested by purchasers of electricity, and whether or when such requests are made, our facilities are then available to deliver such electricity;
- The financial condition and creditworthiness of purchasers of power and services provided by us;
- Fluctuations in the value of the domestic currency against the value of the U.S. dollar for projects in which we are paid in whole or in part in the domestic currency of the host country; and
- Political risks inherent to the international business which could affect both the ability to operate the project in conformance with existing agreements and the repatriation of dividends from the host country.

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 *Acquisitions and Business Development,* our acquisition and business development initiatives in 2008 and 2007 resulted in various additional projects which increased comparative revenues and expenses. The Huantai and Linan coal facilities, both of which were located in China, were sold in June 2006 and September 2007, respectively, and were not included as consolidated subsidiaries since their respective disposition dates. These factors must be taken into account in developing meaningful comparisons between the periods compared below.

Table of Contents

RESULTS OF OPERATIONS Year Ended December 31, 2008 vs. Year Ended December 31, 2007

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

	For the Years Ended December 31,		Increase (Decrease)
	2008	2007	2008 vs 2007
CONSOLIDATED RESULTS OF OPERATIONS:			
Total operating revenues	$ 1,664,253	$ 1,433,087	$ 231,166
Total operating expenses	1,408,288	1,196,477	211,811
Operating income	255,965	236,610	19,355
Other income (expense):			
Investment income	5,717	10,578	(4,861)
Interest expense	(46,804)	(67,104)	(20,300)
Loss on extinguishment of debt		(32,071)	(32,071)
Total other expenses	(41,087)	(88,597)	(47,510)
Income before income tax expense, minority interests and equity in net income from unconsolidated investments	214,878	148,013	66,865
Income tax expense	(92,227)	(31,040)	61,187
Minority interests	(6,961)	(8,656)	(1,695)
Equity in net income from unconsolidated investments	23,583	22,196	1,387
NET INCOME	$ 139,273	$ 130,513	8,760
Weighted Average Common Shares Outstanding:			
Basic	153,345	152,653	692
Diluted	154,732	153,997	735
Earnings Per Share:			
Basic	$ 0.91	$ 0.85	$ 0.06
Diluted	$ 0.90	$ 0.85	$ 0.05

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

Consolidated Results of Operations ***Comparison of Results for the Year Ended December 31, 2008 vs. Results for the Year Ended December 31, 2007***

Operating revenues increased by $231.2 million primarily due to the following:

- increased waste and energy revenues at our existing energy-from-waste facilities,
- additional revenues from new businesses acquired in the Domestic segment, and
- increased demand from the electricity offtaker and resulting higher electricity generation at our Indian facilities in the International segment.

Operating expenses increased by $211.8 million primarily due to the following:

- increased plant operating expenses at our existing energy-from-waste facilities resulting from increased plant maintenance and cost escalations in the Domestic segment, and
- increased plant operating expenses resulting from additional operating and maintenance costs from new businesses acquired in the Domestic segment, and
- higher fuel costs, resulting from increased demand from the electricity offtaker and resulting higher electricity generation, at our Indian facilities in the International segment, and
- higher general and administrative expenses primarily due to increased efforts to grow the business and normal wage and benefit escalations.

Table of Contents

Investment income decreased by $4.9 million primarily due to lower interest rates on invested funds. Interest expense decreased by $20.3 million primarily due to lower floating interest rates on the Term Loan Facility (as defined in the *Liquidity* section below) and lower debt balances and interest rates resulting from the 2007 recapitalization. As a result of the recapitalization in the first quarter of 2007, we recognized a loss on extinguishment of debt charge of approximately $32.1 million, pre-tax. See Note 6. Long-Term Debt of the Notes to the Consolidated Financial Statements (Notes) for additional information.

Income tax expense increased by $61.2 million primarily due to increased pre-tax income resulting from increased waste and service revenues at our energy-from-waste facilities and additional revenues from new businesses acquired, taxes associated with the wind down of the grantor trusts and additional reserves for uncertain tax positions. See Note 9. Income Taxes of the Notes for additional information.

Equity in net income from unconsolidated investments increased by $1.4 million primarily due to increased earnings from Quezon Power, Inc. (Quezon), our 26% investment in the Philippines, comprised primarily of $4.3 million resulting from the strengthening of the U.S. Dollar against the Philippine Peso, partially offset by lower dividend income from the Trezzo facility and foreign exchange losses at our China facilities. See Note 8. Equity Method Investments of the Notes for additional information.

Domestic Business Results of Operations ***Comparison of Results for the Year Ended December 31, 2008 vs. Results for the Year Ended December 31, 2007***

The domestic business results of operations are presented in the table below (in thousands):

	For the Years Ended December 31,		Increase (Decrease)
	2008	2007	2008 vs 2007
Waste and service revenues	$ 930,537	$ 860,252	$ 70,285
Electricity and steam sales	384,640	325,804	58,836
Other operating revenues	56,254	59,561	(3,307)
Total operating revenues	1,371,431	1,245,617	125,814
Plant operating expenses	753,848	664,641	89,207
Depreciation and amortization expense	190,659	187,875	2,784
Net interest expense on project debt	47,816	48,198	(382)
General and administrative expenses	76,090	71,022	5,068
Insurance recoveries, net of write-down of assets	(8,325)		(8,325)
Other operating expense	56,336	53,789	2,547
Total operating expenses	1,116,424	1,025,525	90,899
Operating income	$ 255,007	$ 220,092	34,915

Operating Revenues

Variances in revenues for the domestic segment are as follows (in millions):

	Domestic Segment Operating Revenue Variances		
	Existing Business	New Business (A)	Total
Waste and service revenues			
Service fee	$ 13.3	$ 0.6	$ 13.9
Tip fee	3.9	30.4	34.3
Recycled metal	21.1	1.0	22.1
Total waste and service revenues	38.3	32.0	70.3
Electricity and steam sales	36.7	22.1	58.8
Other operating revenues	(3.3)		(3.3)
Total operating revenues	$ 71.7	$ 54.1	$ 125.8

Table of Contents

(A) This column represents the results of operations for the year ended December 31, 2008 for businesses acquired after December 31, 2007, plus the results of operations for the nine months ended September 30, 2008 for businesses acquired during the quarter ended September 30, 2007, plus results of operations for the six months ended June 30, 2008 for businesses acquired during the quarter ended June 30, 2007, plus results of operations for the three months ended March 31, 2008 for businesses acquired during the quarter ended March 31, 2007.

Revenues from Service Fee arrangements for existing business increased primarily due to contractual escalations, partially offset by lower revenues earned explicitly to service project debt of $1.4 million.
Revenues from Tip Fee arrangements for existing business increased due to increased waste volume handled in part due to the impact of a fire in 2007 at our SEMASS energy-from-waste facility, partially offset by slightly lower pricing.
Recycled metal revenues for existing business increased primarily due to higher pricing on average for the year. In addition, recovered metal volume increased due to the installation of new metal recovery systems, as well as due to enhancements made to existing systems.
Electricity and steam sales for existing business increased primarily due to higher energy rates, and increased production primarily resulting from capital improvements to increase productivity and improve environmental performance at the biomass facilities.

During the second and third quarters of 2008, we experienced historically high prices for recycled metal which has declined significantly during the fourth quarter of 2008 as reflected in the table below (in millions):

	For the Quarters Ended	
Total Recycled Metal Revenues	**2008**	**2007**
March 31,	$ 11.4	$ 7.0
June 30,	19.0	7.5
September 30,	17.3	7.9
December 31,	5.9	9.1
Total for the Year Ended December 31,	$ 53.6	$ 31.5

Other operating revenues for existing business decreased primarily due to the timing of construction activity.

Operating Expenses

Variances in plant operating expenses for the domestic segment are as follows (in millions):

	Domestic Segment Operating Expense Variances		
	Existing Business	**New Business (A)**	**Total**
Total plant operating expenses	$ 36.8	$ 52.4	$ 89.2

(A) This column represents the results of operations for the year ended December 31, 2008 for businesses acquired after December 31, 2007, plus the results of operations for the nine months ended September 30, 2008 for businesses acquired during the quarter ended September 30, 2007, plus results of operations for the six months ended June 30, 2008 for businesses acquired during the quarter ended June 30, 2007, plus results of operations for the three months ended March 31, 2008 for businesses acquired during the quarter ended March 31, 2007.

Existing business plant operating expenses increased by $36.8 million primarily due to cost escalations, including the impact of higher energy related costs. In addition, the cost for fuel at our biomass facilities increased due to higher production. Cost increases were partially offset by $5.2 million of business interruption insurance recoveries at our SEMASS facility as discussed below.

Depreciation and amortization expense increased by $2.8 million primarily due to capital expenditures and new business.

General and administrative expenses increased by $5.1 million primarily due to increased efforts to grow the business and normal wage and benefit escalations.

Table of Contents

On March 31, 2007, our SEMASS energy-from-waste facility located in Rochester, Massachusetts experienced a fire in the front-end receiving portion of the facility. Damage was extensive to this portion of the facility and operations at the facility were suspended completely for approximately 20 days. As a result of this loss, we recorded an asset impairment of $17.3 million, pre-tax, which represented the net book value of the assets destroyed.

The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. Insurance recoveries were recorded as insurance recoveries, net of write-down of assets where such recoveries relate to repair and reconstruction costs, or as a reduction to plant operating expenses where such recoveries relate to other costs or business interruption losses. We recorded insurance recoveries in our consolidated statements of income and received cash proceeds in settlement of these claims as follows (in millions):

	Insurance Recoveries Recorded		Cash Proceeds Received	
	For the Years Ended December 31,			
	2008	2007	2008	2007
Repair and reconstruction costs (Insurance recoveries, net of write-down of assets)	$ 8.3	$ 17.3	$ 16.2	$ 9.4
Clean-up costs (reduction to Plant operating expenses)	$	$ 2.7	$	$ 2.7
Business interruption losses (reduction to Plant operating expenses)	$ 5.2	$ 2.0	$ 7.2	$

Other operating expense increased by $2.5 million primarily due to losses on the retirement of fixed assets offset by reduced construction activity. See Note 12. Supplementary Financial Information of the Notes for additional information.

International Business Results of Operations ***Comparison of Results for the Year Ended December 31, 2008 vs. Results for the Year Ended December 31, 2007***

The international business results of operations are presented in the table below (in thousands):

	For the Years Ended December 31,		Increase (Decrease)
	2008	2007	2008 vs 2007
Waste and service revenues	$ 3,990	$ 4,144	$ (154)
Electricity and steam sales	275,976	173,073	102,903
Total operating revenues	279,966	177,217	102,749
Plant operating expenses	245,826	136,919	108,907
Depreciation and amortization expense	8,751	8,998	(247)
Net interest expense on project debt	5,918	6,381	(463)
General and administrative expenses	18,684	8,584	10,100
Other operating income	(2,274)	(3,848)	(1,574)
Total operating expenses	276,905	157,034	119,871

Operating income	$ 3,061	$ 20,183	(17,122)

The increases in revenues and plant operating expenses under energy contracts at both Indian facilities resulted primarily from increased demand from the electricity offtaker and resulting higher electricity generation. Higher fuel costs under these energy contracts are typically passed through to the electricity offtaker in the electricity tariff.

General and administrative expenses increased by $10.1 million primarily due to additional business development spending, increased litigation expense associated with an insurance claim associated with a coal facility in China which was sold in 2006, and normal wage and benefit escalations.

Other operating income decreased by $1.6 million primarily due the absence of the gain on sale of the Linan coal facility in 2007 and increased foreign currency exchange losses, partially offset by insurance recoveries associated with a coal facility in China which was sold in 2006.

Table of Contents

RESULTS OF OPERATIONS Year Ended December 31, 2007 vs. Year Ended December 31, 2006

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

	For the Years Ended December 31,		Increase (Decrease)
	2007	2006	2007 vs 2006
CONSOLIDATED RESULTS OF OPERATIONS:			
Total operating revenues	$ 1,433,087	$ 1,268,536	$ 164,551
Total operating expenses	1,196,477	1,041,776	154,701
Operating income	236,610	226,760	9,850
OTHER INCOME (EXPENSE):			
Investment income	10,578	11,770	(1,192)
Interest expense	(67,104)	(109,507)	(42,403)
Loss on extinguishment of debt	(32,071)	(6,795)	25,276
Total other expenses	(88,597)	(104,532)	(15,935)
Income before income tax expense, minority interests and equity in net income from unconsolidated investments	148,013	122,228	25,785
Income tax expense	(31,040)	(38,465)	(7,425)
Minority interests	(8,656)	(6,610)	2,046
Equity in net income from unconsolidated investments	22,196	28,636	(6,440)
NET INCOME	$ 130,513	$ 105,789	24,724
Weighted Average Common Shares Outstanding:			
Basic	152,653	145,663	6,990
Diluted	153,997	147,030	6,967
EARNINGS PER SHARE:			
Basic	$ 0.85	$ 0.73	$ 0.12
Diluted	$ 0.85	$ 0.72	$ 0.13

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

Consolidated Results of Operations ***Comparison of Results for the Year Ended December 31, 2007 vs. Results for the Year Ended December 31, 2006***

Operating revenues increased by $164.6 million primarily due to the following:

- contribution from new businesses acquired,
- increased construction revenues relating to expansion of our Hillsborough County facility,
- higher waste and service revenues at our existing energy-from-waste facilities, and
- increased demand from the electricity offtaker at our Indian facilities and resulting higher electricity generation.

Operating expenses increased by $154.7 million primarily due to the following:

- operating costs of new businesses acquired,
- increased construction expenses relating to the expansion of our Hillsborough County facility,
- increased plant operating expenses due to normal escalations in costs, such as wages, materials, and plant maintenance,
- expenses incurred as a result of a fire at our SEMASS energy-from-waste facility on March 31, 2007, and
- increased plant operating expenses at our Indian facilities primarily due to increased demand from the electricity offtaker and resulting higher generation.

Table of Contents

Investment income decreased by $1.2 million primarily due to lower invested cash balances and lower interest rates on invested funds. Interest expense decreased by $42.4 million primarily due to lower loan balances and lower interest rates resulting from the 2007 recapitalization. As a result of the recapitalization in the first quarter of 2007, we recognized a loss on extinguishment of debt charge of approximately $32.1 million, pre-tax, which is comprised of the write-down of deferred financing costs, tender premiums paid for the intermediate subsidiary debt, and a call premium paid in connection with previously existing financing arrangements. These amounts were partially offset by the write-down of unamortized premiums relating to the intermediate subsidiary debt and a gain associated with the settlement of our interest rate swap agreements in February 2007. In May 2006, as a result of amendments to our financing arrangements that existed at that time, we recognized a loss on extinguishment of debt of $6.8 million for the year ended December 31, 2006. See Note 6. Long-Term Debt of the Notes for additional information.

Equity in net income from unconsolidated investments decreased by $6.4 million primarily due to the effects of the following factors relating to Quezon in the Philippines:

- Quezon recorded a cumulative deferred income tax benefit in 2006 of $31.7 million, of which $7.0 million relates to our equity share in Quezon. The realization of this deferred tax benefit is subject to fluctuations in the value of the Philippine peso versus the U.S. dollar. During the year ended December 31, 2007, we reduced the cumulative deferred income tax benefit by approximately $4.3 million, as a result of the strengthening of the Philippine peso versus the U.S. dollar;
- A decrease in equity in net income from unconsolidated investments for the year ended December 31, 2007 of approximately $4.1 million due to increased tax expense for Quezon related to the conclusion of a six-year income tax holiday in May 2006;
- Quezon recorded a gain in 2007 resulting from a settlement with Manila Electric Company (Meralco), the largest electric distribution company in the Philippines, related to various issues which had been pending for several years, including certain amendments to the contract to modify certain commercial terms and to resolve issues relating to the project s performance during its first year of operation. The settlement primarily includes payment by Meralco to Quezon of approximately $8.5 million of prior uncollected receivables, of which $1.9 million relates to our equity share in Quezon.

See Note 8. Equity Method Investments of the Notes for additional information.

Income tax expense decreased by $7.4 million primarily due to a reduction of the valuation allowance by $35.0 million, as discussed in Note 9. Income Taxes of the Notes. This was partially offset by expiring NOL tax benefits of $6.0 million and taxes at the statutory rate on increased pre-tax income resulting primarily from lower interest expense. During 2006, we recorded a one-time tax benefit of $10 million associated with the adoption of the permanent reinvestment exception under Accounting Principles Board (APB) Opinion No. 23, Accounting for Income Taxes Special Areas (APB 23) as discussed in Note 9. Income Taxes of the Notes.

Table of Contents

Domestic Business Results of Operations ***Comparison of Results for the Year Ended December 31, 2007 vs. Results for the Year Ended December 31, 2006***

The domestic business results of operations are presented in the table below (in thousands):

	For the Years Ended December 31, 2007	2006	Increase (Decrease) 2007 vs 2006
Waste and service revenues	$ 860,252	$ 813,260	$ 46,992
Electricity and steam sales	325,804	301,339	24,465
Other operating revenues	59,561	3,328	56,233
Total operating revenues	1,245,617	1,117,927	127,690
Plant operating expenses	664,641	612,202	52,439
Depreciation and amortization expense	187,875	184,921	2,954
Net interest expense on project debt	48,198	53,270	(5,072)
General and administrative expenses	71,022	66,439	4,583
Other operating expense (income)	53,789	(5,388)	59,177
Total operating expenses	1,025,525	911,444	114,081
Operating income	$ 220,092	$ 206,483	13,609

Operating Revenues

Variances in revenues for the domestic segment are as follows (in millions):

	Domestic Segment Operating Revenue Variances		
	Existing Business	New Business (A)	Total
Waste and service revenues			
Service fee	$ 5.2	$ 14.9	$ 20.1
Tip fee	4.7	13.9	18.6
Recycled metal	8.2	0.1	8.3
Total waste and service revenues	18.1	28.9	47.0
Electricity and steam sales	9.7	14.8	24.5
Other operating revenues	56.2		56.2
Total operating revenues	$ 84.0	$ 43.7	$ 127.7

(A) This column represents the results of operations for the year ended December 31, 2007 for businesses acquired after December 31, 2006.

Revenues from Service Fee arrangements for existing business increased primarily due to contractual escalations, partially offset by lower revenues earned explicitly to service debt of $4.8 million.
Revenues from Tip Fee arrangements for existing business increased primarily due to pricing escalations, partially offset by a decrease in waste volume and reduced revenues of $4.1 million at our SEMASS facility following its fire on March 31, 2007.
Recycled metal revenues for existing business increased primarily due to higher pricing for ferrous and non-ferrous metal.
Electricity and steam sales for existing business increased primarily due to higher energy rates. This increase was partially offset by energy rate settlements of $3.7 million related to prior years, and a decrease in revenues of $1.9 million due to lower waste volume resulting from the temporary suspension of operations at our SEMASS facility following its fire on March 31, 2007.
Other operating revenues for existing business increased primarily due to construction revenues related to the expansion for the Hillsborough County facility.

Table of Contents

Operating Expenses

Variances in plant operating expenses for the domestic segment are as follows (in millions):

	Domestic Segment Operating Expense Variances		
	Existing Business	New Business (A)	Total
Total plant operating expenses	$ 10.7	$ 41.7	$ 52.4

(A) This column represents the results of operations for the year ended December 31, 2007 for businesses acquired after December 31, 2006.

Existing business plant operating expenses increased by $10.7 million primarily due to normal escalations in costs such as wages, materials and plant maintenance, and higher stock-based compensation expense of $2.0 million. In addition, costs related to the fire at the SEMASS energy-from-waste facility were $3.3 million, which was net of $2.7 million and $2.0 million of insurance recoveries for clean-up costs and business interruption, respectively.

Depreciation and amortization expense increased by $3.0 million primarily due to additions of property, plant and equipment.

Net interest expense on project debt decreased by $5.1 million primarily due to lower project debt balances.

General and administrative expenses increased by $4.6 million primarily due to increased stock-based compensation expense and increased business development spending.

On March 31, 2007, our SEMASS energy-from-waste facility located in Rochester, Massachusetts experienced a fire in the front-end receiving portion of the facility. Damage was extensive to this portion of the facility and operations at the facility were suspended completely for approximately 20 days. As a result of this loss, we recorded an asset impairment of $17.3 million, pre-tax, which represented the net book value of the assets destroyed. The cost of repair or replacement, and business interruption losses, were insured under the terms of applicable insurance policies, subject to deductibles. During the year ended December 31, 2007, we recorded insurance recoveries of $17.3 million related to repair and reconstruction, $2.7 million related to clean-up costs and $2.0 million related to business interruption losses. Insurance recoveries were recorded as a reduction to the loss related to the write-down of assets where such recoveries related to repair and reconstruction costs, or as a reduction to operating expenses where such recoveries related to other costs or business interruption losses. See Note 12. Supplementary Financial Information of the Notes for additional information.

Other operating expense increased by $59.2 million primarily due to costs related to expansion construction at the Hillsborough County facility. See Note 12. Supplementary Financial Information of the Notes for additional information.

Table of Contents

International Business Results of Operations ***Comparison of Results for the Year Ended December 31, 2007 vs. Results for the Year Ended December 31, 2006***

The international business results of operations are presented in the table below (in thousands):

	For the Years Ended December 31,		Increase (Decrease)
	2007	2006	2007 vs 2006
Waste and service revenues	$ 4,144	$ 4,373	$ (229)
Electricity and steam sales	173,073	132,495	40,578
Total operating revenues	177,217	136,868	40,349
Plant operating expenses	136,919	99,954	36,965
Depreciation and amortization expense	8,998	8,193	805
Net interest expense on project debt	6,381	6,940	(559)
General and administrative expenses	8,584	4,394	4,190
Other operating income	(3,848)	(2,452)	1,396
Total operating expenses	157,034	117,029	40,005
Operating income	$ 20,183	$ 19,839	344

The increases in revenues and plant operating expenses under energy contracts at both Indian facilities resulted primarily from increased demand from the electricity offtaker and resulting higher electricity generation. The decreases in revenues and plant operating expenses from the Yanjiang facility in China resulted from lower steam sales. Additional decreases in revenues and plant operating expenses resulted from the sale of the Huantai coal facility in China during the second quarter of 2006 and the sale of the Linan coal facility in China during the third quarter of 2007.

Depreciation and amortization expense increased by $0.8 million primarily due to the foreign currency translation effects at our facilities in India.

Net interest expense on project debt decreased by $0.6 million primarily due to the scheduled quarterly pay down of project debt at both Indian facilities.

General and administrative expenses increased by $4.2 million primarily due to normal wage and benefit escalations and additional business development spending.

Other operating income increased by $1.4 million primarily due to the $1.7 million gain related to the sale of the Linan coal facility in China during the third quarter of 2007 combined with a $1.0 million re-measurement gain on the foreign currency denominated debt at one of the Indian facilities, compared to a $1.2 million gain related to the sale of the Huantai coal facility in China during the second quarter of 2006.

LIQUIDITY AND CAPITAL RESOURCES

Generating sufficient cash to invest in our business, meet our liquidity needs, pay down project debt, and pursue strategic opportunities remain important objectives of management. We derive our cash flows principally from our operations at our domestic and international projects, where our historical levels of production allow us to satisfy project debt covenants and payments, and distribute cash. We typically receive cash distributions from our domestic projects on either a monthly or quarterly basis, whereas a material portion of cash from our international projects is received semi-annually, during the second and fourth quarters.

During the first quarter of 2007, we completed a comprehensive recapitalization utilizing a series of equity and debt financings. Under these existing credit facilities, we have substantially greater, but not unrestricted, 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.

Our primary future cash requirements will be to fund capital expenditures to maintain our existing businesses, make debt service payments and grow our business through acquisitions and business development. We will also seek to enhance our cash flow from renewals or replacement of existing contracts, from new contracts to expand

Table of Contents

existing facilities or operate additional facilities and by investing in new projects. See Management s Discussion and Analysis of Financial Condition Overview Acquisitions and Business Development above.

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.

Additionally, as of December 31, 2008, we had available credit for liquidity of $300 million under the Revolving Loan Facility (as defined below) and unrestricted cash of $192.4 million.

Under our Revolving Loan Facility, we have pro rata funding commitments from a large consortium of banks, including a 6.8% pro rata commitment from Lehman Brothers Commercial Bank. Lehman Brothers Commercial Bank is a subsidiary of Lehman Brothers Holdings, Inc., which filed for bankruptcy protection in September 2008. We believe that neither the Lehman Brothers Holdings, Inc. bankruptcy, nor the ability of Lehman Brothers Commercial Bank (which is not currently part of such bankruptcy proceeding) to fund its pro rata share of any draw request we may make, will have a material effect on our liquidity or capital resources.

As of December 31, 2008, we were in compliance with the covenants under the Credit Facilities (as defined below). We believe that when combined with our other sources of liquidity, including our existing cash on hand and the Revolving Loan Facility, we will generate sufficient cash over at least the next twelve months to meet operational needs, make capital expenditures, invest in the business and service debt due.

On September 22, 2008, we announced that our Board of Directors authorized the purchase of up to $30 million of our common stock in order to respond opportunistically to volatile market conditions. The share repurchases, if any, may take place from time to time based on market conditions and other factors. The authorization is expected to continue only for so long as recent volatile market conditions persist. As of December 31, 2008, we have not repurchased shares of our common stock under this program.

2007 Recapitalization

During the first quarter of 2007, we completed a comprehensive recapitalization utilizing a series of equity and debt financings including the following transactions:

- the refinancing of our previously existing credit facilities with the new credit facilities, comprised of a $300 million revolving credit facility (the Revolving Loan Facility), a $320 million funded letter of credit facility (the Funded L/C Facility) and a $650 million term loan (collectively referred to as the Credit Facilities);
- an underwritten public offering of 6.118 million shares of our common stock, from which we received proceeds of approximately $136.6 million, net of underwriting discounts and commissions;
- an underwritten public offering of approximately $373.8 million aggregate principal amount of 1.00% Senior Convertible Debentures due 2027 (the Debentures), from which we received proceeds of approximately $364.4 million, net of underwriting discounts and commissions; and
- the repayment, by means of a tender offer and redemptions, of approximately $611.9 million in aggregate principal amount of outstanding notes previously issued by our intermediate subsidiaries.

We completed our public offerings of common stock and Debentures, including over-allotment options exercised by underwriters, on January 31, 2007 and February 6, 2007, respectively, and we closed on the Credit Facilities on February 9, 2007. We completed our tender offer for approximately $604.4 million in aggregate principal amount of outstanding notes on February 22, 2007. On April 16, 2007 and September 6, 2007, all remaining outstanding ARC Notes and the remaining outstanding MSW I Notes and MSW II Notes were redeemed, respectively. Additional

information, including material terms related to our recapitalization, are described in Note 6. Long-Term Debt of the Notes.

As a result of the recapitalization, we recognized a loss on extinguishment of debt of approximately $32.1 million, pre-tax, which was comprised of the write-down of deferred financing costs, tender premiums paid for the intermediate subsidiary debt, and a call premium paid in connection with previously existing financing arrangements. These amounts were partially offset by the write-down of unamortized premiums relating to the intermediate subsidiary debt and a gain associated with the settlement of our interest rate swap agreements.

Table of Contents

Credit Agreement Financial Covenants

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants as discussed in Note 6. Long-Term Debt of the Notes. We were in compliance with all required covenants as of December 31, 2008.

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 4.00 to 1.00 for the four quarter period ended December 31, 2008, 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. The maximum Covanta Energy leverage ratio allowed under the Credit Facilities adjusts in future periods as follows:

4.00 to 1.00 for each of the four quarter periods ended March 31, June 30 and September 30, 2009;
3.75 to 1.00 for each of the four quarter periods ended December 31, 2009, March 31, June 30 and September 30, 2010;
3.50 to 1.00 for each four quarter period thereafter;

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.

Sources and Uses of Cash Flow

	For the Years Ended December 31,			Increase (Decrease)	
	2008	2007	2006	2008 vs 2007	2007 vs 2006
			(In thousands)		
Net cash provided by operating activities	$ 402,607	$ 363,591	$ 318,989	$ 39,016	$ 44,602
Net cash used in investing activities	(189,308)	(179,910)	(66,904)	9,398	113,006
Net cash used in financing activities	(170,242)	(268,335)	(147,420)	(98,093)	120,915
Effect of exchange rate changes on cash and cash equivalents	(70)	618	221	(688)	397
Net increase (decrease) in cash and cash equivalents	$ 42,987	$ (84,036)	$ 104,886	127,023	(188,922)

During the first quarter of 2008, we revised our presentation of the condensed consolidated statements of cash flows to present changes in restricted funds held in trust relating to operating activities as a component of cash flow from operating activities and changes in restricted funds held in trust relating to financing activities (debt principal related) as a component of cash flow from financing activities; previously we included all changes in restricted funds held in trust as a component of cash flow from financing activities. For the years ended December 31, 2007 and 2006, we have reclassified approximately $5.5 million and $7.8 million, respectively, as a component of cash flow from operating activities in order to conform to the current period presentation on the consolidated statements of cash flows.

Year Ended December 31, 2008 vs. Year Ended December 31, 2007

Net cash provided by operating activities for the year ended December 31, 2008 was $402.6 million, an increase of $39.0 million from the prior year period. The increase was primarily comprised of:

- $29.8 million from a combination of improved operating performance and lower net interest expense; and
- an increase in non-property insurance proceeds of $9.2 million (including $7.2 million of business interruption recoveries related to the SEMASS energy-from-waste facility).

Table of Contents

Net cash used in investing activities for the year ended December 31, 2008 was $189.3 million, an increase of $9.4 million from the prior year period. The increase was primarily related to lower cash outflows for acquisitions of businesses of approximately $37.1 million, and increased property insurance proceeds of $6.8 million, offset by higher cash outflows principally comprised of:

- $16.7 million to acquire land use rights in the United Kingdom and United States in connection with development activities;
- an increase of $18.0 million related to investments in fixed maturities at our insurance subsidiary, partially offset by an increase of $5.2 million in proceeds from the sale of investments in fixed maturities at our insurance subsidiary;
- $7.3 million of equity investments, of which $17.1 million related to the Chengdu project, offset by the $10.3 million equity investment in Sanfeng during the comparative period;
- an increase in capital expenditures of $2.2 million;
- $8.2 million related to a loan issued for the Harrisburg energy-from-waste facility;
- $6.1 million of cash outflows comprised primarily of business development activities.

Net cash used in financing activities for the year ended December 31, 2008 was $170.2 million, a decrease of $98.1 million from the prior year period due primarily to the 2007 recapitalization. The net proceeds from refinancing the previously existing credit facilities with the New Credit Facilities was $5.6 million, net of transaction fees. Proceeds of approximately $364.4 million and $136.6 million, each net of underwriting discounts and commissions, were received during the three months ended March 31, 2007 related to underwritten public offerings of Debentures and common stock, respectively. The combination of the proceeds from the public offerings of Debentures and common stock and approximately $130.0 million in cash and restricted cash (available for use as a result of the recapitalization) were utilized for the repayment, by means of a tender offer, of approximately $611.9 million in principal amount of outstanding notes previously issued by certain intermediate subsidiaries.

Year Ended December 31, 2007 vs. Year Ended December 31, 2006

Net cash provided by operating activities for the year ended December 31, 2007 was $363.6 million, an increase of $44.6 million from the prior year. The increase was primarily due to lower interest paid of $59.1 million resulting from the 2007 recapitalization and from lower project debt balances.

Net cash used in investing activities for the year ended December 31, 2007 was $179.9 million, an increase of $113.0 million from the prior year. The increase was primarily due to the following:

- higher purchases of property, plant and equipment of $31.4 million, principally comprised of:
  - $18.1 million relating to rebuilding at the SEMASS facility following the fire; and
  - $12.1 million relating to our Central Valley biomass facilities and our Holliston transfer station businesses acquired during 2007;
- the acquisition of businesses, net of cash acquired, of $110.5 million;
- an equity investment in Sanfeng for $10.3 million;
- partially offset by property insurance proceeds of $9.4 million related to the fire at our SEMASS energy-from-waste facility and the acquisition of a non-controlling interest in a subsidiary during 2006 of $27.5 million.

Net cash used in financing activities for the year ended December 31, 2007 was $268.3 million, an increase of $120.9 million from the prior year. This increase was primarily due to the 2007 recapitalization. The net proceeds from refinancing the previously existing credit facilities with the Credit Facilities was $5.6 million, net of transaction

fees. Proceeds of approximately $364.4 million and $136.6 million, each net of underwriting discounts and commissions, were received during the year ended December 31, 2007 related to underwritten public offerings of Debentures and common stock, respectively. The combination of the proceeds from the public offerings of Debentures and common stock and approximately $130.0 million in cash and restricted cash (available for use as a result of the recapitalization) were utilized for the repayment, by means of a tender offer, of approximately $611.9 million in principal amount of outstanding notes previously issued by certain intermediate subsidiaries.

Table of Contents

Project Debt

Domestic 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 loans 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 a certain Covanta ARC Holdings, Inc. subsidiary, but is non-recourse to us and as of December 31, 2008 was as follows (in thousands):

Covanta Niagara, L.P. Series 2001 Bonds	$ 165,010
Covanta Southeastern Connecticut Company Corporate Credit Bonds	43,500
Covanta Hempstead Company Corporate Credit Bonds	42,670
Total	$ 251,180

International Project Debt

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. Project debt relating to two international projects in India is included as Project debt (short- and long-term) in our consolidated financial statements. 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.

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 (LAE) liabilities be matched by a comparable amount of investment grade assets. During the year ended December 31, 2008, we made a cash contribution of approximately $3 million to our insurance subsidiary to support their operating requirements. We believe that the insurance business has both adequate capital resources and sufficient reinsurance 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

61

Table of Contents

the last reported sales price on the day of valuation. The investment portfolio for our insurance business was as follows as of December 31, 2008 (in thousands):

	Amortized Cost	Fair Value
Investments by grade:		
Fixed maturities:		
U.S. Government/Agency	$ 17,897	$ 18,207
Mortgage-backed	4,183	4,184
Corporate (AAA to A)	4,540	4,346
Total fixed maturities	26,620	26,737
Equity securities	760	792
Total	$ 27,380	$ 27,529

Capital Requirements

The following table summarizes our gross contractual obligations including project debt, leases and other obligations as of December 31, 2008 (in thousands, Note references are to the Notes):

		Payments Due by Period			
	Total	2009	2010 and 2011	2012 and 2013	2014 and Beyond
Domestic project debt (Note 7)	$ 1,006,087	$ 155,597	$ 265,324	$ 228,972	$ 356,194
International project debt (Note 7)	52,036	34,550	17,486		
Total project debt (Note 7)	1,058,123	190,147	282,810	228,972	356,194
Term Loan Facility (Note 6)	638,625	6,500	13,000	13,000	606,125
Debentures(1)	373,750				373,750
Other long-term debt	512	422	90		
Total debt obligations(2)	2,071,010	197,069	295,900	241,972	1,336,069
Less: Non-recourse debt(3)	(1,058,635)	(190,569)	(282,900)	(228,972)	(356,194)
Total recourse debt	$ 1,012,375	$ 6,500	$ 13,000	$ 13,000	$ 979,875
Operating leases	366,032	57,580	89,950	60,541	157,961
Less: Non-recourse rental payments	(213,722)	(23,065)	(46,933)	(41,616)	(102,108)
Total recourse rental payments	$ 152,310	$ 34,515	$ 43,017	$ 18,925	$ 55,853
Interest payments(4)	458,686	82,002	128,632	101,266	146,786
Less: Non-recourse interest payments	(298,030)	(61,586)	(88,311)	(61,628)	(86,505)

Total recourse interest payments	$ 160,656	$ 20,416	$ 40,321	$ 39,638	$ 60,281
Retirement plan obligations(5)	$ 30,830	$ 4,920	$ 9,970	$ 10,400	$ 5,540
FIN 48 tax obligations(6)	$ 140,811	$ 22,721	$ 7,075	$ 3,747	$ 107,268
Total obligations	$ 1,496,982	$ 89,072	$ 113,383	$ 85,710	$ 1,208,817

(1) The Debentures bear interest at a rate of 1.00% per year, payable semi-annually in arrears, on February 1 and August 1 of each year, commencing on August 1, 2007 and will mature on February 1, 2027. In addition, beginning with the six-month interest period commencing February 1, 2012, we may be required to pay contingent interest on the Debentures, calculated with reference to the trading price of the Debentures. As of December 31, 2008, the closing price of our common stock did not exceed the specified conversion price, and therefore, for purposes of this Capital Requirements chart, we have assumed no conversions or redemptions of the Debentures and no contingent interest related to the Debentures. For information detailing the contingent interest, conversion or redemption features of the Debentures, see Note 6. Long-Term Debt of the Notes.

(2) Excludes $20.2 million of unamortized debt premium.

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

Table of Contents

(4) 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.

(5) Retirement plan obligations are based on actuarial estimates for the pension plan obligations and post-retirement plan obligations as of December 31, 2008.

(6) Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, (FIN 48) 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, 2008 were as follows (in thousands):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	$ 300,415	$ 46,111	$ 254,304
Surety bonds	64,086		64,086
Total other commitments net	$ 364,501	$ 46,111	$ 318,390

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.

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 Loan Facility.

The surety bonds listed on the table above relate primarily to performance obligations ($55.1 million) and support for closure obligations of various energy projects when such projects cease operating ($9.0 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 Debentures. These are:

holders may require us to repurchase their Debentures on February 1, 2012, February 1, 2017 and February 1, 2022;
holders may require us to repurchase their Debentures, 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 and/or our common stock.

See Note 6. Long-Term Debt of the Notes for specific criteria related to contingent interest, conversion or redemption features of the Debentures.

As discussed in the Overview Acquisitions and Business Development discussion above, we are focused on developing new projects and making acquisitions to grow our business in the Americas, Europe and Asia. 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.

To date, we have announced that we have entered into definitive agreements for the development of a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. The Dublin project is being developed and will be owned by Dublin Waste to Energy Limited, which we control and co-own

Table of Contents

with DONG Energy Generation A/S. Under the Dublin project agreements, several customary conditions must be satisfied before full construction can begin, including the issuance of all required licenses and permits and approvals. We are responsible for the design and construction of the project, which is estimated to cost approximately 350 million euros and will require 36 months to complete, once full construction commences. We and DONG Energy Generation A/S have committed to provide financing for all phases of the project, and we expect to arrange for project financing. The primary approvals and licenses for the project have been obtained, and any remaining consents and approvals necessary to begin full construction are expected to be obtained in due course. We have begun to perform preliminary site demolition work and expect to commence full construction during the second quarter of 2009.

We have issued or are party to performance guarantees and related contractual support obligations undertaken pursuant to agreements to construct and operate certain domestic and international energy and waste 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 obtain financing for a project. With respect to our domestic and international 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 on 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 domestic and international 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 material. 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 County, 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, under a lease that expires in 2023, which we may extend for an additional five years. We guarantee a portion of the rent due under the lease. Rent under the lease is sufficient to allow the UCUA to repay tax exempt bonds issued by it to finance the facility and which mature in 2023.

At our Alexandria facility, we are a party to a lease which expires in 2025 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 Covanta Delaware Valley, L.P. (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

Table of Contents

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, referred to as the Delaware Partnership . 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, 2008, the estimated Stipulated Loss would have been $134.4 million.

We are also a party to lease arrangements pursuant to which we lease rolling stock in connection with our operating activities, as well as certain office 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 Note 15. Leases of the Notes.

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, either on domestic or international projects.

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 Note 8. Equity Method Investments of the Notes for additional information regarding these investments.

Discussion of Critical Accounting Policies

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), we are required to use judgment in making estimates and assumptions that affect the amounts reported in our 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.

Stock-Based Compensation

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. For the option awards granted prior to 2007, we determined an expected life of eight years in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payments (SFAS 123R), which replaces SFAS No. 123, Accounting fo Stock-Based Compensation (SFAS 123). In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110, which permits use of the simplified method, as discussed in SAB No. 107, to determine the expected life of plain vanilla options. The expected life for the options issued in 2007 and 2008 was determined using this simplified method and as such, the expected lives of the options issued in 2007 range from 6.5 years to 6.04 years and in 2008 range from 6.54 to 6.48 years.

In addition, we also estimate expected forfeitures for our options and share-based awards and the probability of achieving specific performance factors affecting the vesting of our share-based awards. For our current share-based awards, our estimate of a forfeiture rate and determination of achieving stated performance vesting factors will have the most significant impact on the compensation cost we must recognize. 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 review the forfeiture rate at least annually and revise compensation expense, if necessary. The forfeiture rates range from 8% to 15% depending on the type of award and the vesting period.

Purchase Accounting

We allocate acquisition purchase prices to identified intangible assets and tangible assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition, with any residual amounts

Table of Contents

allocated to goodwill in accordance with SFAS No. 141, Business Combinations (SFAS 141). The fair value estimates used reflect our best estimates based on our work and the work of independent valuation consultants based on relevant information available to us. These estimates, and the assumptions used by us and by our valuation consultants, are subject to inherent uncertainties and contingencies beyond our control. For example, we used the discounted cash flow method to estimate the value of many of our assets. This entailed developing projections about future cash flows and adopting an appropriate discount rate. We cannot predict with certainty actual cash flows and the selection of a discount rate is heavily dependent on judgment. If different cash flow projections or discount rates were used, the fair values of our assets and liabilities could be materially increased or decreased. Accordingly, there can be no assurance that such estimates and assumptions reflected in the valuations will be realized, or that further adjustments will not occur. The assumptions and estimates used by us substantially affect our balance sheet. In addition, the valuations impact depreciation and amortization expense and changes in such assumptions and estimates may affect earnings in the future. During the current year, some of our estimates have been refined which resulted in changes to assets and liabilities recognized on the balance sheet as of December 31, 2008.

Effective January 1, 2009, purchase accounting will be accounted for in accordance with SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). See Note 2. Recent Accounting Pronouncements of the Notes.

Depreciation and Amortization

We have estimated the useful lives over which we depreciate our long-lived assets. Additionally, in accordance with SFAS No. 143, Accounting for Asset Retirement Obligations, we have capitalized the estimate of our legal liabilities which includes closure and post-closure costs for landfill cells and site restoration for certain energy-from-waste and power producing sites.

Goodwill and Intangible Assets

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, 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 acquired assets. There has been no impairment recognized in the current year, however an impact of impairment in the future could have a material impact on our financial position and results of operations.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we evaluate our long-term assets and amortizable intangible assets for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. No events or change in circumstances occurred during the period to warrant impairment testing. However, had an event or change in circumstances occurred, the impact of recognizing an impairment could have a material impact on our financial position and results of operations.

Net Operating Loss Carryforwards Deferred Tax Assets

As described in Note 9. Income Taxes of the Notes, we have recorded a deferred tax asset related to our net operating loss carryforwards (NOLs). 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 from our domestic and international businesses, to the extent it is reasonably predictable.

We estimated that we have NOLs of approximately $591 million for federal income tax purposes as of the end of 2008. The NOLs will expire in various amounts beginning on December 31, 2009 through December 31, 2028, if not used. The amount of NOLs available to us will be reduced by any taxable income generated by current members of

our tax consolidated group including certain grantor trusts relating to the Mission Insurance Entities or increased to the extent of any new losses recorded.

The Internal Revenue Service (IRS) has not audited any of our tax returns for the years in which the losses giving rise to the NOLs were reported, and the IRS could challenge any past and future use of the NOLs.

Table of Contents

Loss Contingencies

As described in Note 21. Commitments and Contingencies of the Notes, 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 with respect to these matters on an ongoing basis and when losses are considered probable and reasonably estimable, we record as a loss an estimate of the ultimate 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 and disclosure is made regarding the possibility of additional losses. We review such estimates on an ongoing basis as developments occur with respect to such matters and may in the future increase or decrease such estimates. There can be no assurance that our initial or adjusted estimates of losses will reflect the ultimate loss we may experience regarding such matters. Any inaccuracies could potentially have a material adverse effect on our consolidated financial condition.

Financial Instruments

Effective January 1, 2008, we adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159), but did not elect to apply the fair value option to any of our eligible financial assets and liabilities.

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. This statement did not require any new fair value measurements. FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which deferred the effective date of SFAS 157 for one year for all non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

As described in Note 19. Financial Instruments of the Notes, the estimated fair-value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that we would realize in a current market exchange.

For cash and cash equivalents, restricted cash, 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. 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.

Fair values for debt were determined based on interest rates that are currently available to us for issuance of debt with similar terms and remaining maturities for debt issues that are not traded on quoted market prices. The fair value of project debt is estimated based on quoted market prices for the same or similar issues.

The fair value of our interest rate swap agreement is the estimated amount we would receive or pay to terminate the agreement based on the net present value of the future cash flows as defined in the agreement.

Revenue Recognition

We earn fees 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 applicable agreement. Unbilled service receivables related to energy-from-waste operations are discounted in recognizing the present value for services performed currently in order to service the principal component of the project debt. Fees for waste disposal are recognized in the period received. Revenue from electricity and steam sales are recorded when delivered at rates specified in the contracts. We also earn fees under fixed-price construction contracts, in which case revenue is accounted for using the percentage-of-completion of services rendered.

Table of Contents

Pensions

Our pension and other postretirement benefit plans are accounted for in accordance with SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment to FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158), 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. Upon the adoption of SFAS 158 in December 2006, we recognized a net gain of $2.5 million, $1.7 million net of deferred tax, in Accumulated Other Comprehensive Income (AOCI) to reflect the funded status of the pension and postretirement benefit obligations.

On an annual basis, management evaluates 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.

Based on this evaluation for the year ended December 31, 2007, we increased the discount rate assumption for benefit obligations from 5.75% as of December 31, 2006 to 6.50% as of December 31, 2007. We recorded a pension plan liability equal to the amount by which the present value of the projected benefit obligations (using a discount rate of 6.50%) exceeded the fair value of pension assets as of December 31, 2007. We recognized a net actuarial gain of $14.5 million, $9.4 million net of deferred tax, in AOCI during the year ended December 31, 2007.

Based on this evaluation for the year ended December 31, 2008, we decreased the discount rate assumption for benefit obligations from 6.50% as of December 31, 2007 to 6.25% as of December 31, 2008. We recorded a pension plan liability equal to the amount by which the present value of the projected benefit obligations (using a discount rate of 6.25%) exceeded the fair value of pension assets as of December 31, 2008. We recognized a net actuarial loss of $20.0 million, $13.2 million net of deferred tax, in AOCI during the year ended December 31, 2008.

See Note 16. Employee Benefit Plans of the Notes for additional information related to Our pension and other postretirement benefit plans.

Unpaid Losses 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. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

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. Actuaries estimate ultimate loss and LAE using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made.

Our insurance subsidiaries use independent actuaries with whom we significantly rely on to form a conclusion on reserve estimates. Those independent actuaries use several generally accepted actuarial methods to evaluate the insurance business loss reserves, each of which has its own strengths and weaknesses. The independent actuaries place more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made and through discussions with our insurance subsidiaries management.

Table of Contents

Recent Accounting Pronouncements

See Note 1. Organization and Summary of Significant Accounting Policies and Note 2. Recent Accounting Pronouncements of the Notes for a summary of additional accounting policies and new accounting pronouncements.

Related-Party Transactions

Employment Arrangements

See the descriptions of our employment agreements with Anthony J. Orlando, Mark A. Pytosh, John M. Klett, Timothy J. Simpson and Seth Myones which are incorporated by reference into *Item 11. Executive Compensation* of this Annual Report on Form 10-K.

Affiliate Agreements

We hold a 26% investment in Quezon. We are party to an agreement with Quezon in which we assumed responsibility for the operation and maintenance of Quezon s coal-fired electricity generation facility. Accordingly, 26% of the net income of Quezon is reflected in our statement of income and as such, 26% of the revenue earned under the terms of the operation and maintenance agreement is eliminated against Equity in Net Income from Unconsolidated Investments. For the fiscal years ended December 31, 2008, 2007, and 2006, we collected $34.0 million, $35.4 million, and $26.9 million, respectively, for the operation and maintenance of the facility. As of December 31, 2008 and 2007, the net amount due to Quezon was $3.2 million and $1.1 million, respectively, which represents advance payments received from Quezon for operation and maintenance costs.

As part of our acquisition of Covanta Energy in 2004 as part of its emergence from bankruptcy, we agreed to conduct a registered offering of our common stock to certain holders of Covanta Energy s pre-petition secured debentures. On February 24, 2006, we completed this offering, in which 5,696,911 shares were issued in consideration for $20.8 million in gross proceeds, including 633,380 shares purchased by D.E. Shaw Laminar Portfolios, L.L.C. (Laminar) pursuant to the exercise of rights held by Laminar as a holder of those debentures. At the time of this transaction, Laminar held more than 10% of our outstanding common stock.

Clayton Yeutter, a current director, is senior advisor to the law firm of Hogan & Hartson LLP. Hogan & Hartson has provided Covanta Energy with certain legal services for many years including 2008. This relationship preceded our acquisition of Covanta Energy. Mr. Yeutter did not direct or have any direct or indirect involvement in the procurement, provision, oversight or billing of such legal services and does not directly or indirectly benefit from those fees. The Board has determined that such relationship does not interfere with Mr. Yeutter s exercise of independent judgment as a director.

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 interest rates, foreign currency exchange rates, and commodity prices. 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, 2008. Further information is included in Note 19.

Financial Instruments of the Notes.

Commodity Price Risk and Contract Revenue Risk

We have not entered into futures, forward contracts, swaps or options to hedge purchase and sale commitments, fuel requirements, inventories or other commodities. Alternatively, we attempt to mitigate the risk of energy and fuel market fluctuations by structuring contracts related to our energy projects in the manner described above in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation Overview Contract Structures.*

Table of Contents

Generally, we are protected against fluctuations in fuel price risk in our domestic energy-from-waste business because most of our waste is provided under long term contracts where we are paid for our fuel at fixed rates. At thirteen of our 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. At our domestic biomass projects, we pay for our fuel, and have exposure to fuel price risk because wood waste most often may be purchased only under short term arrangements. At our international independent power projects, we do not have material fuel cost risk because generally fuel costs are contractually included in our electricity revenues, or fuel is provided by our customers. In some of our international projects, the project entity (which in some cases is not our subsidiary) has entered into long-term fuel purchase contracts that protect the project from changes in fuel prices, provided counterparties to such contracts perform their commitments.

In addition, we sell, recover and recycle materials, principally ferrous metals, under short-term arrangements from most of our energy-from-waste projects, and have exposure to market fluctuations with respect to such sales. During the second and third quarters of 2008, we experienced historically high recycled metal prices, which declined materially during the fourth quarter of 2008. Revenue from these materials is included within our waste services revenue.

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

In 2008, approximately 10% of our waste services revenue was subject to market-based pricing, and approximately 13% of our energy revenue was subject to market-based pricing.

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. Several more of these original waste disposal and operating contracts will expire at various dates through 2016, and we have risk in obtaining acceptable arrangements and associated revenue, for such projects thereafter. As our remaining agreements at facilities we own near 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. We also expect that it may be relatively more difficult to enter into medium and long term contracts for sales of energy. As a result, following the expiration of these initial long term contracts, we expect to have on a relative basis more exposure to market risk, and therefore revenue fluctuations, in energy markets than in waste markets. By 2010, we expect approximately 50% of our domestic energy revenue to be sold at market rates unless contractual arrangements we put in place provide otherwise.

We also will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire.

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 Note 6. Long-Term Debt of the Notes. As of December 31, 2008, the

outstanding balance of the Term Loan was $638.6 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, 2008 market interest rates would result in a potential reduction to twelve month future earnings of $6.4 million, pre-tax.

We have project debt outstanding bearing interest at floating rates that could subject us to the risk of increased interest expense due to rising market interest rates, or an adverse change in fair value due to declining interest rates

Table of Contents

on fixed rate debt. Of our project debt, approximately $116.7 million was floating rate debt at December 31, 2008. However, interest rate risk relating to the floating rate project debt is borne by the client communities because debt service is passed through to those clients under the contractual structure of their agreements. We had only one interest rate swap relating to project debt outstanding as of December 31, 2008 in the notional amount of $68.2 million related to floating rate project debt. Gains and losses, however, on this swap are for the account of the client community and are not borne by us.

Contingent Interest

On January 31, 2007, we completed an underwritten public offering of $373.8 million aggregate principal amount of 1.00% Senior Convertible Debentures due 2027 (the Debentures). The Debentures bear interest at a rate of 1.00% per year, payable semi-annually in arrears, on February 1 and August 1 of each year, commencing on August 1, 2007 and will mature on February 1, 2027. Beginning with the six-month interest period commencing February 1, 2012, we will pay contingent interest on the Debentures during any six-month interest period in which the trading price of the Debentures measured over a specified number of trading days is 120% or more of the principal amount of the Debentures. When applicable, the contingent interest payable per $1,000 principal amount of Debentures will equal 0.25% of the average trading price of $1,000 principal amount of Debentures during the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period. The contingent interest feature in the Debentures is an embedded derivative instrument. The first contingent cash interest payment period does not commence until February 1, 2012, and as such, the fair market value for the embedded derivative was zero as of December 31, 2008. For additional information related to the Credit Facilities, see Note 6. Long-Term Debt of the Notes and *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources 2007 Recapitalization*.

Foreign Currency Exchange Rate Risk

We have investments in energy projects in various foreign countries, including the Philippines, China, India and Bangladesh, and to a much lesser degree, United Kingdom, Ireland, Italy and Costa Rica. We do not enter into currency transactions to hedge our exposure to fluctuations in currency exchange rates. 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, 2008, we had $52.0 million of project debt related to two heavy fuel-oil projects in India. For $46.2 million of the debt (related to project entities whose functional currency is the Indian rupee), exchange rate fluctuations were recorded as translation adjustments in other comprehensive income within stockholders equity in our consolidated balance sheets. The remaining $5.8 million of debt was denominated in U.S. dollars.

The potential loss in fair value for such financial instruments from a 10% adverse change in December 31, 2008 quoted foreign currency exchange rates would be approximately $4.6 million, pre-tax.

As of December 31, 2008, we also had net investments in foreign subsidiaries and projects. See Note 8. Equity Method Investments of the Notes 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 subsidiary 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.

Table of Contents

Fixed Maturities

With respect to our insurance business, interest rate risk is the price sensitivity of fixed maturities to changes in interest rate. 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 subsidiary 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 1.6 years as of December 31, 2008 and 2007. We believe that the portfolio duration is appropriate given the relative short-tail nature of the auto 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 1.7% decrease in the fair value of the portfolio while a hypothetical 100 basis point decrease would cause an approximate 1.3% 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 $4.2 million and $5.7 million of mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) as of December 31, 2008 and 2007, respectively. All MBS held by our insurance subsidiary were issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), which are both 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. In 2008, our insurance subsidiary recognized $0.02 million in gains on sales of fixed maturities.

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, 2008, equity securities represented 2.9% of our insurance company s total investment portfolio. During 2008, the insurance subsidiary permanently impaired 5 equity securities for a total of $0.16 million. The impaired equity securities were primarily in the financial services sector.

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

	Page
Report of Independent Public Accounting Firm	74
Consolidated Statements of Income for the Years Ended December 31, 2008, 2007 and 2006	75
Consolidated Balance Sheets as of December 31, 2008 and 2007	76
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006	77
Statements of Stockholders Equity for the Years Ended December 31, 2008, 2007 and 2006	78
Notes to Consolidated Financial Statements	79
Note 1. Organization and Summary of Significant Accounting Policies	79
Note 2. Recent Accounting Pronouncements	86
Note 3. Acquisitions, Business Development and Dispositions	87
Note 4. Earnings Per Share and Stockholders Equity	91
Note 5. Financial Information by Business Segments	93
Note 6. Long-Term Debt	94
Note 7. Project Debt	99
Note 8. Equity Method Investments	100
Note 9. Income Taxes	101
Note 10. Amortization of Waste, Service and Energy Contracts	106
Note 11. Other Intangible Assets and Goodwill	107
Note 12. Supplementary Financial Information	108
Note 13. Investments	110
Note 14. Property, Plant and Equipment, net	113
Note 15. Leases	113
Note 16. Employee Benefit Plans	114
Note 17. Stock-Based Award Plans	118
Note 18. Accumulated Other Comprehensive (Loss) Income	122
Note 19. Financial Instruments	122
Note 20. Related-Party Transactions	124
Note 21. Commitments and Contingencies	124
Note 22. Quarterly Data (Unaudited)	127
Financial Statement Schedule:	
Schedule II Valuation and Qualifying Accounts	128

Table of Contents

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, 2008 and 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, 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.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes.

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, 2008, 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 25, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey
February 25, 2009

Table of Contents

COVANTA HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2008	**2007**	**2006**
	(In thousands, except per share amounts)		
OPERATING REVENUES:			
Waste and service revenues	$ 934,527	$ 864,396	$ 817,633
Electricity and steam sales	660,616	498,877	433,834
Other operating revenues	69,110	69,814	17,069
Total operating revenues	1,664,253	1,433,087	1,268,536
OPERATING EXPENSES:			
Plant operating expenses	999,674	801,560	712,156
Depreciation and amortization expense	199,488	196,970	193,217
Net interest expense on project debt	53,734	54,579	60,210
General and administrative expenses	97,016	82,729	73,599
Insurance recoveries, net of write-down of assets	(8,325)		
Other operating expenses	66,701	60,639	2,594
Total operating expenses	1,408,288	1,196,477	1,041,776
Operating income	255,965	236,610	226,760
Other income (expense):			
Investment income	5,717	10,578	11,770
Interest expense	(46,804)	(67,104)	(109,507)
Loss on extinguishment of debt		(32,071)	(6,795)
Total other expenses	(41,087)	(88,597)	(104,532)
Income before income tax expense, minority interests and equity in net income from unconsolidated investments	214,878	148,013	122,228
Income tax expense	(92,227)	(31,040)	(38,465)
Minority interests	(6,961)	(8,656)	(6,610)
Equity in net income from unconsolidated investments	23,583	22,196	28,636
NET INCOME	$ 139,273	$ 130,513	$ 105,789
Weighted Average Common Shares Outstanding:			
Basic	153,345	152,653	145,663
Diluted	154,732	153,997	147,030

Earnings Per Share:			
Basic	$ 0.91	$ 0.85	$ 0.73
Diluted	$ 0.90	$ 0.85	$ 0.72

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

Table of Contents

COVANTA HOLDING CORPORATION
CONSOLIDATED BALANCE SHEETS

	As of December 31, 2008	2007
	(In thousands, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$ 192,393	$ 149,406
Marketable securities available for sale	300	2,495
Restricted funds held in trust	175,093	187,951
Receivables (less allowances of $3,437 and $4,353)	243,791	252,114
Unbilled service receivables	49,468	59,232
Deferred income taxes		29,873
Prepaid expenses and other current assets	123,214	113,927
Total Current Assets	784,259	794,998
Property, plant and equipment, net	2,530,035	2,620,507
Investments in fixed maturities at market (cost: $26,620 and $26,338, respectively)	26,737	26,260
Restricted funds held in trust	149,818	191,913
Unbilled service receivables	44,298	56,685
Waste, service and energy contracts, net	223,397	268,353
Other intangible assets, net	83,331	88,954
Goodwill	195,617	127,027
Investments in investees and joint ventures	102,953	81,248
Other assets	139,544	112,554
Total Assets	$ 4,279,989	$ 4,368,499
LIABILITIES AND STOCKHOLDERS EQUITY		
Current:		
Current portion of long-term debt	$ 6,922	$ 6,898
Current portion of project debt	198,034	195,625
Accounts payable	24,470	29,916
Deferred revenue	15,202	25,114
Accrued expenses and other current liabilities	215,046	234,000
Total Current Liabilities	459,674	491,553
Long-term debt	1,005,965	1,012,534
Project debt	880,336	1,084,650
Deferred income taxes	466,468	440,723
Waste and service contracts	114,532	130,464
Other liabilities	165,881	141,740

Total Liabilities	3,092,856	3,301,664
Commitments and Contingencies (Note 21)		
Minority Interests	35,014	40,773
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 154,797 and 154,281 shares; outstanding 154,280 and 153,922 shares)	15,480	15,428
Additional paid-in capital	776,544	765,287
Accumulated other comprehensive (loss) income	(8,205)	16,304
Accumulated earnings	368,352	229,079
Treasury stock, at par	(52)	(36)
Total Stockholders Equity	1,152,119	1,026,062
Total Liabilities and Stockholders Equity	$ 4,279,989	$ 4,368,499

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

Table of Contents

COVANTA HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
OPERATING ACTIVITIES:			
Net income	$ 139,273	$ 130,513	$ 105,789
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	199,488	196,970	193,217
Revenue contract levelization	(586)	(555)	3,419
Amortization of long-term debt deferred financing costs	3,684	3,841	3,858
Amortization of debt premium and discount	(10,707)	(14,857)	(22,506)
Loss on extinguishment of debt		32,071	6,795
Provision for doubtful accounts	1,839	1,184	2,251
Stock-based compensation expense	14,750	13,448	6,887
Equity in net income from unconsolidated investments	(23,583)	(22,196)	(28,636)
Dividends from unconsolidated investments	19,459	24,250	19,375
Minority interests	6,961	8,656	6,610
Deferred income taxes	70,826	5,869	20,908
Other, net	3,809	(1,801)	6,872
Change in restricted funds held in trust	29,481	5,493	7,790
Change in operating assets and liabilities, net of effects of acquisitions:			
Receivables	4,138	(36,084)	(8,577)
Unbilled service receivables	14,020	19,403	17,294
Accounts payable and accrued expenses	(38,450)	22,880	2,351
Unpaid losses and loss adjustment expenses	(3,235)	(4,984)	(8,848)
Other, net	(28,560)	(20,510)	(15,860)
Net cash provided by operating activities	402,607	363,591	318,989
INVESTING ACTIVITIES:			
Acquisition of businesses, net of cash acquired	(73,393)	(110,465)	
Proceeds from the sale of investment securities	20,295	15,057	10,615
Purchase of investment securities	(18,577)	(622)	(774)
Acquisition of non-controlling interest in subsidiary			(27,500)
Purchase of equity interest	(18,503)	(11,199)	
Purchase of property, plant and equipment	(87,920)	(85,748)	(54,267)
Property insurance proceeds	16,215	9,441	
Acquisition of land use rights	(16,727)		
Loans issued to client community to fund certain facility improvements	(8,233)		
Other, net	(2,465)	3,626	5,022

Net cash used in investing activities	(189,308)	(179,910)	(66,904)
FINANCING ACTIVITIES:			
Proceeds from the issuance of common stock, net		135,757	
Proceeds from rights offerings, net			20,498
Proceeds from the exercise of options for common stock, net	262	812	1,126
Proceeds from borrowings on long-term debt		949,907	97,619
Financings of insurance premiums, net	1,381	7,927	
Proceeds from borrowings on project debt	8,278	3,506	6,868
Proceeds from borrowings on revolving credit facility		30,000	
Principal payments on long-term debt	(6,877)	(1,181,130)	(140,638)
Principal payments on project debt	(187,800)	(164,167)	(151,095)
Payments of borrowings on revolving credit facility		(30,000)	
Payments of long-term debt deferred financing costs		(18,324)	(2,129)
Payments of tender premiums on debt extinguishment		(33,016)	(1,952)
Increase in holding company restricted funds		6,660	
Decrease in restricted funds held in trust	21,575	31,432	31,583
Distributions to minority partners	(7,061)	(7,699)	(9,263)
Other, net			(37)
Net cash used in financing activities	(170,242)	(268,335)	(147,420)
Effect of exchange rate changes on cash and cash equivalents	(70)	618	221
Net increase (decrease) in cash and cash equivalents	42,987	(84,036)	104,886
Cash and cash equivalents at beginning of period	149,406	233,442	128,556
Cash and cash equivalents at end of period	$ 192,393	$ 149,406	$ 233,442
Cash Paid for Interest and Income Taxes:			
Interest	$ 114,207	$ 146,677	$ 205,807
Income taxes	$ 22,979	$ 24,122	$ 17,398

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

Table of Contents

COVANTA HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-In	Unearned	Accumulated Other Comprehensive (Loss)	Accumulated Earnings	Treasury Stock		
	Shares	Amount	Compensation	Compensation	Income	(Deficit)	Shares	Amount	Total
					(In thousands)				
Balance as of December 31, 2005	141,246	$ 14,125	$ 594,186	$ (4,583)	$ 535	$ (5,014)	80	$ (8)	$ 599,241
Reclass of unearned compensation upon adoption of SFAS 123R			(4,583)	4,583					
Shares issued in rights offering	5,697	570	19,928						20,498
Stock-based compensation expense			6,887						6,887
Tax benefit related to exercise of stock options and vesting of restricted stock			2,242						2,242
Shares forfeited or terminated employees			(30)				77	(8)	(38)
Exercise of options to purchase common stock	178	18	1,108						1,126
Shares issued in non-vested stock award	536	53	(53)						
Comprehensive income, net of income taxes:									
Net income						105,789			105,789
Foreign currency translation					986				986
Minimum pension liability adjustment					100				100

Net unrealized gain on available-for-sale securities				559				559
Net unrealized gain on derivative instruments				112				112
Total comprehensive income				1,757	105,789			107,546
Adjustment for unrecognized net gain upon adoption of SFAS 158				1,650				1,650
Balance as of December 31, 2006	147,657	14,766	619,685	3,942	100,775	157	(16)	739,152
Shares issued in equity offering, net of costs	6,118	612	135,143					135,755
Stock-based compensation expense			13,448					13,448
Effect of FIN 48 adoption					(2,209)			(2,209)
Tax benefit related to exercise of stock options and vesting of restricted stock			200					200
Shares forfeited or terminated employees			3			27	(3)	
Shares repurchased for tax withholdings for vested stock awards			(3,954)			175	(17)	(3,971)
Exercise of options to purchase common stock	113	11	801					812
Shares issued in non-vested stock award	393	39	(39)					
Comprehensive income, net of								

Income taxes:								
Net income					130,513			130,513
Foreign currency translation				4,388				4,388
SFAS 158 unrecognized net gain				9,446				9,446
Minimum pension liability adjustment				(59)				(59)
Net unrealized gain on available-for-sale securities				712				712
Net unrealized gain on derivative instruments				(2,125)				(2,125)
Total comprehensive income				12,362	130,513			142,875
Balance as of December 31, 2007	154,281	15,428	765,287	16,304	229,079	359	(36)	1,026,062
Stock-based compensation expense			14,750					14,750
Shares forfeited or terminated employees			2			21	(2)	
Shares repurchased for tax withholdings for vested stock awards			(3,705)			137	(14)	(3,719)
Exercise of options to purchase common stock	22	2	260					262
Shares issued in non-vested stock award	494	50	(50)					
Comprehensive income, net of income taxes:								
Net income					139,273			139,273
Foreign currency translation				(10,481)				(10,481)
SFAS 158 unrecognized net				(13,218)				(13,218)

oss									
Minimum									
ension liability									
djustment				(403)					(403)
Net unrealized									
oss on									
vailable-for-sale									
ecurities				(407)					(407)
Total									
omprehensive									
oss				(24,509)	139,273				114,764
Balance as of									
December 31,									
2008	154,797	$ 15,480	$ 776,544	$	$ (8,205)	$ 368,352	517	$ (52)	$ 1,152,119

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

Table of Contents

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 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 are organized as a holding company which was incorporated in Delaware on April 16, 1992. Our predominant business is the waste and energy services business. We also have investments in subsidiaries engaged in insurance operations in California primarily in property and casualty insurance.

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.

Summary of Significant Accounting Policies

Principles of Consolidation

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

Equity Method of 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.

Revenues

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 on 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

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

are discounted in recognizing 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 sold.

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 Emerging Issues Task Force (EITF) No. 91-6, Revenue Recognition of Long-Term Power Sales Contracts and EITF No. 96-17, Revenue Recognition under Long-Term Power Sales Contracts That Contain both Fixed and Variable Pricing Terms 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 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. Contracts to manage, supervise, or coordinate the construction activity of others are recognized using the percentage-of-completion method, measured by the efforts-expended method. Under this method revenue is earned based on the ratio of hours incurred to the total estimated hours required by the contract. We consider measuring the work on labor hours 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.

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, 2008, 2007 and 2006 were $70.2 million, $63.5 million, and $59.3 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

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

During the periods covered by the consolidated financial statements, we filed a consolidated Federal income tax return, which included 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. Our federal consolidated income tax return also includes the taxable results of certain grantor trusts, which are excluded from our consolidated financial statements.

We adopted and apply the permanent reinvestment exception under Accounting Principles Board (APB) Opinion No. 23, Accounting for Income Taxes Special Areas (APB 23) in 2006 and Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, (FIN 48) in 2007. For additional information related to the impact of applying these provisions, see Note 9. Income Taxes.

Stock-Based Compensation

Stock-based compensation is accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payments (SFAS 123R). SFAS 123R focuses primarily on accounting for share-based awards to employees in exchange for services, and it 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 17. 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

Effective January 1, 2008, we adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159), but did not elect to apply the fair value option to any of our eligible financial assets and liabilities.

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

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 stockholders 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. For additional information, see Note 13. Investments.

Other than temporary declines in fair value are recorded as realized losses in the consolidated statements of income and the cost basis of the security is 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;

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 United States Treasury bills and notes and United States government agency securities. Restricted fund balances are as follows (in thousands):

	As of December 31,			
	2008		2007	
	Current	Noncurrent	Current	Noncurrent
Debt service funds	$ 103,371	$ 97,761	$ 111,193	$ 142,098
Revenue funds	25,105		22,253	
Other funds	46,617	52,057	54,505	49,815
Total	$ 175,093	$ 149,818	$ 187,951	$ 191,913

Restricted Funds for Emergence Costs

As of December 31, 2008 and 2007, we had $20.4 million and $20.0 million, respectively, in cash held in restricted accounts to pay for certain taxes which may be due relating to Covanta Energy s bankruptcy, which occurred prior to its acquisition by us, and that are estimated to be paid in the future. Cash held in such restricted accounts is not available for general corporate purposes.

Deferred Financing Costs

As of December 31, 2008 and 2007, we had $13.7 million and $17.7 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 was to be outstanding. See Note 6. Long-Term Debt 2007 Recapitalization.

Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	As of December 31,			
	2008		2007	
	Current	Noncurrent	Current	Noncurrent
Advance billings to municipalities	$ 8,333	$	$ 11,610	$
Unearned insurance premiums	1,587		896	
Other	5,282	4,345	12,608	4,931
Total	$ 15,202	$ 4,345	$ 25,114	$ 4,931

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. Noncurrent deferred revenue relates to electricity contract levelization and is included in other noncurrent liabilities in the consolidated balance sheets.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment

Property, plant, and equipment acquired from 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 37 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 sheet and any gain or loss is reflected in the consolidated statements of income.

Asset Retirement Obligations

In accordance with SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143), we recognize a legal liability for asset retirement obligations when it is incurred generally upon acquisition, construction, or development. Our legal 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 thousands):

	As of December 31,	
	2008	**2007**
Beginning of period asset retirement obligation	$ 25,520	$ 26,517
Accretion expense	1,998	2,091
Deductions(1)	(1,565)	(5,290)
Additions(2)	1,576	2,202
End of period asset retirement obligation	$ 27,529	$ 25,520
Less: current portion	(1,618)	(964)
Asset retirement obligation	$ 25,911	$ 24,556

(1)

Deductions in 2008 and 2007 related to expenditures and settlements of the asset retirement obligation liability and net revisions based on current estimates of the liability and revised expected cash flows and life of the liability.

(2) Additions in 2008 related primarily to purchase price allocations for asset retirement obligations for the ash landfill acquired in Massachusetts in 2008, offset by purchase price allocation adjustments for the two biomass energy facilities acquired in California in 2007. Additions in 2007 related primarily to purchase price allocations for asset retirement obligations for the two biomass energy facilities acquired in California in 2007. See Note 3. Acquisitions, Business Development and Dispositions.

Waste, Service and Energy Contracts

The vast majority of our waste, service and energy contracts were valued in March 2004 and June 2005 related to the acquisitions of Covanta Energy and Covanta ARC Holdings, Inc. (ARC Holdings), respectively. Intangible assets and liabilities, as well as lease interest, renewable energy credits and other indefinite-lived assets, are

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recorded at their estimated fair market values based upon discounted cash flows in accordance with SFAS No. 141, Business Combinations (SFAS 141).

Amortization for the above market waste, service and energy contracts and below market waste and energy contracts was calculated using the straight-line method. The remaining weighted-average contract life is approximately 9 years for both the above market waste, service and energy contracts and below market waste and energy contracts. See Note 10. Amortization of Waste, Service and Energy Contracts.

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 SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). 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. If the carrying value of the reporting unit exceeds the fair value of that reporting unit, then the reporting unit s carrying value of goodwill is compared to its implied value of goodwill. If the carrying value of the reporting unit s goodwill exceeds the implied value of goodwill, this difference will be recorded as an adjustment to the goodwill balance, resulting in an impairment charge. The fair value was determined using a discounted cash flow approach based on forward-looking information regarding market share and costs for each reporting unit as well as an appropriate discount rate. For indefinite-lived intangible assets, the evaluation requires a comparison of the estimated fair value of the asset, which is generally estimated using a discounted future net cash flow projection, to the carrying value of the asset. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, as generally estimated using a discounted future net cash flow projection, then the carrying value of the asset is reduced to its fair 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 its carrying value may not be recoverable over their estimated useful life in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In reviewing for impairment, we compare the carrying value of the relevant assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the asset s fair value and its carrying value. To determine fair value, we principally use internal discounted cash flow estimates, but also use quoted market prices when available and independent appraisals as appropriate to determine fair value. Cash flow estimates are derived from historical experience and internal business plans with an appropriate discount rate applied.

Accumulated Other Comprehensive Income

AOCI, in the statement of stockholders 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 classified as available-for-sale, and net unrealized gains and losses on interest rate swaps.

Interest Rate Swap Agreements

We used derivative financial instruments to manage risk from changes in interest rates pursuant to the requirements under one of our debt agreement in existence as of December 31, 2006. We recognize derivative instruments on the balance sheet at their fair value. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a cash flow hedge are included in the consolidated statements of stockholders equity as a component of AOCI until the hedged cash flows impact earnings. Any hedge ineffectiveness is included in current-period earnings. For additional information regarding derivative financial instruments, see Note 19. Financial Instruments.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 stockholders 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 SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment to FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158), 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 16. 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. The following table summarizes the activity in the insurance subsidiaries liability for unpaid losses and LAE (in thousands):

	As of December 31,		
	2008	**2007**	**2006**
Net unpaid losses and LAE at beginning of year	$ 22,400	$ 25,712	$ 32,082
Incurred, net, related to:			
Current year	7,272	6,398	7,579
Prior years	1,818	1,492	297
Total net incurred	9,090	7,890	7,876
Paid, net, related to:			
Current year	(4,361)	(3,905)	(4,085)
Prior years	(6,982)	(7,357)	(10,221)
Total net paid	(11,343)	(11,262)	(14,306)
Plus: Increase in allowance for reinsurance recoverable on unpaid losses	60	60	60
Net unpaid losses and LAE at end of year	20,207	22,400	25,712

Plus: Reinsurance recoverable on unpaid losses	9,155	10,036	12,308
Gross unpaid losses and LAE at end of year	$ 29,362	$ 32,436	$ 38,020

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, unbilled service receivables, stock-based compensation, purchase accounting allocations, cash flows and taxable income from future operations, unpaid losses and LAE, allowances for uncollectible receivables, and liabilities related to pension obligations, and for workers compensation, severance and certain litigation.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications

Certain prior period amounts have been reclassified in the financial statements to conform to the current period presentation.

During the first quarter of 2008, we revised our presentation of the condensed consolidated statements of cash flows to present changes in restricted funds held in trust relating to operating activities as a component of cash flow from operating activities and changes in restricted funds held in trust relating to financing activities (debt principal related) as a component of cash flow from financing activities; previously we included all changes in restricted funds held in trust as a component of cash flow from financing activities. For the years ended December 31, 2007 and 2006, we have reclassified approximately $5.5 million and $7.8 million, respectively, as a component of cash flow from operating activities in order to conform to the current period presentation on the consolidated statements of cash flows.

Note 2. Recent Accounting Pronouncements

In June 2008, the FASB issued FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). The FSP, which is effective for us on January 1, 2009, addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings per Share* . The restricted stock awards granted under our Equity Award Plans are not participating securities. The adoption of FSP EITF 03-6-1 will not have any impact on our consolidated financial statements.

In May 2008, the FASB issued 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). The FSP requires the issuer of convertible debt instruments with cash settlement features to separately account for the liability and equity components of the instrument. The debt component should be recognized at the present value of its cash flows discounted using the issuer s nonconvertible debt borrowing rate. The equity component should be recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability, net of deferred taxes. FSP APB 14-1 also requires an accretion of the resultant debt discount over the expected life of the debt. FSP APB 14-1, effective for us on January 1, 2009 for our 1.00% Senior Convertible Debentures (Debentures), requires retrospective application for all periods presented, and does not grandfather existing instruments. We estimate that the pre-tax increase in non-cash interest expense to be recognized on our consolidated statements of income using a 7.25% discount rate, our nonconvertible debt borrowing rate at the date of the bond s issuance, would be as follows (in millions):

	2007	2008	2009	2010	2011	2012-2027	Total
Pre-tax increase in non-cash interest expense	$ 5.2	$ 6.1	$ 6.5	$ 7.0	$ 7.6	$ 213.9	$ 246.3

In April 2008, the FASB issued FSP FASB No. 142-3, Determining the Useful Life of Intangible Assets, (FSP FASB 142-3) which amends the factors that should be considered in developing renewal or extension assumptions used to

determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), Business Combinations , and other U.S. generally accepted accounting principles (GAAP). This FSP permits us to use our own assumptions about whether a renewal or extension of a lease or service agreement in a business combination will occur. If we expect a renewal or extension, costs expected for the renewal or extension can be considered part of the cost of the asset and the life of the asset will include the renewal or extension period. FSP FASB 142-3 is effective for us on January 1, 2009. We do not expect the adoption of FSP FASB 142-3 to have a material impact on our existing intangible assets.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects on an entity s financial position, financial performance, and cash flows. SFAS 161 was effective for us on January 1, 2009. We do not expect the adoption of SFAS 161 to result in additional financial reporting disclosures.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting for the noncontrolling (minority) interests in a subsidiary and the deconsolidation of a subsidiary. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 was effective for us on January 1, 2009. We do not expect the adoption of SFAS 160 to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for the acquiring entity in a business combination to: recognize and measure the assets acquired and liabilities assumed in the transaction including any noncontrolling interest of the acquired entity; recognize and measure any goodwill acquired or gain resulting from a bargain purchase; establish the acquisition-date fair value as the measurement objective; and disclose to investors and other users of financial statements all of the information they need to evaluate and understand the nature and financial effect of the business combination. Other significant changes include: expensing of direct transaction costs as incurred; capitalizing in-process research and development costs; and recording a liability for contingent consideration at the measurement date with subsequent remeasurement recognized in the results of operations. SFAS 141R also requires that any costs for business restructuring and exit activities related to the acquired company will be included in the post-combination results of operations. SFAS 141R also requires that any tax adjustments for business combinations previously recorded under SFAS 141 be recognized in the results of operations. SFAS 141R was effective for us on January 1, 2009 and may have a material impact on our consolidated financial statements, depending on the specific business combination transaction.

Note 3. Acquisitions, Business Development and Dispositions

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

We allocate acquisition purchase prices to identified intangibles assets and tangible assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition, with any residual amounts allocated to goodwill, in accordance with SFAS 141, which is effective through December 31, 2008. Effective January 1, 2009, all business combinations will be accounted for in accordance with SFAS 141R. See Note 2. Recent Accounting Pronouncements.

Acquisitions and Business Development

Domestic

Maine Biomass Energy Facilities

On December 22, 2008, we acquired Indeck Maine, LLC from co-owners Ridgewood Maine, L.L.C. and Indeck Energy Services, Inc. Indeck Maine, LLC owned and operated two biomass energy facilities. The two nearly

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

identical facilities, located in West Enfield and Jonesboro, Maine, added a total of 49 gross megawatts (MW) to our renewable energy portfolio. We have begun to sell the electric output and intend to sell renewable energy credits from these facilities into the New England market. We acquired these two facilities for cash consideration of approximately $53.3 million, net of cash acquired, subject to final working capital adjustments. The preliminary purchase price allocation, which includes no goodwill, is based on estimates and assumptions, any changes to which could affect the reported amounts of assets, liabilities and expenses resulting from this acquisition.

Wallingford, Connecticut Energy-from-Waste Facility

On December 17, 2008, we entered into new tip fee contracts which will supply waste to the Wallingford, Connecticut facility, following the expiration of the existing service fee contract in 2010. These contracts in total are expected to supply waste utilizing most or all of the facility s capacity through 2020.

Kent County, Michigan Energy-from-Waste Facility

On December 4, 2008, we entered into a new tip fee contract with Kent County in Michigan which commenced on January 1, 2009 and extended the existing contract from 2010 to 2023. This contract is expected to supply waste utilizing most or all of the facility s capacity. Previously this was a service fee contract.

Pasco County, Florida Energy-from-Waste Facility

On September 23, 2008, we entered into a new service fee contract with the Pasco County Commission in Florida which commenced on January 1, 2009 and extended the existing contract from 2011 to 2016.

Indianapolis Energy-from-Waste Facility

On July 25, 2008, we entered into a new tip fee contract with the City of Indianapolis for a term of 10 years which commenced upon expiration of the existing service fee contract in December 2008. This contract represents approximately 50% of the facility s capacity.

Tulsa Energy-from-Waste Facility

On June 2, 2008, we acquired an energy-from-waste facility in Tulsa, Oklahoma from The CIT Group/Equipment Financing, Inc. for cash consideration of approximately $12.7 million. The design capacity of the facility is 1,125 tons per day (tpd) of waste and gross electric capacity of 16.5 MW. This facility was shut down by the prior owner in the summer of 2007 and we returned two of the facility s three boilers to service in November 2008, and plan to return its third boiler to service during 2009. During the year ended December 31, 2008, we have invested approximately $4.9 million in capital improvements to restore the operational performance of the facility.

Peabody Landfill

On May 20, 2008, we acquired a landfill for the disposal of ash in Peabody, Massachusetts from Peabody Monofill Associates, Inc. and others for cash consideration of approximately $7.4 million.

Alternative Energy Technology Development

We have entered into various agreements with multiple partners to invest in the development, testing or licensing of new technologies related to the transformation of waste materials into renewable fuels or the generation of energy. Initial licensing fees and demonstration unit purchases approximated $6.5 million during the year ended December 31, 2008.

Harrisburg Energy-from-Waste Facility

In February 2008, we entered into a ten year agreement to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania. Under the agreement, we have a right of first refusal to purchase the facility. We also have agreed to provide construction management services and to advance up to $25.5 million in funding for certain facility improvements required to enhance facility performance, the repayment of which is

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

guaranteed by the City of Harrisburg. As of December 31, 2008, we have advanced $8.2 million under this funding arrangement. The facility improvements are expected to be completed by mid 2009.

Lee County Energy-from-Waste Facility

In December 2007, we completed the expansion and commenced the operation of the expanded energy-from-waste facility located in and owned by Lee County in Florida. We expanded waste processing capacity from 1,200 tpd to 1,836 tpd and increased gross electricity capacity from 36.9 MW to 57.3 MW. As part of the agreement to implement this expansion, we received a long-term operating contract extension expiring in 2024.

Pacific Ultrapower Chinese Station, California

On October 18, 2007, we acquired an additional 5% ownership interest in our subsidiary Pacific Ultrapower Chinese Station, a biomass energy facility located in California, for less than $1 million in cash, increasing our ownership interest to a majority interest of 55%. Although we have acquired majority interest, we do not have the ability to exercise control over the operating and financial policies of the investee and therefore, we continue to account for this investment under the equity method.

Massachusetts Energy-from-Waste Facilities and Transfer Stations

On October 1, 2007, we acquired the operating businesses of EnergyAnswers Corporation for cash consideration of approximately $41 million. We also assumed net debt of $21 million ($23 million of consolidated indebtedness net of $2 million of restricted funds held in trust). These businesses include a 400 tpd energy-from-waste facility in Springfield, Massachusetts and a 240 tpd energy-from-waste facility in Pittsfield, Massachusetts. Approximately 75% of waste revenues are contracted for these facilities. We subsequently sold certain assets acquired in this transaction for a total consideration of $5.8 million during the fourth quarter of 2007 and the first quarter of 2008. The purchase price allocation included $9.6 million of goodwill.

Westchester Transfer Stations

On October 1, 2007, we acquired two waste transfer stations in Westchester County, New York from Regus Industries, LLC for cash consideration of approximately $7.3 million. The purchase price allocation included $1.5 million of goodwill.

California Biomass Energy Facilities

On July 16, 2007, we acquired Central Valley Biomass Holdings, LLC (Central Valley) from The AES Corporation. Under the terms of the purchase agreement, we paid cash consideration of $51 million plus approximately $5 million in cash related to post-closing adjustments and transaction costs. Central Valley owns two biomass energy facilities and a biomass energy fuel management business, which are all located in California. In addition, we invested approximately $8 million prior to December 31, 2007, and approximately $11 million during the year ended December 31, 2008 in capital improvements to significantly increase the facilities productivity and improve environmental performance. As of September 30, 2008, these capital improvements have been completed. The purchase price allocation included $23.2 million of goodwill.

Holliston Transfer Station

On April 30, 2007, we acquired a waste transfer station in Holliston, Massachusetts from Casella Waste Systems Inc. for cash consideration of approximately $7.5 million. In addition, we invested approximately $4.2 million prior to December 31, 2007 and approximately $1.0 million during the year ended December 31, 2008 in capital improvements to enhance the environmental and operational performance of the transfer station.

Hempstead Energy-from-Waste Facility

We entered into a new tip fee contract with the Town of Hempstead in New York for a term of 25 years commencing upon expiration of the existing contract in August 2009. This contract provides approximately 50% of

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the facility s capacity. We also entered into new tip fee contracts with other customers that expire between February 2011 and December 2014. These contracts provide an additional 40% of the facility s capacity.

Hillsborough County Energy-from-Waste Facility

We designed, constructed, and now operate and maintain the 1,200 tpd mass-burn energy-from-waste facility located in and owned by Hillsborough County in Florida. Due to the growth in the amount of municipal solid waste generated in Hillsborough County, Hillsborough County informed us of its desire to expand the facility s waste processing and electricity generation capacities. In August 2005, we entered into agreements with Hillsborough County to implement this expansion, and to extend the agreement under which we operate the facility through 2027. Environmental and other project related permits have been secured and the expansion construction commenced on December 29, 2006. Completion of the expansion, and commencement of the operation of the expanded project, is expected in 2009.

Covanta Onondaga Limited Partnership

On December 27, 2006, for cash consideration of $27.5 million, we acquired the limited partnership interests held by unaffiliated entities in Covanta Onondaga Limited Partnership, our subsidiary which owns and operates an energy-from-waste facility in Onondaga County, New York.

International

China Joint Ventures

On April 2, 2008, our project joint venture with Chongqing Iron & Steel Company (Group) Limited received an award to build, own, and operate an 1,800 tpd energy-from-waste facility for Chengdu Municipality, in Sichuan Province, People s Republic of China. On June 25, 2008, the project s 25 year waste concession agreement was executed. In connection with this project, we invested $17.1 million for a 49% equity interest in the project joint venture company. The Chengdu project is expected to commence construction in early 2009, and commence operations in 2011.

In December 2007, we entered into a joint venture with Guangzhou Development Power Investment Co., Ltd. through which we intend to develop energy-from-waste projects in Guangdong Province, People s Republic of China. We hold a 40% equity interest in the joint venture entity, Guangzhou Development Covanta Environmental Energy Co., Ltd (GDC Environmental Energy), and on June 6, 2008, we invested $1.5 million in the joint venture.

On April 25, 2007, we purchased a 40% equity interest in Chongqing Sanfeng Environmental Industry Co., Ltd. (Sanfeng), a company located in Chongqing Municipality, People s Republic of China. The company, which was renamed Chongqing Sanfeng Covanta Environmental Industry Co., Ltd., owns minority equity interests in two 1,200 metric tpd 24 MW mass-burn energy-from-waste projects (Fuzhou project and Tongqing project). We made an initial cash payment of approximately $10 million in connection with our investment in Sanfeng. In December 2008, we entered into an agreement with Beijing Baoluo Investment Co., Ltd. to purchase a direct 58% equity interest in the Fuzhou project for approximately $14 million. This purchase is conditional upon various regulatory and other conditions precedent and is expected to close in early 2009.

Dublin Joint Venture

On September 6, 2007, we entered into definitive agreements to build, own, and operate a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities. The Dublin project is being developed and will be owned by Dublin Waste to Energy Limited, which we control and co-own with DONG Energy Generation A/S. Project construction, which is expected to start in mid 2009, is estimated to cost approximately 350 million euros and is expected to require 36 months to complete, once full construction commences. Dublin Waste to Energy Limited has a 25-year tip fee type contract to provide disposal service for approximately 320,000 metric tons of waste annually. The project is expected to sell electricity into the local electricity grid under short-term arrangements. We and DONG Energy Generation A/S have committed to provide

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

financing for all phases of the project, and we expect to arrange for project financing. The primary approvals and licenses for the project have been obtained, and any remaining consents and approvals necessary to begin full construction are expected to be obtained in due course. We have begun to perform preliminary site demolition work and expect to commence full construction during the second quarter of 2009.

Dispositions

On September 13, 2007, we completed the sale of the Linan coal facility in China for $2.3 million and recorded a pre-tax gain of approximately $1.7 million in other operating income in our consolidated statements of income.

On June 10, 2006, we completed the sale of the Huantai coal facility in China for $3.6 million and recorded a pre-tax gain of approximately $1.2 million in other operating income in our consolidated statements of income.

Note 4. Earnings Per Share and Stockholders 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, and rights whether or not currently exercisable. Diluted earnings per share for all the periods presented does not include securities if their effect was anti-dilutive (in thousands, except per share amounts).

	For the Years Ended December 31,		
	2008	2007	2006
Net income	$ 139,273	$ 130,513	$ 105,789
Basic earnings per share:			
Weighted average basic common shares outstanding	153,345	152,653	145,663
Basic earnings per share	$ 0.91	$ 0.85	$ 0.73
Diluted earnings per share:			
Weighted average basic common shares outstanding	153,345	152,653	145,663
Dilutive effect of stock options	649	620	557
Dilutive effect of restricted stock	738	724	402
Dilutive effect of rights			408
Dilutive effect of convertible debentures			
Weighted average diluted common shares outstanding	154,732	153,997	147,030
Diluted earnings per share	$ 0.90	$ 0.85	$ 0.72

Stock options excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive	1,983	1,745	50
Restricted stock awards excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive			

On January 31, 2007, we issued 1.00% Senior Convertible Debentures, due 2027, which are convertible under certain circumstances if the closing sale price of our common stock exceeds a specified conversion price before February 1, 2025. As of December 31, 2008, the Debentures did not have a dilutive effect on earnings per share. See Note 6. Long-Term Debt for a description of the Debentures.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stockholders Equity

On September 22, 2008, we announced that our Board of Directors authorized the purchase of up to $30 million of our common stock in order to respond opportunistically to volatile market conditions. The share repurchases, if any, may take place from time to time based on market conditions and other factors. The authorization is expected to continue only for so long as recent volatile market conditions persist. During the year ended December 31, 2008, we did not repurchase shares of our common stock under this program.

During the year ended December 31, 2008 and 2007, we repurchased 137,015 shares and 174,999 shares, respectively, of our common stock in connection with tax withholdings for vested stock awards.

As of December 31, 2008, there were 154,796,601 shares of common stock issued of which 154,279,306 were outstanding; the remaining 517,295 shares of common stock issued but not outstanding were held as treasury stock as of December 31, 2008.

The following represents shares of common stock reserved for future issuance:

	As of December 31, 2008
Shares available for issuance under equity plans	9,907,333

As of December 31, 2008, there were 10,000,000 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.

During the year ended December 31, 2008, we granted 494,105 restricted stock awards and 250,000 options to purchase our common stock. For information related to stock-based award plans, see Note 17. Stock-Based Award Plans.

On January 31, 2007, we completed an underwritten public offering of 5.32 million shares of our common stock. Proceeds received in these offerings were approximately $136.6 million, net of underwriting discounts and commissions. Additional information is contained in Note 6. Long-Term Debt.

Effective January 1, 2007, we adopted the provisions of FIN 48. The impact of applying the provisions of this interpretation decreased our opening balance retained earnings by $2.2 million in 2007. See Note 9. Income Taxes for additional information.

On February 24, 2006, we completed a rights offering in which 5,696,911 shares were issued in consideration for $20.8 million in gross proceeds. See Note 20. Related-Party Transactions.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Financial Information by Business Segments

We have two reportable segments, Domestic and International, which are comprised of our domestic and international waste and energy services operations, respectively. The results of our reportable segments are as follows (in thousands):

	Reportable Segments			
	Domestic	International	All Other(1)	Total
Year Ended December 31, 2008:				
Operating revenues	$ 1,371,431	$ 279,966	$ 12,856	$ 1,664,253
Depreciation and amortization	190,659	8,751	78	199,488
Operating income (loss)	255,007	3,061	(2,103)	255,965
As of December 31, 2008:				
Total assets (includes goodwill of $195.6 million)	$ 3,975,740	$ 239,582	$ 64,667	$ 4,279,989
Capital additions	85,770	2,082	68	87,920
Year Ended December 31, 2007:				
Operating revenues	$ 1,245,617	$ 177,217	$ 10,253	$ 1,433,087
Depreciation and amortization	187,875	8,998	97	196,970
Operating income (loss)	220,092	20,183	(3,665)	236,610
As of December 31, 2007:				
Total assets (includes goodwill of $127.0 million)	$ 4,007,621	$ 257,481	$ 103,397	$ 4,368,499
Capital additions	84,983	528	237	85,748
Year Ended December 31, 2006:				
Operating revenues	$ 1,117,927	$ 136,868	$ 13,741	$ 1,268,536
Depreciation and amortization	184,921	8,193	103	193,217
Operating income	206,483	19,839	438	226,760
As of December 31, 2006:				
Total assets (includes goodwill of $91.3 million)	$ 4,097,310	$ 216,518	$ 123,992	$ 4,437,820
Capital additions	53,651	599	17	54,267

(1) All other is comprised of our insurance subsidiaries operations and the financial results of the holding company.

Our operations are principally in the United States. 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 thousands):

	United States	India	Other International	Total
Operating Revenues:				
Year Ended December 31, 2008	$ 1,384,287	$ 259,923	$ 20,043	$ 1,664,253
Year Ended December 31, 2007	$ 1,255,870	$ 157,405	$ 19,812	$ 1,433,087
Year Ended December 31, 2006	$ 1,131,667	$ 108,150	$ 28,719	$ 1,268,536
Total Assets:				
As of December 31, 2008	$ 3,975,365	$ 65,766	$ 238,858	$ 4,279,989
As of December 31, 2007	$ 4,079,552	$ 91,710	$ 197,237	$ 4,368,499

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Long-Term Debt

Long-Term Debt

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

	As of December 31, 2008	2007
1.00% Senior Convertible Debentures due 2027	$ 373,750	$ 373,750
Term loan due 2014	638,625	645,125
Other long-term debt	512	557
Total	1,012,887	1,019,432
Less: current portion	(6,922)	(6,898)
Total long-term debt	$ 1,005,965	$ 1,012,534

Short-Term Liquidity

As of December 31, 2008, we had available credit for liquidity as follows (in thousands):

	Total Available Under Facility	Maturing	Outstanding Letters of Credit as of December 31, 2008	Available as of December 31, 2008
Revolving Loan Facility(1)	$ 300,000	2013	$	$ 300,000
Funded L/C Facility	$ 320,000	2014	$ 292,144	$ 27,856

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

Under our Revolving Loan Facility, we have pro rata funding commitments from a large consortium of banks, including a 6.8% pro rata commitment from Lehman Brothers Commercial Bank. Lehman Brothers Commercial Bank is a subsidiary of Lehman Brothers Holdings, Inc., which filed for bankruptcy protection in September 2008. We believe that neither the Lehman Brothers Holdings, Inc. bankruptcy, nor the ability of Lehman Brothers Commercial Bank (which is not currently part of such bankruptcy proceeding) to fund its pro rata share of any draw request we may make, will have a material effect on our liquidity.

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 (as defined below under *2007 Recapitalization* which are comprised of:

- a $300 million revolving loan facility due 2013, which includes a $200 million sub-facility for the issuance of letters of credit (the Revolving Loan 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 $638.6 million was outstanding as of December 31, 2008 (the Term Loan Facility).

Amortization Terms

The Credit Facilities include mandatory annual amortization of the Term Loan Facility to be paid in quarterly installments beginning June 30, 2007, through the date of maturity as follows (in thousands):

	2009	2010	2011	2012	2013	2014	Total
Annual Remaining Amortization	$ 6,500	$ 6,500	$ 6,500	$ 6,500	$ 6,500	$ 606,125	$ 638,625

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

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Loan 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:

Leverage Ratio	Borrowing Margin for Revolving Loans (Eurodollar Loans)	Borrowing Margin for Revolving Loans (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.

Credit Agreement 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, 2008.

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);

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 4.00 to 1.00 for the four quarter period ended December 31, 2008, 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. The maximum Covanta Energy leverage ratio allowed under the Credit Facilities adjusts in future periods as follows:

4.00 to 1.00 for each of the four quarter periods ended March 31, June 30 and September 30, 2009;
3.75 to 1.00 for each of the four quarter periods ended December 31, 2009, March 31, June 30 and September 30, 2010;
3.50 to 1.00 for each four quarter period thereafter;

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;
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;

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

2007 Recapitalization

During the first quarter of 2007, we completed a comprehensive recapitalization utilizing a series of equity and debt financings including the following transactions:

the refinancing of our previously existing credit facilities with new credit facilities, comprised of a $300 million revolving credit facility, a $320 million funded letter of credit facility, and a $650 million term loan (collectively referred to as the Credit Facilities);
an underwritten public offering of 6.118 million shares of our common stock, from which we received proceeds of approximately $136.6 million, net of underwriting discounts and commissions;
an underwritten public offering of approximately $373.8 million aggregate principal amount of Debentures, from which we received proceeds of approximately $364.4 million, net of underwriting discounts and commissions; and
the repayment, by means of a tender offer and redemptions, of approximately $611.9 million in aggregate principal amount of outstanding notes previously issued by certain of our intermediate subsidiaries.

As a result of the recapitalization, we recognized a loss on extinguishment of debt of approximately $32.1 million, pre-tax, which was comprised of the write-down of deferred financing costs, tender premiums paid for the intermediate subsidiary debt, and a call premium paid in connection with previously existing financing arrangements. These amounts were partially offset by the write-down of unamortized premiums relating to the intermediate subsidiary debt and a gain associated with the settlement of our interest rate swap agreements.

Debentures

On January 31, 2007, we completed an underwritten public offering of $373.8 million aggregate principal amount of Debentures. This offering included Debentures sold pursuant to an over-allotment option which was exercised by the underwriters. The Debentures constitute our general unsecured senior obligations and will rank equally in right of payment with any future senior unsecured indebtedness. The Debentures are effectively junior to our existing and future secured indebtedness, including the Credit Facilities, to the extent of the value of the assets securing such indebtedness. The Debentures 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.

The Debentures bear interest at a rate of 1.00% per year, payable semi-annually in arrears, on February 1 and August 1 of each year, commencing on August 1, 2007 and will mature on February 1, 2027. Beginning with the six-month interest period commencing February 1, 2012, we will pay contingent interest on the Debentures during any six-month interest period in which the trading price of the Debentures measured over a specified number of trading days is 120% or more of the principal amount of the Debentures. When applicable, the contingent interest payable per $1,000

principal amount of Debentures will equal 0.25% of the average trading price of $1,000 principal amount of Debentures during the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period. The contingent interest feature in the Debentures is an embedded derivative instrument. The first contingent cash interest payment period does not commence until February 1, 2012, and the fair market value for the embedded derivative was zero as of December 31, 2008.

Under limited circumstances, prior to February 1, 2025, the Debentures are convertible by the holders into cash and shares of our common stock, if any, initially based on a conversion rate of 35.4610 shares of our common stock per $1,000 principal amount of Debentures, (which represents an initial conversion price of approximately $28.20

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

per share). Additionally, the terms of the Debentures require that under certain circumstances, such as an acquisition of us by a third party, the payment by us of a cash dividend on our common stock, or where a cash tender offer is made for our common stock, we are obligated to adjust the conversion rate applicable to the Debentures. This adjustment requirement constitutes a contingent beneficial conversion feature that is part of the Debentures. If such an adjustment were to occur, (i) the amount of the contingent beneficial conversion feature would be bifurcated from the Debentures, (ii) the liability recorded in our financial statements with respect to the Debentures would be reduced by the amount bifurcated, and (iii) the amount bifurcated would be recorded as a charge to interest expense and accreted to the Debenture liability over the remaining term of Debentures, or the conversion date of the Debentures, if earlier. In no event will the total number of shares of our common stock issuable upon conversion exceed 42.5531 per $1,000 principal amount of Debentures, or a maximum of 15,904,221 shares issuable.

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 unpaid interest (including contingent interest, if any). In addition, holders may require us to repurchase their Debentures on February 1, 2012, February 1, 2017 and February 1, 2022, in whole or in part, for cash at a repurchase price equal to 100% of the principal amount of the Debentures being repurchased, plus accrued and unpaid interest (including contingent interest, if any). The Debentures 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 Debentures, plus accrued and unpaid interest (including contingent interest, if any).

2006 Refinancing

In May 2006, as a result of amendments to our financing arrangements existing at that time, we recognized a loss on extinguishment of debt of $6.8 million, pre-tax, which was comprised of the write-down of deferred financing costs and a call premium paid on extinguishment. On June 30, 2006, we utilized a new term loan commitment of $140 million on the first lien term loan facility to prepay $140 million under the second lien term loan facility.

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 $3.7 million, $3.8 million, and $3.9 million for the years ended December 31, 2008, 2007, and 2006, respectively.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Project Debt

Project debt is presented below (in thousands):

	As of December 31, 2008	2007
Project debt related to Service Fee structures		
5.125-6.75% serial revenue bonds due 2009 through 2015	$ 173,252	$ 219,236
3.0-7.0% term revenue bonds due 2009 through 2022	186,413	204,702
Adjustable-rate revenue bonds due 2009 through 2019	68,220	100,610
7.322% other debt obligations due 2009 through 2020	38,053	54,345
Subtotal	465,938	578,893
Unamortized debt premium, net	8,168	14,385
Total Service Fee structure related project debt	474,106	593,278
Project debt related to Tip Fee structures		
4.875-6.70% serial revenue bonds due 2009 through 2016	272,250	330,420
5.00-8.375% term revenue bonds due 2010 through 2019	267,900	269,095
Subtotal	540,150	599,515
Unamortized debt premium, net	12,078	16,568
Total Tip Fee structure related project debt	552,228	616,083
International project debt	52,036	70,914
Total project debt	1,078,370	1,280,275
Less current project debt (includes $7,887 and $10,711 of unamortized premium)	(198,034)	(195,625)
Noncurrent project debt	$ 880,336	$ 1,084,650

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, 2008, such revenue bonds were collateralized by property, plant and equipment with a net carrying value of $2.2 billion and restricted funds held in trust of approximately $306 million.

The interest rates on adjustable-rate revenue bonds are adjusted periodically based on current municipal-based interest rates. The average adjustable rate for such revenue bonds was 0.27% and 3.40% as of December 31, 2008 and 2007, respectively, and the average adjustable rate for such revenue bonds was 2.76% and 3.55% during 2008 and 2007 for the full year, respectively.

International project debt includes the following obligations as of December 31, 2008:

$28.9 million due to financial institutions, of which $5.8 million is denominated in U.S. dollars and $23.1 million is denominated in Indian rupees, relating to the construction of a heavy fuel-oil fired diesel engine power plant in India and working capital debt relating to the operations of the project. The U.S. dollar debt bears a coupon rate at the three-month LIBOR, plus 4.5% (8.26% as of December 31, 2008). The outstanding Indian rupee debt borrowed for construction of the power plant is serviced at a floating rate of

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11% as of December 31, 2008. The average coupon rate on the working capital debt was 12.3% in 2008. The construction related debt extends through 2011. The entire debt is non-recourse to us, and is secured by the project assets. The power off-taker failed to fund the escrow account or post the letter of credit required under the energy contract which failure constitutes a technical default under the project finance documents. The project lenders have not declared an event of default due to this matter and have permitted continued distributions of project dividends.

$23.1 million due to financial institutions relating to the construction of a second heavy fuel-oil fired diesel engine power plant in India and working capital debt relating to the operations of the project. The entire debt is denominated in Indian rupees. The construction related debt bears coupon rates ranging from 8.5% to 12.5% in 2008 and the average coupon rate on the working capital debt was 12% in 2008. The construction related debt extends through 2010. The entire debt is non-recourse to us and is secured by the project assets. The power off-taker failed to fund the escrow account or post the letter of credit required under the energy contract which failure constitutes a technical default under the project finance documents. The project lenders have not declared an event of default due to this matter and have permitted continued distributions of project dividends.

As of December 31, 2008, we had one interest rate swap agreement related to domestic project debt that economically fixes the interest rate on certain adjustable-rate revenue bonds. For additional information related to this interest rate swap, see Note 19. Financial Instruments.

The maturities of long-term project debt as of December 31, 2008 are as follows (in thousands):

	2009	2010	2011	2012	2013	Thereafter	Total	Less: Current Portion	Total Noncurr Projec Debt
	$ 190,147	$ 161,770	$ 121,040	$ 120,608	$ 108,364	$ 356,194	$ 1,058,123	$ (190,147)	$ 867,9
nium	7,887	5,325	2,945	1,952	1,171	967	20,247	(7,887)	12,3
l	$ 198,034	$ 167,095	$ 123,985	$ 122,560	$ 109,535	$ 357,161	$ 1,078,370	$ (198,034)	$ 880,3

Note 8. 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, 2008 and 2007, investments in investees and joint ventures accounted for under the equity method were as follows (in thousands):

	Ownership Interest as of December 31, 2008	2008	Ownership Interest as of December 31, 2007	2007
Ultrapower Chinese Station Plant (U.S.)(1)	55%	$ 4,446	55%	$ 4,880
South Fork Plant (U.S.)	50%	1,098	50%	1,141
Koma Kulshan Plant (U.S.)	50%	5,976	50%	6,059
Ambiente 2000 (Italy)	40%	658	40%	757
Haripur Barge Plant (Bangladesh)	45%	16,061	45%	13,982
Quezon Power (Philippines)	26%	45,439	26%	43,159
Sanfeng (China)	40%	12,217	40%	11,270
Guangzhou (China)(1)	40%	1,328		
Chengdu (China)(1)	49%	15,730		
Total investments		$ 102,953		$ 81,248

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

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The unaudited combined results of operations and financial position of our equity method investments are summarized below (in thousands):

	2008	2007
Condensed Statements of Operations for the Years Ended December 31:		
Revenues	$ 376,780	$ 331,230
Operating income	150,296	153,981
Net income	68,940	57,472
Company s share of net income	23,583	22,196
Condensed Balance Sheets as of December 31:		
Current assets	$ 214,295	$ 208,795
Noncurrent assets	790,157	792,166
Total assets	1,004,452	1,000,961
Current liabilities	119,551	158,201
Noncurrent liabilities	432,658	441,914
Total liabilities	552,209	600,115

Note 9. Income Taxes

We file a federal consolidated income tax return with our eligible subsidiaries. Covanta Lake II, Inc. files outside of the consolidated return group. 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 thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Current:			
Federal	$ (1,445)	$ 3,373	$ (4,889)
State	17,189	15,186	15,196
Foreign	5,657	6,612	7,250
Total current	21,401	25,171	17,557
Deferred:			
Federal	72,834	8,793	29,819
State	(1,884)	(3,038)	1,530
Foreign	(124)	114	(10,441)
Total deferred	70,826	5,869	20,908

Total income tax expense	$ 92,227	$ 31,040	$ 38,465

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

	For the Years Ended December 31,		
	2008	2007	2006
Domestic	$ 197,596	$ 125,890	$ 102,944
Foreign	17,282	22,123	19,284
Total	$ 214,878	$ 148,013	$ 122,228

The effective income tax rate was 42.9% and 21.0% for the year ended December 31, 2008 and 2007, respectively. The increase in the effective tax rate for the year ended December 31, 2008, compared to the year ended December 31, 2007, is primarily related to taxes associated with the wind down of the grantor trusts and additional liability for uncertain tax positions in 2008, and the tax benefit resulting from the release of valuation allowance from previously unrecognized federal and state net operating loss carryforwards (NOLs) in 2007.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We recognize benefits from a foreign tax holiday in India. The Samalpatti and Madurai project companies began taking advantage of a tax holiday under Indian law in April of 2005. The Indian tax holiday permits the companies to use the alternative tax rate, currently approximately 11%, for a 10 year period.

The aggregate benefit and affect on diluted earnings per share was as follows (in thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Aggregate benefit	$ 3,257	$ 4,433	$ 4,092
Affect on diluted EPS	$ 0.02	$ 0.03	$ 0.03

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 thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Income tax expense at the federal statutory rate	$ 75,207	$ 51,805	$ 42,780
State and other tax expense	11,300	8,972	12,296
Change in valuation allowance	10,610	(34,968)	(10,319)
Grantor trust (loss) income	(104,443)	5,580	6,210
Subpart F income and foreign dividends	1,491	90	2,328
Taxes on foreign earnings	(524)	(1,132)	(9,531)
Production tax credits	(8,529)	(4,525)	(3,158)
Expiration of tax attributes		5,977	
Liability for uncertain tax positions	107,156	898	
Other, net	(41)	(1,657)	(2,141)
Total income tax expense	$ 92,227	$ 31,040	$ 38,465

We had consolidated federal NOLs estimated to be approximately $591 million for federal income tax purposes as of the end of 2008. These consolidated federal NOLs will expire, if not used, in the following amounts in the following years (in thousands):

	Amount of Carryforward Expiring
2009	$ 18,435

2010		23,600
2011		19,755
2012		38,255
2019		33,635
2022		26,931
2023		108,331
2024		212
2025		203
2026		260
2027		391
2028		321,449
	$	591,457

In addition to the consolidated federal NOLs, we have state NOL carryforwards of $119.7 million, which expire between 2012 and 2027, capital loss carryforwards of $69.0 million expiring in 2009, additional federal credit carryforwards of $32.7 million, and state credit carryforwards of $0.8 million. These deferred tax assets are offset by a valuation allowance of $34.3 million.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2008, we had a valuation allowance of $44.1 million on deferred tax assets. During 2008, we increased our valuation allowance by $10.6 million related to capital losses, state NOLs, and a deferred tax asset established for certain deductions from the grantor trust. As of December 31, 2007, the reduction in the valuation allowance of $35.0 million primarily included a $31.4 million adjustment related to NOLs that were due to expire and were able to be utilized as a reduction to income tax expense. The remaining reduction in 2007 of the valuation allowance of $3.6 million related to previously unrecognized federal and state NOLs for our unconsolidated subsidiary Covanta Lake II, Inc.

During 2006, we reduced our valuation allowance by $22.8 million. The reduction primarily included a net $13.0 million adjustment to the goodwill associated with the acquisition of ARC Holdings, since the facts and circumstances associated with these items existed as of the date of the ARC Holdings acquisition, and if not for the ARC Holdings acquisition we would not have been able to make the conclusion that it was more likely than not that these deferred tax assets would be realized, and $10.3 million that was a reduction to income tax expense.

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

	As of December 31,	
	2008	2007
Deferred Tax Assets:		
Loss reserve discounting	$ (1,568)	$ 926
Capital loss carryforward	24,149	24,048
Net operating loss carryforwards	104,730	101,466
Accrued expenses	30,601	37,844
Tax basis in bond and other costs	16,725	10,819
Deferred tax assets attributable to Covanta Lake II, Inc.	5,259	5,713
Deferred tax assets attributable to pass-through entities	9,869	84,368
Other	5,535	18,115
AMT and other credit carryforwards	32,750	23,055
Total gross deferred tax asset	228,050	306,354
Less: valuation allowance	(44,089)	(33,246)
Total deferred tax asset	183,961	273,108
Deferred Tax Liabilities:		
Unbilled accounts receivable	5,713	24,779
Property, plant and equipment	465,027	553,359
Intangible assets	68,593	35,583
Deferred tax liabilities attributable to pass-through entities	104,564	43,382
Capitalized interest	16,502	7,617
Other, net	7,782	19,238

Total gross deferred tax liability	668,181	683,958
Net deferred tax liability	$ (484,220)	$ (410,850)

Deferred tax liabilities were increased by approximately $68 million in 2008 associated with the purchase of ARC Holdings in 2005 for certain tax effects identified during the tax liquidation of the underlying partnership interests, accordingly the offset was reflected as an adjustment to goodwill. Deferred tax assets were increased by approximately $65 million in 2008 associated with the tax basis step-up resulting from the purchase in 2006 of the minority interests in Covanta Onondaga, L.P. The offset to this was reflected as a reduction to property, plant and equipment.

During 2006, we adopted the permanent reinvestment exception under APB 23 whereby we will no longer provide for 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

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

new international business which may be developed or acquired. As a result of the adoption of APB 23, we recognized a benefit of $10.0 million in 2006 associated with the reversal of deferred taxes accrued on unremitted earnings of international affiliates in prior periods. This policy resulted in an unrecognized deferred tax liability of approximately $32.7 million and $24.7 million as of December 31, 2008 and 2007, respectively. Cumulative undistributed foreign earnings for which United States taxes were not provided were included in consolidated retained earnings in the amount of approximately $94.8 million and $71.9 million as of December 31, 2008 and 2007, respectively.

Deferred tax assets relating to tax benefits of employee stock option grants have been reduced to reflect exercises in the calendar year ended December 31, 2007. Some exercises resulted in tax deductions in excess of previously recorded benefits based on the option value at the time of grant (a windfall). Although these additional tax benefits or windfalls were reflected in the NOLs, pursuant to SFAS 123R, the additional tax benefit associated with the windfall is not recognized until the deduction reduces taxes payable. Accordingly, since the tax benefit does not reduce our current taxes payable in 2008 due to the NOLs, these windfall tax benefits were not reflected in our NOLs in the deferred tax assets for 2008 and 2007. Windfalls included in NOLs but not reflected in deferred tax assets were $14.4 million and $10.0 million for 2008 and 2007, respectively.

Effective January 1, 2007, we adopted the provisions of FIN 48. This interpretation is intended to increase the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in income taxes. FIN 48 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes. The cumulative effect of applying the provisions of this interpretation was a $2.2 million decrease to our opening balance retained earnings in 2007, which was comprised of an increase of $5.5 million to the liability for uncertain tax positions, a $16.4 million increase to deferred tax assets, and a $13.1 million decrease to property, plant and equipment.

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

Balance as of January 1, 2007	$ 24,483
Additions based on tax positions related to the current year	500
Additions for tax positions of prior years	398
Reductions for tax positions of prior years	
Settlements	
Balance at December 31, 2007	$ 25,381
Additions based on tax positions related to the current year	109,956
Additions for tax positions of prior years	717
Reductions for lapse in applicable statute of limitations	(280)
Reductions for tax positions of prior years	(3,237)
Balance at December 31, 2008	$ 132,537

The liability for uncertain tax positions, exclusive of interest and penalties, was $132.5 million and $25.4 million as of December 31, 2008 and 2007, respectively. Included in the balance of uncertain tax benefits as of December 31, 2008 and 2007 are potential benefits of $114.8 million and $2.5 million, respectively, that, if recognized, would affect the effective tax rate. The liability for uncertain tax positions may decrease by approximately $22.7 million in the next 12 months with respect to the expiration of statutes.

We record interest accrued on liabilities for uncertain tax positions and penalties as part of the tax provision under FIN 48. For the year ended December 31, 2008 and 2007, we recognized $0.5 million and $0.9 million, respectively, of interest on liabilities for uncertain tax positions. As of December 31, 2008 and 2007, we had accrued interest and penalties associated with liabilities for uncertain tax positions of $8.1 million and $7.6 million, respectively.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As issues are examined by the Internal Revenue Service (IRS) and state auditors, we may decide to adjust the existing FIN 48 liability for issues that were not deemed an exposure at the time we adopted FIN 48. Accordingly, we will continue to monitor the results of audits and adjust the liability as needed. Federal income tax returns for Covanta Energy are closed for the years through 2003. However, to the extent NOLs are utilized from earlier years, federal income tax returns for Covanta Holding Corporation, formerly known as Danielson Holding Corporation, are still open. The tax returns of our subsidiary ARC Holdings are open for federal audit for the tax return years of 2004 and forward, and are currently the subject of an IRS examination. This examination is related to ARC Holdings refund requests related to NOL carryback claims from tax years prior to our acquisition of ARC Holdings in 2005 that require Joint Committee approval. State income tax returns are generally subject to examination for a period of three to five years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

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

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), settle matters that had been in dispute regarding the historic rights and obligations relating to the conclusion of the grantor trusts. These include the treatment of certain claims against the grantor trusts which are entitled to distributions of an aggregate of 1,572,625 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. In connection with these agreements and in order to facilitate the orderly conclusion of the grantor trust estates, the distribution of such stock and the settlement of the related disputes, we paid an aggregate amount equal to approximately $9.14 million to the California Commissioner. Additionally, we reimbursed an additional $1.175 million to the California Commissioner s Conservation and Liquidation Office in 2006 related to expenses associated with these agreements.

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 $1.135 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 either in December 2006 or September 2008.

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 154,756 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.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Note 10. Amortization of Waste, Service and Energy Contracts

Waste, Service and Energy Contracts

The vast majority of our waste, service and energy contracts were valued in March 2004 and June 2005 related to the acquisitions of Covanta Energy and ARC Holdings, respectively. Intangible assets and liabilities are recorded at their estimated fair market values based upon discounted cash flows.

Amortization for the above market waste, service and energy contracts and below market waste and energy contracts was calculated using the straight-line method. The remaining weighted-average contract life is approximately 9 years for both the above market waste, service and energy contracts and below market waste and energy contracts.

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

			As of December 31, 2008			As of December 31, 2007		
	Useful Life		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Waste, service and energy contracts (asset)	1	20 years	$ 406,556	$ 183,159	$ 223,397	$ 405,794	$ 137,441	$ 268,353
Waste and service contracts (liability)	1	14 years	$ (156,705)	$ (42,173)	$ (114,532)	$ (159,575)	$ (29,111)	$ (130,464)

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, 2008 included or expected to be included in our statements of income for each of the years indicated (in thousands):

	Waste, Service and Energy Contracts

	(Amortization Expense)	Waste and Service Contracts (Contra-Expense)
Year ended December 31, 2008	$ 45,718	$ (13,062)
2009	$ 42,302	$ (13,178)
2010	29,864	(12,721)
2011	26,740	(12,408)
2012	24,647	(12,412)
2013	21,037	(12,390)
Thereafter	78,807	(51,423)
Total	$ 223,397	$ (114,532)

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Other Intangible Assets and Goodwill

Other Intangible Assets

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

		As of December 31, 2008			As of December 31, 2007		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Lease interest and other	10 21 years	$ 73,848	$ 10,739	$ 63,109	$ 72,235	$ 7,598	$ 64,637
Landfill	5 years	17,985	7,329	10,656	17,985	5,198	12,787
Total amortizable intangible assets		91,833	18,068	73,765	90,220	12,796	77,424
Other intangibles	Indefinite	9,566		9,566	11,530		11,530
Intangible assets, net		$ 101,399	$ 18,068	$ 83,331	$ 101,750	$ 12,796	$ 88,954

The following table details the amount of the actual/estimated amortization expense associated with other intangible assets as of December 31, 2008 included or expected to be included in our statements of income for each of the years indicated (in thousands):

	2009	2010	2011	2012	2013	Thereafter	Total
Annual Remaining Amortization	$ 5,231	$ 5,231	$ 5,231	$ 5,231	$ 5,231	$ 47,610	$ 73,765

Amortization Expense related to other intangible assets was $5.3 million, $5.2 million and $5.7 million for the years ended December 31, 2008, 2007 and 2006. Lease interest amortization is recorded as rent expense in plant operating expenses and was $3.0 million for each of the years ended December 31, 2008, 2007, and 2006.

Goodwill

Goodwill was $195.6 million and $127.0 million as of December 31, 2008 and 2007, 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 in accordance with the provisions of SFAS 142. Goodwill has an indefinite life and is not amortized but is to be reviewed for impairment under the provisions of SFAS 142. We performed the required annual impairment review of our recorded goodwill for reporting units using a discounted cash

flow approach as of October 1, 2007 and determined that no goodwill was impaired. As of December 31, 2008, goodwill of approximately $25.4 million is deductible for federal income tax purposes.

The following table details the changes in carrying value of goodwill for the years ended December 31, 2008 and 2007 (in thousands):

	Total
Balance as of December 31, 2006	$ 91,282
Decrease to federal tax receivable associated with opening balance sheet adjustments for the ARC Holdings acquisition	2,127
Goodwill related to the Central Valley acquisition	22,889
Goodwill related to the Westchester County transfer stations acquired	896
Goodwill related to the EnergyAnswers acquisition	9,833
Balance as of December 31, 2007	$ 127,027
Increase to net deferred tax liabilities related to the deferred tax impact recognized on tax liquidation of ARC Holdings partnerships (Note 9)	67,929
Purchase price adjustment related to the Central Valley acquisition	269
Purchase price adjustment related to the Westchester County transfer stations acquired	578
Purchase price adjustment related to the EnergyAnswers acquisition	(186)
Balance as of December 31, 2008	$ 195,617

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Supplementary Financial Information

Revenues and Unbilled Service Receivables

The following table summarizes the components of waste and service revenues for the periods presented below (in thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Waste and service revenues unrelated to project debt	$ 836,115	$ 764,560	$ 711,832
Revenue earned explicitly to service project debt-principal	72,229	69,163	69,097
Revenue earned explicitly to service project debt-interest	26,183	30,673	36,704
Total waste and service revenues	$ 934,527	$ 864,396	$ 817,633

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

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

During the quarter ended December 31, 2008, Stanislaus County, California, our client community at our Stanislaus energy-from-waste facility, redeemed the remaining outstanding project debt associated with that facility for $21.3 million ($7.4 million was payable in January 2009 and $13.9 million was payable in January 2010). The payment was made from the debt service reserve fund, amounts restricted for debt service and the additional funds received from the municipality.

Other Operating Expenses

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

	For the Years Ended December 31,		
	2008	2007	2006

Construction costs	$ 50,611	$ 55,675	$ 2,476
Insurance subsidiary operating expenses	12,641	10,699	10,435
Proceeds related to insurance recoveries	(3,934)	(1,909)	(4,855)
Loss on the retirement of fixed assets	7,475	1,940	305
Unrealized/realized foreign exchange loss (gain)	1,899	(1,719)	(587)
Proceeds received for distributions and settlements related to the reorganization of Covanta Energy			(2,600)
Other	(1,991)	(4,047)	(2,580)
Total other operating expenses	$ 66,701	$ 60,639	$ 2,594

Semass Fire

On March 31, 2007, our SEMASS energy-from-waste facility located in Rochester, Massachusetts experienced a fire in the front-end receiving portion of the facility. Damage was extensive to this portion of

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the facility and operations at the facility were suspended completely for approximately 20 days. As a result of this loss, we recorded an asset impairment of $17.3 million, pre-tax, which represented the net book value of the assets destroyed.

The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. Insurance recoveries were recorded as insurance recoveries, net of write-down of assets where such recoveries relate to repair and reconstruction costs, or as a reduction to plant operating expenses where such recoveries relate to other costs or business interruption losses. We recorded insurance recoveries in our consolidated statements of income and received cash proceeds in settlement of these claims as follows (in millions):

	Insurance Recoveries Recorded		Cash Proceeds Received	
	For the Years Ended December 31,			
	2008	2007	2008	2007
Repair and reconstruction costs (Insurance recoveries, net of write-down of assets)	$ 8.3	$ 17.3	$ 16.2	$ 9.4
Clean-up costs (reduction to Plant operating expenses)	$	$ 2.7	$	$ 2.7
Business interruption losses (reduction to Plant operating expenses)	$ 5.2	$ 2.0	$ 7.2	$

Selected Supplementary Balance Sheet Information

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

	As of December 31,	
	2008	2007
Interest rate swap (Note 19)	$ 13,984	$ 8,913
Contract acquisition costs	10,351	8,569
Reinsurance recoverable on unpaid losses	9,155	10,035
Deferred financing costs	10,191	14,143
Spare parts	16,631	16,048
Other noncurrent receivables	21,121	14,838
Restricted funds for pre-petition tax liabilities	20,419	19,997
Prepaid expenses	27,655	11,131
Other	10,037	8,880
Total Other Noncurrent Assets	$ 139,544	$ 112,554
Interest payable	$ 16,328	$ 20,676

Deferred income taxes	17,752	
Payroll and payroll taxes	33,840	29,853
Accrued liabilities to client communities	46,245	75,528
Operating expenses	68,420	79,135
Other	32,461	28,808
Total Accrued Expenses and Other Current Liabilities	$ 215,046	$ 234,000
Deferred revenue	$ 4,345	$ 4,931
Interest rate swap (Note 19)	13,984	8,913
Benefit obligations (Note 16)	35,110	17,360
Asset retirement obligations (Note 1)	25,911	24,556
Tax liabilities for uncertain tax positions (Note 9)	33,965	33,041
Insurance loss and loss adjustment reserves (Note 1)	29,362	32,436
Other	23,204	20,503
Total Other Noncurrent Liabilities	$ 165,881	$ 141,740

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Investments

Effective January 1, 2008, we adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159), but did not elect to apply the fair value option to any of our eligible financial assets and liabilities.

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement did not require any new fair value measurements.

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 AOCI in the consolidated statements of stockholders 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 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. See Note 1. Organization and Summary of Significant Accounting Policies and Note 19. Financial Instruments for a summary of related accounting policies.

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

	As of December 31, 2008			
	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Current investments:				
Fixed maturities	$ 300	$	$	$ 300
Equity securities insurance business	760	62	30	792
Total current investments	$ 1,060	$ 62	$ 30	$ 1,092
Noncurrent investments:				
Fixed maturities insurance business:				
U.S. government/Agency	$ 17,897	$ 329	$ 19	$ 18,207
Mortgage-backed	4,183	27	26	4,184
Corporate	4,540		194	4,346
Total fixed maturities insurance business	26,620	356	239	26,737
Investment at cost international business	3,437			3,437

Mutual and bond funds	1,404		433	971
Total noncurrent investments	$ 31,461	$ 356	$ 672	$ 31,145

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of December 31, 2007			
	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Current investments:				
Fixed maturities	$ 2,495	$	$	$ 2,495
Equity securities insurance business	909	231	30	1,110
Total current investments	$ 3,404	$ 231	$ 30	$ 3,605
Noncurrent investments:				
Fixed maturities insurance business:				
U.S. government/Agency	$ 14,750	$ 70	$ 7	$ 14,813
Mortgage-backed	5,707	3	140	5,570
Corporate	5,881	8	12	5,877
Total fixed maturities insurance business	26,338	81	159	26,260
Investment at cost international business	3,437			3,437
Mutual and bond funds	2,225	24		2,249
Total noncurrent investments	$ 32,000	$ 105	$ 159	$ 31,946

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

	As of December 31, 2008		As of December 31, 2007	
Description of Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and other direct U.S. Government obligations	$ 2,841	$ 19	$ 4,718	$ 7
Federal agency mortgage backed securities	1,547	26	5,419	140
Corporate bonds	3,996	194	4,148	12
Total fixed maturities	8,384	239	14,285	159
Equity securities	307	30	240	30
Total temporarily impaired investments	$ 8,691	$ 269	$ 14,525	$ 189

Of the fixed maturity investments noted above, 16% were acquired between June 30, 2002 and December 31, 2004 during an historic low interest rate environment and are investment grade securities rated A or better. The number of U.S. Treasury and federal agency obligations, mortgage backed securities, and corporate bonds temporarily impaired are 2, 4, and 5 respectively. As of December 31, 2008, all of the temporarily impaired fixed maturity investments with a fair value of $8.4 million had maturities greater than 12 months.

Our fixed maturities held by our insurance subsidiary include mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) representing 15.6%, and 21.6% of the total fixed maturities at years ended December 31, 2008 and 2007, respectively. Our MBS holdings are issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), both 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.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	As of December 31, 2008	
	Amortized Cost	Fair Value
Available-for-sale:		
One year or less	$ 4,624	$ 4,648
Over one year to five years	21,845	21,939
Over five years to ten years	151	150
More than ten years		
Total fixed maturities	$ 26,620	$ 26,737

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

	For the Years Ended December 31,		
	2008	2007	2006
Fixed maturities, net	$ 195	$ 747	$ 331
Equity securities, net	(169)	(59)	130
Mutual and bond funds	(433)	24	98
Change in net unrealized (loss) gain on investments	$ (407)	$ 712	$ 559

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

	For the Years Ended December 31,		
	2008	2007	2006
Net unrealized holding (loss) gain on available-for-sale securities arising during the period	$ (543)	$ 698	$ 777
Reclassification adjustment for net realized losses (gains) on available-for-sale securities included in net income	136	14	(218)
Net unrealized (loss) gain on available-for-sale securities	$ (407)	$ 712	$ 559

Net realized investment (losses) gains are as follows for our insurance subsidiary (in thousands):

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Net realized investment (loss) gain			
Fixed maturities	$ 22	$ (75)	$ (96)
Equity securities	(158)	61	314
Net realized investment (loss) gain	$ (136)	$ (14)	$ 218

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net investment income earned on our fixed maturity and equity securities portfolio was as follows (in thousands):

	For the Years Ended December 31,		
	2008	2007	2006
Holding Company			
Fixed maturities	$	$	$
Short-term investments	481	4,360	2,318
Net investment income holding company	$ 481	$ 4,360	$ 2,318
Insurance business			
Fixed maturities	$ 936	$ 1,196	$ 1,582
Dividend income	46	61	81
Other, net	196	371	183
Total investment income	1,178	1,628	1,846
Less: investment expense	177	172	211
Net investment income insurance business	$ 1,001	$ 1,456	$ 1,635

The insurance business, in compliance with state insurance laws and regulations, had securities with a fair value of approximately $16.7 million and $17.1 million as of the years ended December 31, 2008 and 2007, respectively, on deposit with various states or governmental regulatory authorities. In addition, as of the years ended December 31, 2008 and 2007, the insurance business had investments with a fair value of $9.0 million and $6.6 million, respectively, held in trust or as collateral under the terms of certain reinsurance treaties and letters of credit.

Note 14. Property, Plant and Equipment, net

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

		As of December 31,	
	Useful Lives	2008	2007
Land		$ 22,999	$ 23,967
Facilities and equipment	3-37 years	3,043,124	2,999,718
Landfills		42,091	26,574
Construction in progress		36,858	46,850
Total		3,145,072	3,097,109
Less: accumulated depreciation and amortization		(615,037)	(476,602)

Property, plant, and equipment net	$ 2,530,035	$ 2,620,507

Depreciation and amortization expense related to property, plant and equipment amounted to $164.1 million, $162.0 million, and $156.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 15. Leases

Leases are primarily operating leases for leaseholds on energy-from-waste facilities and independent power projects, as well as for trucks and automobiles, and machinery and equipment. Some of these operating leases have renewal options. Expense under operating leases was $30.9 million, $29.8 million, and $26.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Table of Contents

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, 2008 (in thousands):

	2009	2010	2011	2012	2013	Thereafter	Total
Future Minimum Rental Payments	$ 57,580	$ 49,506	$ 40,444	$ 33,390	$ 27,151	$ 157,961	$ 366,032
Non-Recourse Portion of Future Minimum Rental Payments	$ 23,065	$ 23,362	$ 23,571	$ 23,611	$ 18,005	$ 102,108	$ 213,722

Future minimum rental payment obligations include $213.7 million of future non-recourse rental payments that relate to energy-from-waste facilities. Of this amount $126.7 million is supported by third-party commitments to provide sufficient service revenues to meet such obligations. The remaining $87.0 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 $134.4 million as of December 31, 2008.

Electricity and steam sales include lease income of approximately $240.2 million, $139.6 million, and $95.9 million for the years ended December 31, 2008, 2007, and 2006, respectively, related to two Indian and one Chinese power project that were deemed to be operating lease arrangements under EITF No. 01-08, Determining Whether an Arrangement Contains a Lease (EITF 01-08). These amounts represent contingent rentals because the lease payments for each facility depend on a factor directly related to the future use of the leased property. The output deliverable and capacity provided by our two Indian facilities have each been purchased by a single party under long-term power purchase agreements which expire in 2016. The electric power and steam off-take arrangements and maintenance agreement for one of our Chinese coal facilities were also with a single party. In June 2006, we sold our ownership interest in this Chinese coal facility.

Property, plant and equipment accounted for as leased to others under EITF 01-08 consisted of the following (in thousands):

	As of December 31, 2008	2007
Land	$ 24	$ 43
Energy facilities	61,077	91,207
Buildings, machinery and improvements	5,961	9,362

Total	67,062	100,612
Less: accumulated depreciation and amortization	(23,222)	(35,994)
Property, plant, and equipment net	$ 43,840	$ 64,618

Note 16. Employee Benefit Plans

We sponsor various retirement plans covering the majority of our domestic employees and retirees, as well as other post-retirement benefit plans for a small number of domestic retirees that include healthcare benefits and life insurance coverage. Domestic employees 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.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Defined Contribution Plans

Substantially all of our domestic employees 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 $13.0 million, $12.2 million and $11.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Pension and Postretirement Benefit Obligations

Effective December 31, 2005, we froze the defined benefit pension plan for domestic employees who do not participate in retirement plans offered by collective bargaining units. 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.

Our pension and other postretirement benefit plans are accounted for in accordance with SFAS 158, 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. Upon the adoption of SFAS 158 in December 2006, we recognized a net gain of $2.5 million, $1.7 million net of deferred tax, in AOCI to reflect the funded status of the pension and postretirement benefit obligations.

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.

Based on this evaluation for the year ended December 31, 2007, we increased the discount rate assumption for benefit obligations from 5.75% as of December 31, 2006 to 6.50% as of December 31, 2007. We recorded a pension plan liability equal to the amount by which the present value of the projected benefit obligations (using a discount rate of 6.50%) exceeded the fair value of pension assets as of December 31, 2007. We recognized a net actuarial gain of $14.5 million, $9.4 million net of deferred tax, in AOCI during the year ended December 31, 2007.

Based on this evaluation for the year ended December 31, 2008, we decreased the discount rate assumption for benefit obligations from 6.50% as of December 31, 2007 to 6.25% as of December 31, 2008. We recorded a pension plan liability equal to the amount by which the present value of the projected benefit obligations (using a discount rate of 6.25%) exceeded the fair value of pension assets as of December 31, 2008. We recognized a net actuarial loss of $20.0 million, $13.2 million net of deferred tax, in AOCI during the year ended December 31, 2008.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 thousands, except percentages as noted):

	Pension Benefits		Other Benefits	
	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
Change in benefit obligation:				
Benefit obligation	$ 72,895	$ 80,145	$ 8,810	$ 13,851
Service cost				
Interest cost	4,705	4,582	549	768
Amendments	663			
Actuarial loss (gain)	541	(10,023)	(143)	(4,726)
Benefits paid	(1,452)	(1,810)	(1,055)	(1,083)
Benefit obligation at end of year	$ 77,352	$ 72,894	$ 8,161	$ 8,810
Change in plan assets:				
Plan assets at fair value	$ 61,639	$ 55,211	$	$
Actual return on plan assets	(13,596)	4,035		
Contributions	4,165	4,203	1,055	1,082
Benefits paid	(1,452)	(1,810)	(1,055)	(1,082)
Plan assets at fair value at end of year	$ 50,756	$ 61,639	$	$
Reconciliation of accrued benefit liability and net amount recognized:				
Funded status of the plan	$ (26,596)	$ (11,255)	$ (8,161)	$ (8,810)
Unrecognized net gain				
Net amount recognized	$ (26,596)	$ (11,255)	$ (8,161)	$ (8,810)
Accumulated other comprehensive loss (income) recognized under SFAS 158:				
Net actuarial loss (gain)	$ 4,681	$ (14,644)	$ (2,360)	$ (2,371)
Net prior service cost	663			
Total as of December 31, 2008	$ 5,344	$ (14,644)	$ (2,360)	$ (2,371)

Weighted average assumptions used to determine net periodic benefit expense for years ending December 31:				
Discount rate	6.50%	5.75%	6.50%	5.75%
Expected return on plan assets	7.50%	8.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Weighted average assumptions used to determine projected benefit obligations as of December 31:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Plan assets had a fair value of $50.8 million and $61.6 million as of December 31, 2008 and 2007, respectively. The allocation of plan assets was as follows:

	As of December 31,	
	2008	2007
Total Equities	45%	52%
Total Debt Securities	49%	42%
Other	6%	6%
Total	100%	100%

Our expected return on plan assets assumption is based on historical experience and by evaluating input from the trustee managing the plans assets. The expected return on the plan assets is also impacted by the target allocation of assets, which is based on our goal of earning the highest rate of return while maintaining risk at acceptable levels. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio. The target ranges of allocation of assets are as follows:

Total Equities	40	75%
Total Debt Securities	20	60%
Other	0	10%

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.

An annual rate of increase of 9.5% in the per capita cost of health care benefits was assumed for 2008 for covered employees. The rate was assumed to decrease gradually to 5.5% in 2017 and remain at that level.

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 $77.4 million, $65.6 million, and $50.8 million, respectively as of December 31, 2008 and $72.9 million, $57.5 million, and $61.6 million, respectively as of December 31, 2007.

We estimate that the future benefits payable for the retirement and post-retirement plans in place are as follows (in thousands).

	As of December 31,					
	2009	2010	2011	2012	2013	2014 - 2018

Pension Benefits	$ 1,590	$ 1,869	$ 2,227	$ 2,859	$ 3,167	$ 17,783
Other Benefits (Net of Medicare Part D Subsidy)	$ 650	$ 666	$ 692	$ 712	$ 728	$ 3,043
Attributable to Medicare Part D Subsidy	$ (38)	$ (40)	$ (41)	$ (42)	$ (42)	$ (174)

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension costs for our defined benefit plans and other post-retirement benefit plans included the following components (in thousands):

	Pension Benefits		Other Benefits	
	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
Components of Net Periodic Benefit Cost:				
Service cost	$	$	$	$
Interest cost	4,705	4,582	549	768
Expected return on plan assets	(4,728)	(4,430)		
Amortization of net actuarial (gain) loss	(524)		(154)	105
Net periodic benefit cost	(547)	152	395	873
SFAS 88 settlement cost(1)	65	18		
Final net periodic benefit cost	$ (482)	$ 170	$ 395	$ 873

(1) SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (SFAS 88).

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in the assumed health care trend rate would have the following effects (in thousands):

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost components	$ 34	$ (24)
Effect on postretirement benefit obligation	$ 454	$ (401)

Note 17. Stock-Based Award Plans

Stock-Based Compensation

We recognize stock-based compensation expense in accordance with the provisions of SFAS 123R. Stock-based compensation expense for all stock-based compensation awards granted after December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. For stock-based compensation awards granted prior to, but not yet vested as of December 31, 2005, stock-based compensation expense is based on the grant

date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

We received $0.3 million, $0.8 million, and $1.1 million from the exercise of non-qualified stock options in the years ended December 31, 2008, 2007, and 2006 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 2008 and 2007 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.

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. The forfeiture rates range from 8% to 15% depending on the type of award and the vesting period.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. On July 25, 2005, our Board of Directors approved and on September 19, 2005, our stockholders approved the amendment to the Employees Plan to authorize the issuance of an additional 2,000,000 shares. The 1995 Stock and Incentive Plan (the 1995 Plan) was terminated with respect to any future awards under such plan on October 5, 2004 upon stockholder approval of the Award Plans. The 1995 Plan will remain in effect until all awards have been satisfied or expired. On February 21, 2008, our Board of Directors approved and on May 1, 2008, our stockholders approved the amendment to the Employees Plan and Directors Plan to authorize the issuance of an additional 6,000,000 shares and 300,000 shares of common stock, respectively.

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) incentive stock options, (c) non-qualified stock options, (d) stock appreciation rights, (e) performance awards, or (f) other stock-based awards which relate to or serve a similar function to the awards described above. Awards may be made on a stand alone, 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.

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 beginning in the period when management has determined it is probable the financial performance factor will be achieved for the respective vesting period.

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 prior to 2006 were subject to the same forfeiture restrictions as are applicable to employees. Restricted stock awards issued to directors in 2006 and thereafter 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 dividends, when issued). Commencing with share-based stock awards granted in 2007, we calculated the fair value of share-based stock awards based on the closing price on the date the award was granted. Prior to 2007, we calculated the fair value of our share-based stock awards based on the average of the high and low price on the day prior to the grant date.

During the year ended December 31, 2008, we awarded certain employees 453,605 shares of restricted stock awards. The restricted stock awards will be expensed over the requisite service period, subject to an assumed 10% percent

forfeiture rate. The terms of the restricted stock awards include two vesting provisions; one based on a performance factor and continued service (applicable to 66% of the award) and one based solely on continued service (applicable to 34% of the award). If all performance and service criteria are satisfied, the awards vest during March of 2009, 2010 and 2011.

On May 1, 2008, in accordance with our existing program for annual director compensation, we awarded 40,500 shares of restricted stock under the Directors Plan. We determined that the service vesting condition of the

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

restricted stock awards granted to the directors on May 1, 2008 to be non-substantive and, in accordance with SFAS 123R, recorded the entire fair value of the award as compensation expense on the grant date.

Changes in nonvested restricted stock awards during the year ended December 31, 2008 were as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2007	812,826	$ 18.77
Granted	494,105	26.37
Vested	(428,656)	17.64
Forfeited	(21,029)	23.17
Nonvested at December 31, 2008	857,246	23.61

As of December 31, 2008, there was $10.6 million unrecognized stock-based compensation expense related to nonvested restricted stock awards. This expense is expected to be recognized over a period of up to three years. Total compensation expense for restricted stock awards was $9.5 million, $7.9 million, and $5.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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. On February 21, 2008 and March 31, 2008, we granted options to purchase an aggregate of 200,000 shares and 50,000 shares, respectively, of common stock. The options expire 10 years from the date of grant and vest in equal installments over five years commencing on March 17, 2009.

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. For the option awards granted prior to 2007, we determined an expected life of eight years in accordance with SFAS 123 and SFAS 123R. In December 2007, the SEC issued SAB No. 110, which permits use of the simplified method, as discussed in SAB No. 107, to determine the expected life of plain vanilla options. The expected life for the options issued in 2007 was determined using this simplified method. The fair value of the stock option awards granted during the year ended December 2008 was calculated using the following assumptions:

Grant Date	Stock Options	Exercise Price	Risk-Free Interest Rate	Dividend Yield	Volatility Expected (A)	Expected Life (B)

February 21, 2008	200,000	$ 26.26	3.387%	0%	28%	6.54 years
March 31, 2008	50,000	$ 27.50	2.977%	0%	31%	6.48 years

(A) Expected volatility is based on implied volatility.

(B) Simplified method per SAB 107 and 110.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes activity and balance information of the options under the Award Plans and 1995 Plan:

	As of December 31,					
	2008		2007		2006	
	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	108,426	$ 3.86	178,426	$ 5.11	315,093	$ 5.26
Granted						
Exercised			70,000	7.06	136,667	5.45
Forfeited						
Outstanding at the end of the year	108,426	$ 3.86	108,426	$ 3.86	178,426	$ 5.11
Options exercisable at year end	108,426	$ 3.86	108,426	$ 3.86	178,426	$ 5.11
Options available for future grant						
2004 Stock Option Plan						
Outstanding at the beginning of the year	2,553,443	$ 17.96	851,238	$ 8.87	928,115	$ 8.14
Granted	250,000	26.51	1,805,000	22.14	50,000	20.35
Exercised	21,500	12.18	42,795	7.43	41,543	9.19
Forfeited	12,000	22.02	60,000	22.02	85,334	7.43
Outstanding at the end of the year	2,769,943	$ 18.76	2,553,443	$ 17.96	851,238	$ 8.87
Options exercisable at year end	1,126,543	$ 12.87	500,617	$ 9.24	216,572	$ 10.12
Options available for future grant	6,851,630		1,295,735		3,494,230	

As of December 31, 2008, options for shares were in the following price ranges:

Options Outstanding			Options Exercisable	
Number of	Weighted Average Remaining		Number of	

Exercise Price Range	Shares	Weighted Average Exercise Price	Contractual Life (Years)	Shares	Weighted Average Exercise Price
$1.45 - $5.31	108,426	$ 3.86	3.23	108,426	$ 3.86
$7.43	637,271	7.43	5.80	637,271	7.43
$12.90	106,672	12.90	6.70	106,672	12.90
$20.35 - $22.02	1,726,000	21.97	8.20	372,600	21.80
$24.80 - $28.34	300,000	26.46	9.50	10,000	26.22
	2,878,369			1,234,969	

The aggregate intrinsic value as of December 31, 2008 for options outstanding, options vested and expected to vest in the future and options exercisable was $10.8 million, $10.9 million, and $12.2 million, respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the closing stock price on the last trading day of 2008 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 2008 (December 31, 2008). The intrinsic value changes based on the fair market value of our common stock. Total intrinsic value of options exercised for the year ended as of December 31, 2008 was $0.3 million.

As of December 31, 2008, there were options to purchase 2,661,859 shares of common stock that had vested and were expected to vest in future periods at a weighted average exercise price of $17.87. The total fair value of options expensed was $5.3 million for the year ended December 31, 2008. As of December 31, 2008, there was $6.5 million of total unrecognized compensation expense related to stock options which is expected to be recognized over a weighted-average period of 3.4 years.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18. Accumulated Other Comprehensive (Loss) Income

AOCI, net of income taxes, consists of the following (in thousands):

	As of December 31, 2008	2007
Foreign currency translation	$ (5,233)	$ 5,248
Minimum pension liability	(765)	(362)
Amortization of SFAS 158 unrecognized net actuarial (loss) gain	(2,122)	11,096
Net unrealized (loss) gain on available-for-sale securities	(85)	322
Accumulated other comprehensive (loss) income	$ (8,205)	$ 16,304

Note 19. Financial Instruments

On January 1, 2008, we adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. We did not elect to apply the fair value option to any of our eligible financial assets and liabilities.

On January 1, 2008, we partially adopted SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which deferred the effective date of SFAS 157 for one year for all non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

Our investment securities that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation.

	Fair Value Measurements at Reporting Date Using		
As of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)	

Marketable securities available for sale	$ 300	$ 300	$	$
Investments in fixed maturities at market	26,737	26,737		
Derivatives Contingent interest feature of the Convertible Debentures (See Note 6)	0		0	
Total	$ 27,037	$ 27,037	$ 0	$

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 that value:

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 debt were determined based on interest rates that are currently available to us for issuance of debt with similar terms and remaining maturities for debt issues that are not traded on quoted market prices. The fair value of project debt is estimated based on quoted market prices for the same or similar issues.

Fair value of our interest rate swap agreement is the estimated amount we would receive or pay to terminate the agreement based on the net present value of the future cash flows as defined in the agreement.

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The disclosure below of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, Disclosures About Fair Value of Financial Instruments. The estimated fair-value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of December 31, 2008. However, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2008, and current estimates of fair value may differ significantly from the amounts presented herein.

The estimated fair value of financial instruments is presented as follows (in thousands):

	As of December 31, 2008	
	Carrying Amount	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 192,393	$ 192,393
Receivables	262,731	262,731
Restricted funds	345,330	345,633
Parent investments fixed maturity securities	300	300
Insurance business investments fixed maturity securities	26,737	26,737
Insurance business investments equity securities	792	792
Interest rate swap receivable	13,984	13,984
Liabilities:		
Long-term debt	$ 1,012,887	$ 850,122
Project debt	1,078,370	1,045,371
Interest rate swap payable	13,984	13,984
Off Balance-Sheet Financial Instruments:		
Guarantees(a)		

(a) Additionally guarantees include approximately $1.5 million of guarantees related to international energy projects.

Contingent Interest

The contingent interest feature in the Debentures is an embedded derivative instrument. The first contingent cash interest payment period does not commence until February 1, 2012, and the fair market value for the embedded derivative was zero as of December 31, 2008. For information detailing the contingent interest feature of the Debentures, see Note 6. Long-Term Debt.

Interest Rate Swaps

As of December 31, 2008, we had one interest rate swap agreement related to project debt that economically fixes the interest rate on certain adjustable-rate revenue bonds. This swap agreement was entered into in September 1995 and expires in January 2019. Any payments made or received under the swap agreement, including fair value amounts upon termination, are 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 are a pass through to the client community. Under the swap agreement, we pay a fixed rate of 5.18% and receive a floating rate that is either equal to (i) the rate on the adjustable rate revenue bonds or (ii) an alternative floating rate based on a percentage of LIBOR or the BMA Municipal Swap Index if certain triggering events occur, such as a put of bonds to the standby credit facility that backstops the weekly rate re-sets. Bonds have been put to the standby credit facility at various points in time during 2008, and as a result, the average floating rate received under the swap agreement for 2008 was 2.09%, which was less than the variable rate paid on the bonds. In the event that we terminate the swap

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prior to its maturity, the floating rate used for determination of settling the fair value of the swap would also be based on a set percentage of LIBOR or the BMA Municipal Swap index at the option of the counterparty. The notional amount of the swap as of December 31, 2008 was $68.2 million and is reduced in accordance with the scheduled repayments of the applicable revenue bonds. The counterparty to the swap is a major financial institution. We believe that the credit risk associated with nonperformance by the counterparty is not significant. The swap agreement resulted in increased debt service expense, which is a pass through to the client community, of $2.1 million, $1.2 million and $1.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. The effect on our weighted-average borrowing rate of the project debt was an increase of 0.18% for 2008.

We were required, under financing arrangements in effect from June 24, 2005 to February 9, 2007, to enter into hedging arrangements with respect to a portion of our exposure to interest rate changes with respect to our borrowing under the previously existing credit facilities. On July 8, 2005, we entered into two separate pay fixed, receive floating interest rate swap agreements with a total notional amount of $300 million. On March 21, 2006, we entered into one additional pay fixed, receive floating interest rate swap agreement with a notional amount of $37.5 million. On December 27, 2006, the notional amount of the original swap agreements reduced to $250 million from $300 million. These swaps were designated as cash flow hedges in accordance with SFAS 133. Accordingly, unrealized gains or losses are deferred in other comprehensive income until the hedged cash flows affect earnings. The impact of the swaps decreased interest expense for the year ended December 31, 2006 by $2.4 million. As of December 31, 2006, the net after-tax deferred gain in other comprehensive income was $2.1 million ($3.3 million before income taxes which was recorded in other assets). In connection with the refinancing of our previously existing credit facilities, the interest rate swap agreements described above were settled on February 9, 2007. We recognized a gain associated with the settlement of our interest rate swap agreements of $3.4 million, pre-tax. The Credit Facilities do not require us to enter into interest rate swap agreements. For additional information related to the Credit Facilities, see Note 6. Long-Term Debt.

Note 20. Related-Party Transactions

We hold a 26% investment in Quezon Power, Inc. (Quezon). We are party to an agreement with Quezon in which we assumed responsibility for the operation and maintenance of Quezon s coal-fired electricity generation facility. Accordingly, 26% of the net income of Quezon is reflected in our statements of income and as such, 26% of the revenue earned under the terms of the operation and maintenance agreement is eliminated against Equity in Net Income from Unconsolidated Investments. For the years ended December 31, 2008, 2007 and 2006, we collected $34.0 million, $35.4 million, and $26.9 million, respectively, for the operation and maintenance of the facility. As of December 31, 2008 and December 31, 2007, the net amount due to Quezon was $3.2 million and $1.1 million, respectively, which represents advance payments received from Quezon for operation and maintenance costs.

As part of our acquisition of Covanta Energy in 2004 as part of its emergence from bankruptcy, we agreed to conduct a registered offering of our common stock to certain holders of Covanta Energy s pre-petition secured debentures. On February 24, 2006, we completed this offering, in which 5,696,911 shares were issued in consideration for $20.8 million in gross proceeds, including 633,380 shares purchased by D.E. Shaw Laminar Portfolios, L.L.C. (Laminar) pursuant to the exercise of rights held by Laminar as a holder of those debentures.

One member of our current Board of Directors is a senior advisor to a major law firm which Covanta Energy has used for several years, including many years prior to 2004, when we acquired Covanta Energy. Such member of the Board of Directors has had no direct or indirect involvement in the procurement, oversight or provision of services we

receive from this law firm, is not involved in any manner in the billing of such services, and does not directly or indirectly benefit from associated fees. We paid this law firm approximately $2.2 million, $0.9 million, and $0.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 21. 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

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

basis and when losses are considered probable and reasonably estimable, record as a loss an estimate of the ultimate 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.

Covanta Energy Corporation

Generally, claims and lawsuits arising from events occurring prior to their respective petition dates against Covanta Energy and its subsidiaries, that had filed bankruptcy petitions and subsequently emerged from bankruptcy, have been resolved pursuant to the Covanta Energy reorganization plan, and have been discharged pursuant to orders of the Bankruptcy Court which confirmed the Covanta Energy reorganization plan or similar plans of subsidiaries emerging separately from Chapter 11. However, to the extent that claims are not dischargeable in bankruptcy, such claims may not be discharged. For example, the claims of certain persons who were personally injured prior to the petition date but whose injury only became manifest thereafter may not be discharged pursuant to the Covanta Energy reorganization plan.

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.

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.

In June 2001, the Environmental Protection Agency (EPA) named Covanta Haverhill, Inc. (Haverhill), as a potentially responsible party (PRP) at the Beede Waste Oil Superfund Site, Plaistow, New Hampshire (Beede site). On December 15, 2006, Haverhill together with numerous other PRPs signed the Beede Waste Oil Superfund Site RD/RA Consent Decree with respect to remediation of the Beede site. The Consent Decree was entered by the U.S. District Court in New Hampshire on July 22, 2008, and on October 1, 2008, Haverhill resolved its previously recorded liability of $750,000 under the Consent Decree by means of a payment to the Beede Waste Oil Superfund Site Settlement Trust. Haverhill s ultimate liability at the Beede site was not material to its financial position and results of

operations.

In August 2004, EPA notified Covanta Essex Company (Essex) that it was potentially liable 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 at least 73 PRPs named thus far that have joined the LPRSA PRP group. On May 8, 2007, EPA and the PRP group entered into an Administrative Order on Consent by which the PRP group is undertaking a Remedial Investigation/Feasibility Study (Study) of the LPRSA under EPA oversight. The cost to complete the Study is estimated at $54 million, in addition to EPA oversight costs. 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

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

any costs that may be required of PRPs to remediate the LPRSA or costs associated with natural resource damages to the LPRSA that may be assessed against PRPs. On February 4, 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) 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 from the third-party defendants 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 in comparison; however, it is not possible at this time to predict that outcome with certainty 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, 2008 were as follows (in thousands):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	$ 300,415	$ 46,111	$ 254,304
Surety bonds	64,086		64,086
Total other commitments net	$ 364,501	$ 46,111	$ 318,390

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.

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 Loan Facility.

The surety bonds listed on the table above relate primarily to performance obligations ($55.1 million) and support for closure obligations of various energy projects when such projects cease operating ($9.0 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 Debentures. These are:

holders may require us to repurchase their Debentures on February 1, 2012, February 1, 2017 and February 1, 2022;
holders may require us to repurchase their Debentures, 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 and/or our common stock.

See Note 6. Long-Term Debt for specific criteria related to contingent interest, conversion or redemption features of the Debentures.

We have issued or are party to performance guarantees and related contractual support obligations undertaken pursuant to agreements to construct and operate domestic and international waste and energy facilities. For some projects, such performance guarantees include obligations to repay certain financial obligations if the project

Table of Contents

COVANTA HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

revenues are insufficient to do so, or to obtain financing for a project. With respect to our domestic and international 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 on 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 domestic and international 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, either on domestic or international projects. See *Item 1A. Risk Factors We have provided guarantees and financial support in connection with our projects.*

Note 22. Quarterly Data (Unaudited)

The following table present quarterly unaudited financial data for the periods presented on the consolidated statements of income (in thousands, except per share amounts):

	Calendar Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
Fiscal Quarter	2008	2007	2008	2007	2008	2007	2008	2007
Operating revenue	$ 388,766	$ 330,209	$ 422,996	$ 355,140	$ 438,671	$ 352,350	$ 413,820	$ 395,388
Operating income	30,765	8,280	76,529	77,212	88,083	71,627	60,588	79,491
Net income (loss)	14,772	(17,918)	44,853	37,716	49,700	38,415	29,948	72,300
Earnings (loss) per share:								
Basic	0.10	(0.12)	0.29	0.25	0.32	0.25	0.20	0.47
Diluted	0.10	(0.12)	0.29	0.24	0.32	0.25	0.19	0.47

Table of Contents

Schedule II Valuation and Qualifying Accounts
Receivables Valuation and Qualifying Accounts

	Balance at Beginning of Period	Additions Charged to Costs and Expense	Additions Charged to Other Accounts	Deductions	Balance at End of Period
			(In thousands)		
For the year ended December 31, 2008					
Allowances deducted in the balance sheet from the assets to which they apply:					
Doubtful receivables current	$ 4,353	$ 1,821	$	$ 2,737	$ 3,437
Doubtful receivables noncurrent	409	18		120	307
Total	$ 4,762	$ 1,839	$	$ 2,857	$ 3,744
For the year ended December 31, 2007					
Allowances deducted in the balance sheet from the assets to which they apply:					
Doubtful receivables current	$ 4,469	$ 1,270	$ 19	$ 1,405	$ 4,353
Doubtful receivables noncurrent	382	(80)		(107)	409
Total	$ 4,851	$ 1,190	$ 19	$ 1,298	$ 4,762
For the year ended December 31, 2006					
Allowances deducted in the balance sheet from the assets to which they apply:					
Doubtful receivables current	$ 4,959	$ 2,088	$ 1,003	$ 3,581	$ 4,469
Doubtful receivables noncurrent	274	81		(27)	382
Total	$ 5,233	$ 2,169	$ 1,003	$ 3,554	$ 4,851

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, 2008. 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

Table of Contents

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, 2008 as required by Section 404 of the Sarbanes-Oxley Act. Management s report on our internal control over financial reporting is included on page 130. The Independent Registered Public Accounting Firm s report with respect to the effectiveness of our internal control over financial reporting is included on page 131. Management has concluded that internal control over financial reporting is effective as of December 31, 2008.

Changes in Internal Control over Financial Reporting

Our management continually reviews the disclosure controls and procedures and makes changes, as necessary, to ensure the quality of our financial reporting. There has not been any change in our system of internal control over financial reporting during the fiscal quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Table of Contents

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, 2008, 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, 2008.

Our independent auditors, Ernst & Young LLP, have issued an attestation report on our internal control over financial reporting. This report appears on page 131 of this report on Form 10-K for the year ended December 31, 2008.

/s/ Anthony J. Orlando

Anthony J. Orlando
President and Chief Executive Officer

/s/ Mark A. Pytosh
Mark A. Pytosh
Executive Vice President and Chief Financial Officer

February 25, 2009

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Covanta Holding Corporation

We have audited Covanta Holding Corporation s internal control over financial reporting as of December 31, 2008, 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, 2008, 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, 2008 and 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 25, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey
February 25, 2009

131

Table of Contents

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 the definitive Proxy Statement for the 2009 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 2009 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 2009 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 Incentive Plans and the number of securities remaining for future issuance under the 2004 Stock Incentive Plans as of December 31, 2008. Upon adoption of the 2004 Stock Incentive Plans, future issuances under the 1995 Plan were terminated. We do not have any equity compensation plans that have not been approved by our security holders.

	Number of Securities to	Weighted Average Exercise Price of Outstanding	Number of Securities Remaining Available for Future Issuance

Plan category	be Issued Upon Exercise of Outstanding Options, Warrants and Rights (A)		Options, Warrants and Rights (B)	Under Equity Compensation Plans (Excluding Securities Reflected in Column A) (C)
Equity Compensation Plans Approved By Security Holders	2,878,369	$	18.20	7,028,964(1)
Equity Compensation Plans Not Approved By Security Holders	N/A		N/A	N/A
TOTAL	2,878,369	$	18.20	7,028,964

(1) Of the 7,028,964 shares that remain available for future issuance, 6,851,630 are currently reserved for issuance under the equity compensation plans.

Table of Contents

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 2009 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 2009 Annual Meeting of Stockholders.

PART IV

Item 15. ***EXHIBITS AND 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, 2008, 2007 and 2006

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Stockholders Equity for the years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements, for the years ended December 31, 2008, 2007 and 2006

Report of Ernst & Young LLP, Independent Auditors, on the consolidated financial statements of Covanta Holding Corporation for the years ended December 31, 2008, 2007 and 2006

(2) *Financial Statement Schedules of Covanta Holding Corporation:*

Included in Part II of this report:

Schedule II Valuation and Qualifying Accounts

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.

Table of Contents

(3) *Exhibits:*

EXHIBIT INDEX

Exhibit No.	Description
Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.	
2.1	Investment and Purchase Agreement by and between Covanta Holding Corporation and Covanta Energy Corporation dated as of December 2, 2003 (incorporated herein by reference to Exhibit 2.1 of Covanta Holding Corporation s Current Report on Form 8-K dated December 2, 2003 and filed with the SEC on December 5, 2003, as amended by Covanta Holding Corporation s Current Report on Form 8-K/A dated December 2, 2003 and filed with the SEC on January 30, 2004).
2.2	Note Purchase Agreement by and between Covanta Holding Corporation and the Purchasers named therein dated as of December 2, 2003 (incorporated herein by reference to Exhibit 2.2 of Covanta Holding Corporation s Current Report on Form 8-K dated December 2, 2003 and filed with the SEC on December 5, 2003, as amended by Covanta Holding Corporation s Current Report on Form 8-K/A dated December 2, 2003 and filed with the SEC on January 30, 2004).
2.3	Amendment to Investment and Purchase Agreement by and between Covanta Holding Corporation and Covanta Energy Corporation dated February 23, 2004 (incorporated herein by reference to Exhibit 2.3 of Covanta Holding Corporation s Current Report on Form 8-K dated March 10, 2004 and filed with the SEC on March 11, 2004).
2.4	First Amendment to Note Purchase Agreement and Consent by and among Covanta Holding Corporation and 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 as of February 23, 2004 (incorporated herein by reference to Exhibit 2.4 of Covanta Holding Corporation s Current Report on Form 8-K dated March 10, 2004 and filed with the SEC on March 11, 2004).
2.5	Stock Purchase Agreement among Covanta ARC Holdings, Inc., the Sellers party thereto and Covanta Holding Corporation dated as of January 31, 2005 (incorporated herein by reference to Exhibit 2.1 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2005 and filed with the SEC on February 2, 2005).
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, as amended and effective May 30, 2007 (incorporated herein by reference to Exhibit 3.1(ii) of Covanta Holding Corporation s Current Report on Form 8-K dated May 30, 2007 filed with the SEC on May 31, 2007).
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 Form of Warrant Offering Agreement between Wells Fargo Bank, National Association and Covanta Holding Corporation (incorporated herein by reference to Exhibit 4.11 of Covanta Holding Corporation s Amendment No. 3 to Registration Statement on Form S-1 filed with the SEC on December 19, 2005).

Table of Contents

Exhibit No.		Description
4.5		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).
4.6		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).
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 Employees and Officers, as amended (incorporated herein by reference to Exhibit A 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 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).
10.7	*	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	*	Employment Agreement, dated October 5, 2004, by and between Anthony J. Orlando and Covanta Projects, Inc., Covanta Energy Corporation and Covanta Holding Corporation (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated October 5, 2004 and filed with the SEC on October 7, 2004).
10.11	*	Employment Agreement, dated October 5, 2004, by and between Timothy J. Simpson and Covanta Projects, Inc., Covanta Energy Corporation and Covanta Holding Corporation (incorporated herein by

reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated October 5, 2004 filed with the SEC on October 7, 2004).

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).

Table of Contents

Exhibit No.		Description
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	*	Employment Agreement, dated October 5, 2004, by and between John Klett and Covanta Energy Corporation (incorporated herein by reference to Exhibit 10.7 of Covanta Energy Corporation s Current Report on Form 8-K dated October 5, 2004 and filed with the SEC on October 7, 2004).
10.16	*	Employment Agreement, dated October 5, 2004, by and between Seth Myones and Covanta Energy Corporation (incorporated herein by reference to Exhibit 10.9 of Covanta Energy Corporation s Current Report on Form 8-K dated October 5, 2004 and filed with the SEC on October 7, 2004).
10.17	*	Form of Amendment to Employment Agreement with a. Anthony J. Orlando, President and Chief Executive Officer; b. Mark A. Pytosh, Executive Vice President and Chief Financial Officer; c. John M. Klett, Executive Vice President and Chief Operating Officer; d. Timothy J. Simpson, Executive Vice President, General Counsel and Secretary; e. Seth Myones, President, Americas Covanta Energy and certain subsidiaries, dated October 22, 2008, and effective as of January 1, 2009 (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Quarterly Report on Form 10-Q for the period ended September 30, 2008 and filed with the SEC on October 22, 2008).
10.18		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).
10.19		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).
10.20		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).
10.21		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).

10.22 * Transition and Separation Agreement, dated April 5, 2006, among Craig D. Abolt, Covanta Holding Corporation, Covanta Energy Corporation and Covanta Projects, Inc. (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated April 5, 2006 and filed with the SEC on April 7, 2006).

Table of Contents

Exhibit No.		Description
10.23		Amended and Restated Credit Agreement, dated as of May 26, 2006, among Covanta Energy Corporation, Covanta Holding Corporation as a guarantor, certain subsidiaries of Covanta Energy Corporation as guarantors, various lenders, Goldman Sachs Credit Partners L.P., as Sole Lead Arranger, Sole Book Runner and Sole Syndication Agent, Administrative Agent and Collateral Agent, JPMorgan Chase Bank, as Co-Documentation Agent, Revolving Issuing Bank and a Funded LC Issuing Bank, UBS Securities LLC, as Co-Documentation Agent, UBS AG, Stamford Branch, as a Funded LC Issuing Bank, and Calyon New York Branch, as Co-Documentation Agent (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 26, 2006 and filed with the SEC on May 31, 2006).
10.24		Amendment to Second Lien Credit and Guaranty Agreement, dated as of May 26, 2006, among Covanta Energy Corporation, Covanta Holding Corporation and the parties signatory thereto (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated May 26, 2006 and filed with the SEC on May 31, 2006).
10.25		Amendment and Limited Waiver to Intercreditor Agreement, dated as of May 26, 2006, among Covanta Energy Corporation, Goldman Sachs Credit Partners L.P., as Collateral Agent under the First Lien Credit Agreement, Credit Suisse, Cayman Islands Branch, as Administrative Agent for the Second Lien Credit Agreement and as Collateral Agent for the Parity Lien Claimholders (incorporated herein by reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated May 26, 2006 and filed with the SEC on May 31, 2006).
10.26	*	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).
10.27	*	Employment Agreement, dated as of August 17, 2006, among Covanta Holding Corporation, Covanta Energy Corporation and Mark A. Pytosh (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated August 17, 2006 and filed with the SEC on August 17, 2006).
10.28		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).
10.29		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).
10.30		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).
10.31		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).

Table of Contents

Exhibit No.	Description
10.32	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, Richard L. Huber, Anthony J. Orlando, William C. Pate, Robert S. Silberman, Jean Smith, Clayton Yeutter, Samuel Zell, Mark A. Pytosh, Timothy J. Simpson, 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.
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.
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.

Not filed herewith, but incorporated herein by reference.

* Management contract or compensatory plan or arrangement.

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.

Table of Contents

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: March 2, 2009

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)	March 2, 2009
/s/ Mark A. Pytosh Mark A. Pytosh	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 2, 2009
/s/ Thomas E. Bucks Thomas E. Bucks	Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 2, 2009
/s/ Samuel Zell Samuel Zell	Chairman of the Board	March 2, 2009
/s/ David M. Barse David M. Barse	Director	March 2, 2009
/s/ Ronald J. Broglio Ronald J. Broglio	Director	March 2, 2009
/s/ Peter C. B. Bynoe	Director	March 2, 2009

Peter C. B. Bynoe		
/s/ Linda J. Fisher	Director	March 2, 2009
Linda J. Fisher		
/s/ Richard L. Huber	Director	March 2, 2009
Richard L. Huber		
/s/ William C. Pate	Director	March 2, 2009
William C. Pate		
/s/ Robert S. Silberman	Director	March 2, 2009
Robert S. Silberman		
/s/ Jean Smith	Director	March 2, 2009
Jean Smith		
/s/ Clayton Yeutter	Director	March 2, 2009
Clayton Yeutter		