

COVANTA HOLDING CORP
Form 10-Q/A
August 11, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-06732
COVANTA HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 95-6021257
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification Number)

445 South Street, Morristown, NJ 07960
(Address of Principal Executive Office) (Zip Code)
(862) 345-5000
(Registrant’s telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Applicable Only to Corporate Issuers:

Indicate the number of shares of the registrant’s Common Stock outstanding as of the latest practicable date.

Class Outstanding at July 31, 2014
Common Stock, \$0.10 par value 130,930,910

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EXPLANATORY NOTE

Covanta Holding Corporation is filing this Amendment No. 1 (the "Form 10-Q/A") to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (the "Form 10-Q"), filed with the Securities and Exchange Commission on August 8, 2014, for the sole purpose of deleting Exhibit 99.2 which was inadvertently attached to the Form 10-Q. Except for the deletion of Exhibit 99.2, this Form 10-Q/A restates the Form 10-Q in its entirety.

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FORM 10-Q QUARTERLY REPORT
For the Quarter Ended June 30, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q may constitute “forward-looking” statements as defined in Section 27A of the Securities Act of 1933 (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), the Private Securities Litigation Reform Act of 1995 (the “PSLRA”) or in releases made by the Securities and Exchange Commission (“SEC”), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Covanta Holding Corporation and its subsidiaries (“Covanta”) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words “plan,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “may,” “will,” “would,” “could,” “should,” “seeks,” or “scheme,” or 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 us are not guarantees or indicative of future performance. Important factors, risks and uncertainties that could cause actual results to differ materially from those forward-looking statements include, but are not limited to:

- seasonal or long-term fluctuations in the prices of energy, waste disposal, scrap metal and commodities;
- our ability to renew or replace expiring contracts at comparable prices and with other acceptable terms;
- adoption of new laws and regulations in the United States and abroad, including energy laws, environmental laws, labor laws and healthcare laws;
- our ability to utilize net operating loss carryforwards;
- failure to maintain historical performance levels at our facilities and our ability to retain the rights to operate facilities we do not own;
- our ability to avoid adverse publicity relating to our business;
- advances in technology;
- difficulties in the operation of our facilities, including fuel supply and energy delivery interruptions, failure to obtain regulatory approvals, equipment failures, labor disputes and work stoppages, and weather interference and catastrophic events;
- difficulties in the financing, development and construction of new projects and expansions, including increased construction costs and delays;
- limits of insurance coverage;
- our ability to avoid defaults under our long-term contracts;
- performance of third parties under our contracts and such third parties' observance of laws and regulations;
- concentration of suppliers and customers;
- geographic concentration of facilities;
- increased competitiveness in the energy and waste industries;
- changes in foreign currency exchange rates;
- limitations imposed by our existing indebtedness and our ability to perform our financial obligations and guarantees and to refinance our existing indebtedness;
- exposure to counterparty credit risk and instability of financial institutions in connection with financing transactions;
- the scalability of our business;
- restrictions in our certificate of incorporation and debt documents regarding strategic alternatives;
- failures of disclosure controls and procedures and internal controls over financial reporting;
- our ability to attract and retain talented people;
- general economic conditions in the United States and abroad, including the availability of credit and debt financing;
- and
-

other risks and uncertainties affecting our businesses described in Item 1A. Risk Factors of Covanta's Annual Report on Form 10-K for the year ended December 31, 2013 and in other filings by Covanta with the SEC.

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

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COVANTA HOLDING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)			
	(In millions, except per share amounts)			
OPERATING REVENUES:				
Waste and service revenues	\$267	\$257	\$508	\$487
Recycled metals revenues	25	17	46	33
Energy revenues	110	103	230	205
Other operating revenues	30	34	49	58
Total operating revenues	432	411	833	783
OPERATING EXPENSES:				
Plant operating expenses	268	250	550	530
Other operating expenses	29	25	47	42
General and administrative expenses	26	21	47	42
Depreciation and amortization expense	53	52	106	105
Net interest expense on project debt	2	4	5	7
Net write-offs	7	4	16	4
Total operating expenses	385	356	771	730
Operating income	47	55	62	53
Other expenses:				
Interest expense	(33	) (29	) (62	) (58
Non-cash convertible debt related expense	(5	) (7	) (13	) (14
Loss on extinguishment of debt	—	—	(2	) (1
Total other expenses	(38	) (36	) (77	) (73
Income (loss) from continuing operations before income tax (expense) benefit and equity in net income (loss) from unconsolidated investments	9	19	(15	) (20
Income tax (expense) benefit	(10	) (7	) 4	9
Equity in net income from unconsolidated investments	2	1	3	—
Income (loss) from continuing operations	1	13	(8	) (11
Loss from discontinued operations, net of income tax benefit of \$0, \$0, \$0 and \$1, respectively	—	(51	) —	(53
NET INCOME (LOSS)	1	(38	) (8	) (64
Less: Net loss from continuing operations attributable to noncontrolling interests in subsidiaries	—	—	—	1
NET INCOME (LOSS) ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	\$1	\$(38) \$(8) \$(63

Amounts Attributable to Covanta Holding Corporation stockholders:

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Continuing operations	\$1	\$13	\$(8) \$(10)
Discontinued operations	—	(51) —	(53)
Net Income (Loss) Attributable to Covanta Holding Corporation	\$1	\$(38) \$(8) \$(63)

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

Table of ContentsCOVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited)			
	(In millions, except per share amounts)			
Income (Loss) Per Share Attributable to Covanta Holding Corporation stockholders:				
Basic				
Continuing operations	\$—	\$0.09	\$(0.07)	\$(0.08)
Discontinued operations	—	(0.39)	) —	(0.41)
Covanta Holding Corporation	\$—	\$(0.30)	) \$(0.07)	) \$(0.49)
Weighted Average Shares	130	129	129	129
Diluted				
Continuing operations	\$—	\$0.09	\$(0.07)	\$(0.08)
Discontinued operations	—	(0.39)	) —	(0.41)
Covanta Holding Corporation	\$—	\$(0.30)	) \$(0.07)	) \$(0.49)
Weighted Average Shares	131	130	129	129
Cash Dividend Declared Per Share:	\$0.18	\$0.165	\$0.36	\$0.33

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
	(Unaudited)				
	(In millions)				
Net income (loss)	\$1	\$(38	) \$(8	) \$(64)
Foreign currency translation	1	—	(2	) (5)
Adjustment for defined benefit pension plan settlement, net of tax benefit of \$0, \$0, \$0 and \$2, respectively	—	—	—	(4)
Pension and postretirement plan unrecognized benefits, net of tax expense of \$0, \$0, \$0 and \$1, respectively	—	—	—	3	
Net unrealized (loss) gain on derivative instruments, net of tax benefit of \$1, \$1, \$3 and \$0, respectively	(1	) 2	(5) —	
Net unrealized gain (loss) on available for sale securities, net of tax expense of \$0, \$0, \$0 and \$0, respectively	1	(1	) 1	—	
Other comprehensive income (loss) attributable to Covanta Holding Corporation	1	1	(6	) (6)
Comprehensive income (loss)	2	(37	) (14	) (70)
Less:					
Net loss attributable to noncontrolling interests in subsidiaries	—	—	—	1	
Comprehensive loss attributable to noncontrolling interests in subsidiaries	—	—	—	1	
Comprehensive income (loss) attributable to Covanta Holding Corporation	\$2	\$(37	) \$(14	) \$(69)

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2014 (Unaudited) (In millions, except per share amounts)	December 31, 2013
ASSETS		
Current:		
Cash and cash equivalents	\$172	\$198
Restricted funds held in trust	50	41
Receivables (less allowances of \$6 and \$4, respectively)	284	265
Unbilled service receivables	8	16
Deferred income taxes	39	25
Note Hedge	—	78
Prepaid expenses and other current assets	103	110
Assets held for sale	4	7
Total Current Assets	660	740
Property, plant and equipment, net	2,656	2,636
Investments in fixed maturities at market (cost: \$31 and \$32, respectively)	31	32
Restricted funds held in trust	114	126
Unbilled service receivables	10	13
Waste, service and energy contracts, net	333	364
Other intangible assets, net	20	20
Goodwill	296	249
Investments in investees and joint ventures	41	47
Other assets	160	151
Total Assets	\$4,321	\$4,378
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	\$2	\$528
Current portion of project debt	48	55
Accounts payable	49	24
Accrued expenses and other current liabilities	241	250
Liabilities held for sale	1	2
Total Current Liabilities	341	859
Long-term debt	2,034	1,557
Project debt	171	181
Deferred income taxes	784	722
Waste and service contracts, net	24	30
Other liabilities	116	118
Total Liabilities	3,470	3,467
Commitments and Contingencies (Note 13)		
Equity:		
Covanta Holding Corporation stockholders equity:		
Preferred stock (\$0.10 par value; authorized 10 shares; none issued and outstanding)	—	—
	14	14

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Common stock (\$0.10 par value; authorized 250 shares; issued 136 and 136 shares, respectively; outstanding 131 and 130 shares, respectively)			
Additional paid-in capital	799	790	
Accumulated other comprehensive loss	(8	) (2)
Accumulated earnings	51	106	
Treasury stock, at par	(1	) (1)
Total Covanta Holding Corporation stockholders equity	855	907	
Noncontrolling interests in subsidiaries	(4	) 4	
Total Equity	851	911	
Total Liabilities and Equity	\$4,321	\$4,378	

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2014	2013
	(Unaudited, in millions)	
OPERATING ACTIVITIES:		
Net loss	\$(8	) \$(64
Less: Loss from discontinued operations, net of tax expense	—	(53
Loss from continuing operations	(8	) (11
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities from continuing operations:		
Depreciation and amortization expense	106	105
Amortization of long-term debt deferred financing costs	4	4
Amortization of debt premium and discount	—	(1
Net write-offs	16	4
Pension plan settlement gain	—	(6
Loss on extinguishment of debt	2	1
Non-cash convertible debt related expense	13	14
Stock-based compensation expense	8	9
Equity in net income from unconsolidated investments	(3) —
Dividends from unconsolidated investments	10	6
Deferred income taxes	1	(6
Other, net	1	(6
Change in restricted funds held in trust	1	8
Change in working capital	(8	) (17
Total adjustments for continuing operations	151	115
Net cash provided by operating activities from continuing operations	143	104
Net cash used in operating activities from discontinued operations	—	(7
Net cash provided by operating activities	143	97
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	4	4
Purchase of investment securities	(2	) (15
Purchase of property, plant and equipment	(115	) (97
Acquisition of noncontrolling interest in subsidiary	—	(14
Other, net	(1	) (3
Net cash used in investing activities from continuing operations	(114	) (125
Net cash provided by investing activities from discontinued operations	—	—
Net cash used in investing activities	(114	) (125
FINANCING ACTIVITIES:		
Proceeds from borrowings on long-term debt	400	—
Payment of deferred financing costs	(10	) (1
Principal payments on long-term debt	(556	) (2
Payments related to Cash Conversion Option	(83) —
Proceeds from settlement of Note Hedge	83	—
Principal payments on project debt	(18	) (29
Payments of borrowings on revolving credit facility	(221	) (206
Proceeds from borrowings on revolving credit facility	391	