

COVANTA HOLDING CORP
Form 10-Q
October 26, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2016

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 October 21, 2016
Common Stock, \$0.10 par value	130,415,290

Table of Contents

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
 FORM 10-Q QUARTERLY REPORT
 For the Quarter Ended September 30, 2016

PART I. FINANCIAL INFORMATION

	Page
<u>Cautionary Note Regarding Forward-Looking Statements</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 (Unaudited) and December 31, 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flow for the Nine Month Ended September 30, 2016 and 2015 (Unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Note 1. Organization and Basis of Presentation</u>	<u>8</u>
<u>Note 2. Recent Accounting Pronouncements</u>	<u>8</u>
<u>Note 3. Dispositions and Other</u>	<u>9</u>
<u>Note 4. Earnings Per Share (“EPS”) and Equity</u>	<u>10</u>
<u>Note 5. Financial Information by Business Segments</u>	<u>12</u>
<u>Note 6. Consolidated Debt</u>	<u>13</u>
<u>Note 7. Income Taxes</u>	<u>15</u>
<u>Note 8. Supplementary Information</u>	<u>15</u>
<u>Note 9. Stock-Based Compensation</u>	<u>15</u>
<u>Note 10. Financial Instruments</u>	<u>16</u>
<u>Note 11. Derivative Instruments</u>	<u>18</u>
<u>Note 12. Commitments and Contingencies</u>	<u>19</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Consolidated Results of Operations</u>	<u>23</u>
<u>Adjusted EPS (Non-GAAP)</u>	<u>30</u>
<u>Adjusted EBITDA (Non-GAAP)</u>	<u>31</u>
<u>Liquidity and Capital Resources</u>	<u>32</u>
<u>Free Cash Flow (Non-GAAP)</u>	<u>34</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 4. Controls and Procedures</u>	<u>37</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>40</u>
<u>Item 1A. Risk Factors</u>	<u>40</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>40</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>40</u>
<u>Item 5. Other Information</u>	<u>40</u>
<u>Item 6. Exhibits</u>	<u>40</u>
OTHER	
<u>Signatures</u>	<u>41</u>

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future. They are based on management’s assumptions and assessments in the light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. They are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties, which can affect our performance in both the near- and long-term. These forward-looking statements should be considered in the light of the information included in this report and our other filings with the Securities and Exchange Commission, including, without limitation, the Risk Factors, as well as the description of trends and other factors in Management’s Discussion and Analysis of Financial Condition and Results of Operations, set forth in our 2015 Annual Report on Form 10-K.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2016 2015		Nine Months Ended September 30, 2016 2015	
	(Unaudited)			
	(In millions, except per share amounts)			
OPERATING REVENUE:				
Waste and service revenue	\$299	\$283	\$875	\$805
Energy revenue	92	108	279	319
Recycled metals revenue	14	16	44	49
Other operating revenue	16	15	44	40
Total operating revenue	421	422	1,242	1,213
OPERATING EXPENSE:				
Plant operating expense	272	260	901	849
Other operating expense	14	18	45	55
General and administrative expense	23	20	71	71
Depreciation and amortization expense	52	50	155	148
Impairment charges	—	—	19	24
Total operating expense	361	348	1,191	1,147
Operating income	60	74	51	66
Other income (expense):				
Interest expense, net	(35)	(34)	(103)	(102)
Gain on asset sales	43	—	43	—
Loss on extinguishment of debt	—	—	—	(2)
Other expense, net	(1)	—	(1)	(1)
Total other income (expense)	7	(34)	(61)	(105)
Income (loss) before income tax (expense) benefit and equity in net (loss) income from unconsolidated investments	67	40	(10)	(39)
Income tax (expense) benefit	(12)	(11)	(5)	19
Equity in net (loss) income from unconsolidated investments	(1)	5	3	11
NET INCOME (LOSS) ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	\$54	\$34	\$(12)	\$(9)