

COVANTA HOLDING CORP

Form 10-Q

April 27, 2018

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**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 March 31, 2018

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

*(State or Other Jurisdiction of
Incorporation or Organization)*

95-6021257

*(I.R.S. Employer
Identification
Number)*

445 South Street, Morristown, NJ

(Address of Principal Executive Office)

07960

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

<u>Class</u>	<u>Outstanding at April 20, 2018</u>
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Common Stock, \$0.10 par value	130,808,687
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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended March 31, 2018

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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 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 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 2017 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 March 31, 2018 2017 (Unaudited) (In millions, except per share amounts)	
OPERATING REVENUE:		
Waste and service revenue	\$312	\$286
Energy revenue	100	86
Recycled metals revenue	24	16
Other operating revenue	22	16
Total operating revenue	458	404
OPERATING EXPENSE:		
Plant operating expense	345	332
Other operating expense, net	8	15
General and administrative expense	31	28
Depreciation and amortization expense	54	52
Total operating expense	438	427
Operating income (loss)	20	(23)
OTHER INCOME (EXPENSE):		
Interest expense	(38)	(36)
Gain (loss) on sale of assets	210	(4)
Total other income (expense)	172	(40)
Income (loss) before income tax benefit	192	(63)
Income tax benefit	9	11
Net income (loss)	\$201	\$(52)
Weighted Average Common Shares Outstanding:		
Basic	130	129
Diluted	132	129
Earnings (Loss) Per Share:		
Basic	\$1.55	\$(0.41)
Diluted	\$1.53	\$(0.41)
Cash Dividend Declared Per Share	\$0.25	\$0.25

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

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**COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Three Months Ended March 31, 2018 2017 (Unaudited, in millions)	
Net income (loss)	\$201	\$(52)
Foreign currency translation, net of tax expense of \$1and \$0, respectively	12	3
Net unrealized gain on derivative instruments, net of tax expense of \$1and \$0, respectively	32	—
Other comprehensive income	44	3
Comprehensive income (loss)	\$245	\$(49)

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

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2018	December 31, 2017
	(Unaudited)	
	(In millions, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	\$ 51	\$ 46
Restricted funds held in trust	42	43
Receivables (less allowances of \$11 million and \$14 million, respectively)	318	341
Prepaid expenses and other current assets	61	73
Assets held for sale	3	653
Total Current Assets	475	1,156
Property, plant and equipment, net	2,609	2,606
Restricted funds held in trust	23	28
Waste, service and energy contracts, net	248	251
Other intangible assets, net	35	36
Goodwill	313	313
Other assets	219	51
Total Assets	\$ 3,922	\$ 4,441
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	\$ 10	\$ 10
Current portion of project debt	24	23
Accounts payable	75	151
Accrued expenses and other current liabilities	261	313
Liabilities held for sale	—	540
Total Current Liabilities	370	1,037
Long-term debt	2,279	2,339
Project debt	141	151
Deferred income taxes	412	412
Other liabilities	75	75
Total Liabilities	3,277	4,014
Commitments and Contingencies (Note 14)		
Equity:		
Preferred stock (\$0.10 par value; authorized 10 shares; none issued and outstanding)	—	—
Common stock (\$0.10 par value; authorized 250 shares; issued 136 shares, outstanding 131 shares)	14	14
Additional paid-in capital	828	822
Accumulated other comprehensive loss	(11)	(55)
Accumulated deficit	(185)	(353)
Treasury stock, at par	(1)	(1)
Total stockholders' equity	645	427
Total Liabilities and Equity	\$ 3,922	\$ 4,441

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

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**

	Three Months Ended March 31, 2018 2017 (Unaudited, in millions)	
OPERATING ACTIVITIES:		
Net income (loss)	\$201	\$(52)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	54	52
Amortization of deferred debt financing costs	2	2
(Gain) loss on sale of assets	(210)	4
Stock-based compensation expense	9	5
Deferred income taxes	(3)	(14)
Other, net	(12)	2
Change in working capital, net of effects of acquisitions and dispositions	(44)	5
Changes in noncurrent assets and liabilities, net	6	5
Net cash provided by operating activities	3	9
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(81)	(62)
Acquisition of businesses, net of cash acquired	(4)	(16)
Proceeds from the sale of assets, net of restricted cash	111	—
Property insurance proceeds	7	2
Payment of indemnification claim from sale of asset	(7)	—
Other, net	—	(1)
Net cash provided by (used in) investing activities	26	(77)
FINANCING ACTIVITIES:		
Proceeds from borrowings on long-term debt	—	400
Proceeds from borrowings on revolving credit facility	170	331
Proceeds from borrowings on project debt	—	33
Payments on long-term debt	(1)	(1)
Payment on revolving credit facility	(228)	(288)
Payments on equipment financing capital leases	(1)	(1)
Payments on project debt	(10)	(9)
Payment of deferred financing costs	—	(8)
Cash dividends paid to stockholders	(33)	(33)
Financing of insurance premiums, net	(7)	—
Other, net	—	(3)
Net cash (used in) provided by financing activities	(110)	421
Effect of exchange rate changes on cash and cash equivalents	3	1
Net (decrease) increase in cash, cash equivalents and restricted cash	(78)	354
Cash, cash equivalents and restricted cash at beginning of period	194	194
Cash, cash equivalents and restricted cash at end of period	\$116	\$548
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$51	\$444
Restricted funds held in trust- short term	42	52

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Restricted funds held in trust- long term	23	52
Total cash, cash equivalents and restricted cash	\$ 116	\$ 548

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

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

Organization

Covanta is one of the world’s largest owners and operators of infrastructure for the conversion of waste to energy (known as “energy-from-waste” or “EfW”), and also owns and operates related waste transport, processing and disposal assets. EfW serves as both a sustainable waste management solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity and/or steam as well as from the sale of metal recovered during the EfW process. We process approximately 20 million tons of solid waste annually. We operate and/or have ownership positions in 42 energy-from-waste facilities, which are primarily located in North America and Ireland. In total, these assets produce approximately 10 million megawatt hours (“MWh”) of baseload electricity annually. We also operate a waste management infrastructure that is complementary to our core EfW business.

In addition, we offer a variety of sustainable waste management solutions in response to customer demand, including industrial, consumer products and healthcare waste handling, treatment and assured destruction, industrial wastewater treatment and disposal, product depackaging and recycling, on-site cleaning services, and transportation services. Together with our processing of non-hazardous "profiled waste" for purposes of assured destruction or sustainability goals in our EfW facilities, we offer these services under our Covanta Environmental Solutions brand.

We have one reportable segment which comprises our entire operating business. For additional information regarding our reportable segment, see *Note 5. Financial Information by Business Segments*.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes thereto required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in our condensed consolidated financial statements. All intercompany accounts and transactions have been eliminated. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. The condensed consolidated balance sheet at December 31, 2017, was derived from audited annual consolidated financial statements, but does not contain all of the notes thereto from the annual consolidated financial statements. This Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and accompanying Notes in our Annual Report on Form 10-K for the year ended December 31, 2017 (“Form 10-K”).

Accounting Pronouncements Recently Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) which supersedes nearly all existing revenue recognition guidance. Subsequent to the issuance of Topic 606, the FASB clarified the guidance through several Accounting Standard Updates; hereinafter the collection of revenue guidance is referred to as “ASC 606”. The core principle of ASC 606 is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the historic accounting guidance under Topic 605, Revenue Recognition.

Table of Contents**COVANTA HOLDING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)**

We recorded a net decrease of \$1 million to beginning accumulated deficit as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning accumulated deficit resulted from recognizing revenue evenly over the contract year for certain of our service fee contracts that are based on a contract year that is different from our calendar year. Contract acquisition costs are not material. The adoption of ASC 606 did not have a material impact on our condensed consolidated financial statements as of and for the three months ended March 31, 2018. For the three months ended March 31, 2018 revenue decreased, \$1 million and, as a result, comparisons of revenue and operating income between periods are not materially affected by the adoption of ASC 606. Refer to *Note 6. Revenue* for additional disclosures required by ASC 606.

In March 2017, the FASB issued ASU 2017-07, Presentation of Net Periodic Pension and Postretirement Benefit Cost, to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments require that the service cost component of the net periodic benefit cost be presented in the same operating income line items as other compensation costs arising from services rendered by employees during the period. The non-service costs (e.g., interest cost, expected return on plan assets, amortization of actuarial gains/losses, settlements) should be presented in the income statement outside of operating income. The amendments also allow only the service cost component to be eligible for capitalization when applicable. We adopted this guidance on January 1, 2018. The amendments have been applied retrospectively for the income statement presentation requirements and prospectively for the limit on costs eligible for capitalization. The line item classification changes required by the new guidance did not have a material impact on our condensed consolidated statement of operations.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) — Restricted Cash,” which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. With this standard, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. We adopted this guidance on January 1, 2018, and the guidance has been retrospectively applied to all periods presented. The total of cash, cash equivalents and restricted cash is described in a supplemental table to the condensed consolidated statements of cash flows. The changes to the beginning of period balance presented in our condensed consolidated statement of cash flows are as follows:

	December 31, 2017	
	As adjusted	As previously reported
Cash and cash equivalents	46	46
Restricted funds included in held for sale	77	—
Restricted funds held in trust- short term	43	—
Restricted funds held in trust- long term	28	—
Beginning of period balance presented in the statement of cash flows	194	46

The following table illustrates the effect of adoption of ASU 2016-18 on our condensed consolidated statements of cash flows:

**Three Months
Ended March 31,
2017**

As
adjusted

As
previously
reported