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COVANTA HOLDING CORP

Form 10-Q

October 26, 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 September 30, 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

07960

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(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, 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
☐	☐	☐	☐	☐

(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 October 19, 2018</u>
Common Stock, \$0.10 par value	131,054,701

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 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 (“10K”).

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, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
	(Unaudited)			
	(In millions, except per share amounts)			
OPERATING REVENUE:				
Waste and service revenue	\$332	\$306	\$977	\$902
Energy revenue	81	80	257	241
Recycled metals revenue	23	23	72	54
Other operating revenue	20	20	62	60
Total operating revenue	456	429	1,368	1,257
OPERATING EXPENSE:				
Plant operating expense	308	301	987	952
Other operating expense, net	17	7	44	24
General and administrative expense	27	24	85	82
Depreciation and amortization expense	53	51	162	155
Impairment charges	49	—	86	1
Total operating expense	454	383	1,364	1,214
Operating income	2	46	4	43
OTHER INCOME (EXPENSE):				
Interest expense	(37)	(35)	(111)	(106)
Gain (loss) on sale of assets	7	—	217	(6)
Loss on extinguishment of debt	(3)	—	(3)	(13)
Other income (expense), net	—	2	(1)	2
Total (expense) income	(33)	(33)	102	(123)
(Loss) income before income tax benefit and equity in net income from unconsolidated investments	(31)	13	106	(80)
Income tax benefit	3	2	34	5
Equity in net income from unconsolidated investments	1	—	3	1
Net (loss) income	\$(27)	\$15	\$143	\$(74)
Weighted Average Common Shares Outstanding:				
Basic	130	130	130	129
Diluted	130	131	132	129
(Loss) Earnings Per Share:				
Basic	\$(0.21)	\$0.11	\$1.10	\$(0.58)
Diluted	\$(0.21)	\$0.11	\$1.09	\$(0.58)
Cash Dividend Declared Per Share	\$0.25	\$0.25	\$0.75	\$0.75

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 September 30, 2018		Nine Months Ended September 30, 2017	
	(Unaudited, in millions)			
Net (loss) income	\$ (27)	\$ 15	\$ 143	\$ (74)
Foreign currency translation, net of tax expense of \$0, \$0, \$1, \$0, respectively	(2)	4	—	16
Net unrealized (loss) gain on derivative instruments, net of tax (benefit) expense of (\$1), \$0, (\$2), \$1, respectively	(7)	(1)	20	2
Other comprehensive (loss) income	(9)	3	20	18
Comprehensive (loss) income	\$ (36)	\$ 18	\$ 163	\$ (56)

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**

	September 30, 2018	December 31, 2017
	(Unaudited)	
	(In millions, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	\$ 51	\$ 46
Restricted funds held in trust	39	43
Receivables (less allowances of \$9 and \$14, respectively)	316	341
Prepaid expenses and other current assets	61	73
Assets held for sale	2	653
Total Current Assets	469	1,156
Property, plant and equipment, net	2,513	2,606
Restricted funds held in trust	8	28
Intangible assets, net	286	287
Goodwill	321	313
Other assets	213	51
Total Assets	\$ 3,810	\$ 4,441
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	\$ 15	\$ 10
Current portion of project debt	18	23
Accounts payable	54	151
Accrued expenses and other current liabilities	303	313
Liabilities held for sale	—	540
Total Current Liabilities	390	1,037
Long-term debt	2,327	2,339
Project debt	134	151
Deferred income taxes	378	412
Other liabilities	76	75
Total Liabilities	3,305	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	837	822
Accumulated other comprehensive loss	(35)	(55)
Accumulated deficit	(310)	(353)
Treasury stock, at par	(1)	(1)
Total stockholders' equity	505	427
Total Liabilities and Equity	\$ 3,810	\$ 4,441

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

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

	Nine Months Ended September 30, 2018 2017
	(Unaudited, in millions)
OPERATING ACTIVITIES:	
Net income (loss)	\$143 \$(74)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization expense	162