

COVANTA HOLDING CORP

Form S-1/A

January 30, 2006

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As filed with the Securities and Exchange Commission on January 30, 2006
Registration No. 333-120755

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 4
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Covanta Holding Corporation
(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

4991
*(Primary Standard Industrial
Classification Code Number)*

95-6021257
*(I.R.S. Employer
Identification Number)*

40 Lane Road
Fairfield, New Jersey 07004
(973) 882-9000

(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

Anthony J. Orlando
President and Chief Executive Officer
Covanta Holding Corporation
40 Lane Road
Fairfield, New Jersey 07004

(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:
Timothy J. Simpson, Esq.
Senior Vice President, General Counsel and Secretary
Covanta Holding Corporation
40 Lane Road
Fairfield, New Jersey 07004

and
David S. Stone, Esq.
Neal, Gerber & Eisenberg LLP
Two North LaSalle Street
Suite 2200
Chicago, Illinois 60602
(312) 269-8000

Approximate date of commencement of proposed sale to the public: From time to time after the registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Non-transferable warrants to purchase shares of common stock, \$0.10 par value per share, and common stock issuable upon the exercise of non-transferable rights	3,000,000	\$1.53	\$4,590,000	\$582
Non-transferable and contingently issuable warrants to purchase shares of common stock and common stock issuable upon the exercise of non-transferable warrants	2,700,000	\$6.00	\$16,200,000	\$1,734
Total	5,700,000 shares(1)	N/A	\$20,790,000	\$2,316

(1) Represents: (a) 3,000,000 shares of the common stock, \$0.10 par value, of Covanta Holding Corporation, that are issuable upon the exercise of warrants, referred to as the Base Warrants, to purchase common stock to be issued to holders of 9.25% debentures of Covanta Energy Corporation who voted in favor of Covanta Energy Corporation's second plan of reorganization sponsored by Covanta Holding Corporation or who have been authorized to participate by the Bankruptcy Court having jurisdiction over that plan of reorganization; and (b) 2,700,000 shares of common stock that may be issued upon the exercise of the contingently issuable warrants, referred to as the Contingent Warrants.

(2) The Base and Contingent Warrants are being offered at no charge to the eligible offerees as described in this Registration Statement; however, the purchase of common stock pursuant to the exercise of either Warrant requires the payment to Covanta Holding Corporation of the following per share purchase prices: \$1.53 per share of common stock purchased pursuant to the exercise of a Base Warrant and \$6.00 per share of common stock purchased pursuant to the exercise of a Contingent Warrant. The maximum offering price per share and the maximum aggregate offering price listed in the fee table above are estimated solely for the purpose of calculating the registration fee pursuant to Rule 457.

(3) A registration fee of \$582 was previously paid pursuant to Covanta Holding Corporation's Registration Statement on Form S-3 filed on November 24, 2004 (File No. 333-120755) in connection with the offering of 3,000,000 shares of common stock for purchase to holders of the 9.25% debentures of Covanta Energy Corporation to which this Registration Statement is Amendment Number 3. The remaining filing fee of \$1,734 was previously paid by Covanta Holding Corporation simultaneously with its filing of Amendment No. 3 to that Registration Statement on Form S-1 on December 19, 2005.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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PROSPECTUS DATED JANUARY 30, 2006

Covanta Holding Corporation
Up to 3,000,000 Shares of Common Stock Issuable upon Exercise of Non-Transferable
Warrants to Purchase Common Stock and
Up to 2,700,000 Shares of Common Stock Issuable upon Exercise of Contingently
Issuable, Non-Transferable Warrants to Purchase Common Stock

We are conducting an offering in which we are offering at no charge 3,000,000 non-transferable warrants to purchase 3,000,000 shares of our common stock at a purchase price of \$1.53 per share. This base offering is being made solely to holders as of January 12, 2004 of the \$100,000,000 of principal amount of 9.25% debentures issued by Covanta Energy Corporation who voted in favor of its second plan of reorganization sponsored by us or who have been authorized to participate by the Bankruptcy Court.

The number of warrants to be issued to each eligible offeree in the base offering is determined by multiplying by 3,000,000 the ratio of the principal amount of 9.25% debentures held by each eligible offeree over \$93,593,000.

We are also offering at no charge non-transferable and contingently issuable warrants to purchase up to 2,700,000 shares of our common stock to eligible offerees who exercise warrants in the base offering. For each share of our common stock purchased by an eligible offeree through the exercise of its warrants in the base offering, we will issue one non-transferable warrant to purchase 0.9 shares of our common stock at \$6.00 per share. No contingently issuable warrants will be issued with respect to base offering warrants that are not exercised.

All warrants offered in this offering are non-transferable. Warrants will not be certificated. There are no oversubscription rights with respect to any warrants. All warrants are immediately exercisable. Any warrants not exercised prior to the expiration or termination of this offering will expire, be cancelled and have no value. There is no minimum subscription requirement.

If all of the warrants in the base offering are exercised, and all contingently issuable warrants are issued and exercised, we will receive gross proceeds of \$4,590,000 and \$16,200,000, respectively, and total gross proceeds will be \$20,790,000.

This offering begins on the date of this prospectus and ends on February 21, 2006.

Our common stock is listed on the New York Stock Exchange under the symbol CVA. On January 17, 2006, the last reported sale price for the common stock was \$16.27 per share.

You should carefully consider the risk factors beginning on page 8 of this prospectus before exercising your rights to purchase any of the shares offered by this prospectus.

In order to avoid an ownership change for federal tax purposes, our certificate of incorporation prohibits any person from becoming a beneficial owner of 5% or more of our outstanding common stock, except under limited circumstances. Consequently, there are limitations on the exercise of the warrants as described in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is January 30, 2006.

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Unless the context otherwise requires, references in this prospectus to we, our, us and similar terms refer to Covanta Holding Corporation and its subsidiaries; references to Covanta refer to Covanta Energy Corporation and its subsidiaries; references to Ref-Fuel refer to Covanta ARC Holdings, Inc. and its subsidiaries; references to Ref-Fuel Holdings refer to Covanta Ref-Fuel Holdings LLC; references to ARC refer to Covanta ARC LLC; references to TransRiver refer to TransRiver Marketing Company, L.P.; references to NAICC refer to National American Insurance Company of California and its subsidiaries; and references to ACL refer to American Commercial Lines, LLC and its subsidiaries.

SUMMARY

About Covanta Holding Corporation

We are a holding company incorporated in Delaware on April 16, 1992. We changed our name as of September 20, 2005 from Danielson Holding Corporation to Covanta Holding Corporation. Prior to entering the waste and energy services business through our acquisition of Covanta in March 2004 and Ref-Fuel in June 2005, substantially all of our operations were conducted in the insurance services industry. We engage in insurance operations through our indirect subsidiaries, National American Insurance Company of California and related entities.

As a result of the consummation of the Covanta acquisition on March 10, 2004, and the acquisition of Ref-Fuel on June 24, 2005, our business strategy and future performance will predominantly reflect the performance of our waste and energy operations, often referred to as our Waste and Energy Services in this prospectus. As a result, the nature of our business, the risks attendant to such business and the trends that we face have been and will be significantly altered by these acquisitions. Accordingly, our financial results prior to 2004 will not be comparable to our current and future results.

As of the end of 2004, we had estimated aggregate consolidated net operating loss tax carryforwards, which we refer to as NOLs in this prospectus, for federal income tax purposes of approximately \$516 million. These NOLs will expire over the course of the next 18 years unless utilized prior thereto. Our NOLs are primarily from the taxable results of certain grantor trusts established in 1990 as part of a reorganization in which Mission Insurance Group, Inc., referred to as Mission Insurance in this prospectus, emerged from bankruptcy as Danielson Holding Corporation. Since 1990, these grantor trusts have remained in existence as part of the administration of the insolvency estates of the former Mission Insurance entities. A significant portion of our operating losses in the past three years stem from lines of insurance business, such as commercial, automobile and workers compensation insurance, which our subsidiaries have ceased actively underwriting.

As described in *Risk Factors – Covanta Holding Corporation-Specific Risks* We cannot be certain that our NOLs will continue to be available to offset our tax liability, possible changes in the status of certain liabilities and the manner of distributions to holders of certain claims in the Mission Insurance insolvency proceedings may require us to recognize significant taxable income, which may substantially reduce our available NOLs. While we cannot predict with certainty what amounts, if any, may be includable in our taxable income, we have received preliminary information which raises the possibility that we may recognize taxable income in connection with the conclusion of the administration of the insolvency estates. However, after reviewing the preliminary information, we determined that it was insufficient to warrant inclusion of taxable income in our 2004 tax filing based on such preliminary information. We are in the process of obtaining additional information regarding the potential amount of includible taxable income and are also considering a number of permissible actions and approaches. The arrangements include agreements with the California insurance regulatory authorities to clarify the treatment of certain liabilities and the manner of distributions to claimsholders in insolvency proceedings.

We acquired a 100% ownership interest in ACL in May 2002. As a result of adverse developments in the marine transportation business, ACL was no longer able to meet its obligations under applicable financing arrangements. On January 31, 2003, ACL and many of its subsidiaries and its immediate direct parent entity, American Commercial Lines Holdings, LLC, referred to in this prospectus as ACL Holdings, filed a

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petition with the U.S. Bankruptcy Court for the Southern District of Indiana to reorganize under Chapter 11 of the U.S. Bankruptcy Code, referred to as Chapter 11 in this prospectus. We wrote off our investment in ACL as an other than temporarily impaired asset at the end of the first quarter of 2003. ACL Holdings and ACL confirmed a plan of reorganization on December 30, 2004. As a result, under the ACL plan of reorganization, our equity interest in ACL was cancelled and we received warrants to purchase 672,920 shares of ACL's new common stock at a price of \$3.00 per share from certain creditors of ACL. We subsequently exercised the warrants and sold the shares of ACL stock.

As of January 13, 2006, our executive officers and directors as a group owned approximately 23.88% of our common stock that is outstanding and entitled to vote. This percentage reflects shares beneficially owned by affiliates of executive officers and directors, as well as shares underlying currently exercisable options to purchase shares of common stock that our executive officers and directors have the right to acquire within 60 days of the date hereof, excluding any shares which they might be entitled to receive upon exercise of warrants in the offering.

Our principal executive offices are located at 40 Lane Road, Fairfield, New Jersey 07004, and our telephone number is (973) 882-9000.

About Covanta Energy Corporation

Our principal subsidiary is Covanta, which we acquired in March 2004 in connection with Covanta's emergence from bankruptcy. We acted as sponsor of Covanta's second plan of reorganization in purchasing 100% of its equity.

Covanta develops, constructs, owns and operates for itself and others infrastructure for the conversion of waste to energy and independent power production in the United States and abroad. Following its acquisition of Ref-Fuel, an owner and operator of six waste-to-energy projects, Covanta has ownership interests in or operates 56 power generation facilities, 44 of which are in the United States and twelve of which are located outside of the United States. Covanta's power generation facilities use a variety of fuels, including municipal solid waste, hydroelectric, natural gas, coal, wood waste, landfill gas and heavy fuel oil. Covanta also has several businesses that are associated with its waste-to-energy business, including a waste procurement business, two landfills, and several waste transfer stations. Covanta also operates one water treatment facility which is located in the United States.

Prior to March 10, 2004, when we acquired Covanta upon its emergence from bankruptcy proceedings, it and most of its domestic subsidiaries had been operating as debtors in possession under Chapter 11. When Covanta emerged from bankruptcy proceedings, Covanta and certain of its subsidiaries entered into both secured and unsecured financing arrangements, which were repaid and replaced with new financing arrangements in connection with the acquisition of Ref-Fuel. In addition, many of Covanta's operating subsidiaries are parties to financing arrangements for individual operating projects which are secured by the assets of the project. We have guaranteed Covanta's obligations with respect to the new financing arrangements in connection with the acquisition of Ref-Fuel.

Covanta ARC Holdings, Inc. Acquisition

We acquired Ref-Fuel as of June 24, 2005, pursuant to the terms of a stock purchase agreement with Ref-Fuel and Ref-Fuel's stockholders to purchase 100% of the issued and outstanding shares of Ref-Fuel capital stock. Under the terms of the agreement, we paid \$740 million in cash for the stock of Ref-Fuel and assumed the consolidated net debt of Ref-Fuel, which was approximately \$1.3 billion (\$1.5 billion of consolidated indebtedness and \$0.2 billion of cash and restricted cash). See Note 11 to the Notes to the Condensed Consolidated Financial Statements (Unaudited) for the period ended September 30, 2005 that are included in Appendix B attached to this prospectus, such Notes referred to as Notes to the Unaudited Interim Financial Statements in this prospectus, for a more detailed description of the indebtedness that we assumed in connection with the transaction. Also, additional information regarding this indebtedness is set forth in this prospectus under *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Management's Discussion and Analysis of Liquidity and Capital Resources*, *Waste and*

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Energy Services Segment Financing Arrangements Covanta Debt. Upon completion of the transaction, Ref-Fuel became a wholly-owned subsidiary of Covanta.

We financed this transaction through a combination of debt and equity financing. The equity component of the financing was obtained through a pro rata rights offering to our stockholders that was completed as of June 21, 2005, referred to as the Ref-Fuel rights offering in this prospectus. In that rights offering, we issued all 66,673,004 shares of common stock offered at \$6.00 per share for total gross proceeds of approximately \$400 million. Stockholders exercised subscriptions for over 95% of their base subscription rights and the Ref-Fuel rights offering had significant oversubscriptions. In the Ref-Fuel rights offering, three of our largest stockholders, SZ Investments, L.L.C., together with its affiliate EGI-Fund (05-07) Investors, L.L.C., referred to in this prospectus as Fund 05-07 and collectively with SZ Investments, L.L.C. SZ Investments, Third Avenue Trust, on behalf of Third Avenue Value Fund, referred to in this prospectus as Third Avenue, and D. E. Shaw Laminar Portfolios, L.L.C., referred to in this prospectus as Laminar, collectively then representing ownership of approximately 40.4% of our outstanding common stock, pursuant to prior commitments, each separately acquired at least their respective pro rata portion of the shares offered in the rights offering. In addition, they acquired an additional 1,315,921 shares through their individual exercise of their respective oversubscription rights. As consideration for their commitments, we paid each of these stockholders an amount equal to 1.75% of their respective equity commitments. We also agreed to amend an existing registration rights agreement to provide these stockholders with the right to demand that we undertake an underwritten offering within twelve months of the closing of the acquisition of Ref-Fuel in order to provide such stockholders with liquidity.

The debt financing for the Ref-Fuel acquisition was arranged by Goldman Sachs Credit Partners, L.P. and Credit Suisse First Boston. The debt financing package not only financed the acquisition, but also refinanced the existing recourse debt of Covanta and provided additional liquidity for us. This financing consisted of two tranches, each of which is secured by pledges of the stock of Covanta's subsidiaries that had not otherwise been pledged, guarantees from us and certain of Covanta's subsidiaries and all other available assets of Covanta's subsidiaries. The first tranche, a first priority senior secured bank facility, is made up of a \$275 million term loan facility due 2012, a \$100 million revolving credit facility due 2011 and a \$340 million letter of credit facility due 2012. The second tranche is a \$400 million second priority senior secured term loan facility due 2013. See *Management's Discussion and Analysis of Financial Condition and Results of Operations Management's Discussion and Analysis of Liquidity and Capital Resources Waste and Energy Services Segment* and Note 11 to the Notes to the Unaudited Interim Financial Statements for a more detailed description of this debt financing.

Ref-Fuel is now a wholly-owned subsidiary of Covanta, and Covanta controls the management and operations of the Ref-Fuel facilities. The current project and other debt of Ref-Fuel subsidiaries were not refinanced in connection with the acquisition, except that two of the Ref-Fuel subsidiaries which had outstanding secured notes were required to offer to purchase their respective notes from existing note holders as a result of the change in control of Ref-Fuel. Approximately \$5 million of such notes were repurchased as a result of such offers. In addition, an existing revolving credit and letter of credit facility of ARC (the parent of each Ref-Fuel project company) has been cancelled and replaced with Covanta's new facilities, described above.

Shortly after the acquisition, we changed the names of Ref-Fuel and many of its subsidiaries such that they are now operating under the Covanta name.

About the Contingent Offering

As part of our obligations as the sponsor of a second plan of reorganization for Covanta, we agreed to offer the right to purchase 3,000,000 shares of our common stock, which we refer to in this prospectus as the Base Offering. In connection with the financing of our acquisition of Ref-Fuel and prior to the commencement of the Base Offering, we agreed with Laminar that because the Base Offering did not close prior to the record date for the Ref-Fuel rights offering, we would revise the terms of this offering so that eligible offerees, including Laminar, would be offered the opportunity to purchase additional shares as if the Ref-Fuel rights

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offering had occurred after this offering. Therefore, we are offering to eligible offerees who participate in the Base Offering contingently issuable warrants to purchase 0.9 shares of our common stock at \$6.00 per share for each share of common stock purchased in the Base Offering. We refer to this additional offering as the Contingent Offering in this prospectus. If all warrants under the Base Offering and the Contingent Offering are exercised, we will issue 3,000,000 shares of our common stock under the Base Offering and 2,700,000 additional shares of our common stock under the Contingent Offering. We sometimes refer to the Base Offering and the Contingent Offering collectively in this prospectus as the offering.

The Offering

Reason for Offering

We agreed in January 2004 to make an offering of the right to purchase our common stock at \$1.53 per share to provide additional benefits to those holders of 9.25% debentures of Covanta, referred to in this prospectus as the 9.25% Debentures, who voted in favor of the second plan of reorganization for Covanta sponsored by us, referred to as the Covanta Plan of Reorganization in this prospectus, or who were authorized to participate by the Bankruptcy Court having jurisdiction over the Covanta Plan of Reorganization, as an inducement to facilitate the approval of our proposed plan of reorganization.

We also agreed pursuant to a letter agreement dated January 31, 2005 with Laminar, one of our stockholders and a holder of Covanta's 9.25% Debentures, that if this offering had not commenced prior to the record date for the Ref-Fuel rights offering, we would restructure the offering covered by this prospectus to offer additional shares of our common stock at the same purchase price and in an equivalent amount to the number of shares of common stock that eligible offerees would have been entitled to purchase in the Ref-Fuel rights offering if this offering had been consummated on or prior to the record date of the Ref-Fuel rights offering.

Eligible Offerees

Holders of the 9.25% Debentures on January 12, 2004 who voted in favor of the Covanta Plan of Reorganization and holders who were authorized to participate by the Bankruptcy Court having jurisdiction over the Covanta Plan of Reorganization are the only persons eligible to participate in this offering. These holders are referred to as eligible offerees in this prospectus. No other person is eligible to participate in either the Base Offering or the Contingent Offering covered by this prospectus. Only those eligible offerees who purchase common stock in the Base Offering will receive the contingently issuable warrants to purchase additional shares of our common stock under the Contingent Offering. The warrants offered under this prospectus in both the Base and Contingent Offering may not be transferred to any other person. Warrants in both the Base and Contingent Offering which are not exercised will be cancelled upon termination of this offering.

Warrants Being Offered

In the Base Offering, we are offering the right to purchase shares of our common stock in the form of an offering, at no charge, of warrants to purchase shares of our common stock at \$1.53 per share, which we sometimes refer to as Base Warrants in this prospectus. The number of shares of our common stock that each eligible offeree is entitled to purchase in the Base Offering is determined by multiplying by 3,000,000 the ratio of the principal

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amount of 9.25% Debentures held by each eligible offeree over \$93,593,000, the principal amount of all outstanding 9.25% Debentures voted in favor of the Covanta Plan of Reorganization or which have been authorized to participate by the Bankruptcy Court having jurisdiction over the Covanta Plan of Reorganization.

For each share of common stock purchased by an eligible offeree under the Base Offering, we are offering the additional right, in the form of a contingently issuable, non-transferable warrant, to purchase 0.9 shares of our common stock at \$6.00 per share, which we sometimes refer to as the Contingent Warrants in this prospectus.

Wells Fargo, the warrant agent in this offering, will verify and confirm the eligibility of and the number of shares of our common stock that each eligible offeree is entitled to purchase in each of the Base Offering and the Contingent Offering.

Size of Offering

We are offering to sell a total of 5,700,000 shares of our common stock. 3,000,000 shares of our common stock are being offered in the form of Base Warrants under the Base Offering for purchase by eligible offerees at \$1.53 per share and up to 2,700,000 shares of our common stock are being offered in the form of Contingent Warrants to purchase 0.9 shares of our common stock at a price of \$6.00 per share under the Contingent Offering to eligible offerees who purchase shares in the Base Offering. If all of the shares of common stock offered under this prospectus are purchased in the Base Offering and Contingent Offering, then the total purchase price of our common stock will be \$20,790,000.

Offering Period

This offering, consisting of the Base Offering and the Contingent Offering, will commence on the date of this prospectus and remain open until 5:00 p.m., Eastern Time, on February 21, 2006.

Oversubscription Rights

There are no oversubscription rights in the offering. Any warrants to purchase our common stock in the Base Offering or the Contingent Offering which are not exercised by any eligible offeree will not be reallocated to any other eligible offeree and will be cancelled upon expiration or termination of this offering.

Transferability of Warrants

The warrants to purchase our common stock under the Base Offering and the Contingent Offering are not transferable. Warrants may only be exercised by eligible offerees in the amount offered to an eligible offeree or in the amount an eligible offeree is entitled to purchase.

Conditions to the Offering

There is no minimum subscription requirement. Your subscription rights are subject to, among other things, ownership restrictions imposed by our certificate of incorporation and the escrow protection mechanics described in this prospectus. See *The Offering* for more details.

Certificate of Incorporation
Restrictions; Escrow Protection
Mechanics

Our ability to utilize our NOLs would be substantially reduced if we were to undergo an ownership change within the meaning of Section 382 of the Internal Revenue Code. In order to reduce the risk of an ownership change, our certificate of incorporation restricts the ability of any holder of 5% or more of our common

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stock to sell or otherwise transfer any shares owned by such holder or to purchase or otherwise acquire shares of our common stock. Our certificate of incorporation also restricts the ability of any other holder to make an acquisition of our common stock which will result in total ownership by such stockholder of 5% or more of our common stock. These restrictions will apply unless and until we determine that such acquisition will not result in an unreasonable risk of an ownership change. We have the right, in our sole and absolute discretion, to limit the exercise of the warrants to purchase our common stock, including instructing the warrant agent to refuse to honor any exercise of warrants, by 5% stockholders or stockholders who would become 5% holders upon exercise of their warrants.

The total number of shares of our common stock to be outstanding upon completion of the offering, assuming the offering is fully subscribed, would be 146,865,840. 5% of 146,865,840 is 7,343,292.

In order to avoid an ownership change for federal income tax purposes, we have also implemented the following escrow protection mechanics: (1) by exercising its warrants under this offering, each eligible offeree will represent to us that such eligible offeree will not be, after giving effect to the exercise of the warrants, an owner, directly or indirectly (as described in this prospectus), of more than 6,600,000 shares; (2) if such exercise would result in such holder owning more than approximately 6,600,000 shares of our common stock, such holder must notify the warrant agent at the telephone number set forth under *The Offering - The Warrant Agent*; (3) if requested, each eligible offeree will provide us with additional information regarding the amount of common stock that the eligible offeree owns; and (4) we shall have the right to instruct the warrant agent to refuse to honor such eligible offeree's exercise of its warrants to the extent such exercise of warrants might, in our sole and absolute discretion, result in such holder owning 5% or more of our common stock. By exercising your warrants in this offering, you agree that the escrow protection mechanics are valid, binding and enforceable against you. See *The Offering - Certificate of Incorporation Restrictions; Escrow Protection Mechanics*.

Procedure for Purchasing Common Stock under the Automated Subscription Offer Program

The offering is eligible for the Automated Subscription Offer Program, referred to in this prospectus as ASOP, of The Depository Trust Company, referred to in this prospectus as DTC. Since all record holders of the 9.25% Debentures are DTC participants, we are requiring that all rights under the Base Offering and the Contingent Offering be exercised through ASOP.

If you are an eligible offeree and wish to exercise the rights that are issued to you in the Base Offering or which may be available to you in the Contingent Offering, you must transmit your notice of exercise by electronic message through ASOP prior to 5:00 p.m., Eastern Time, on the expiration date. DTC will then send an agent's message to the warrant agent for the offering, Wells Fargo Bank, National Association, for its acceptance. Delivery of the

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warrant agent's message by DTC indicates that you agree to be bound to the terms and conditions of the offering (including the authorization that the exercise price(s) be debited from your DTC account).

Once you have exercised your warrants, your exercise may not be revoked in whole or in part.

Warrants to purchase our common stock under both the Base Offering and the Contingent Offering that are not exercised prior to the expiration date will be cancelled and will lose their value.

United States Federal Income Tax Consequences to Eligible Offerees For United States federal income tax purposes, it is likely that the Internal Revenue Service would take the position that each eligible offeree will recognize ordinary income for federal income tax purposes in an amount equal to the value of the warrants received upon receipt.

Issuance of Our Common Stock We will make the necessary book-entry transfers or, upon your request, issue certificates representing shares purchased in this offering, as soon as reasonably practicable after the closing of this offering. All exercises of warrants under the Base Offering and the Contingent Offering will be effective on the closing of the offering.

No Recommendation to Eligible Offerees Our board of directors is not making any recommendation to you as to whether you should purchase common stock in the offering. You should decide whether to purchase shares of our common stock in the offering based upon your own assessment of your best interests.

New York Stock Exchange Listing of our Common Stock Our common stock is traded on the New York Stock Exchange, which we sometimes refer to as the NYSE, under the symbol CVA. On January 17, 2006, the closing price of our common stock on the NYSE was \$16.27 per share. Shares of our common stock issued upon the exercise of the warrants will also be listed on the NYSE under the same symbol.

Risk Factors

An investment in our common stock is very risky. You should consider carefully the risk factors beginning on page 8 of this prospectus.

Use of Proceeds

The proceeds from the offering, estimated to be approximately \$20 million, after deduction of expenses of the offering estimated to be \$800,000, will be used by us for general corporate purposes.

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RISK FACTORS

An investment in our common stock is very risky. You should carefully consider the following factors and all the information in this prospectus and in the other documentation that is referenced in this prospectus.

Risks Related to the Offering

We have the right to limit the purchase of our common stock.

Article Fifth of our certificate of incorporation generally restricts the ability of any 5% holder of our common stock from disposing of or acquiring shares of our common stock without our consent. Our certificate of incorporation also restricts the ability of other holders from becoming 5% stockholders without our consent. In order to comply with these restrictions, we may limit the number of shares purchased by a holder. If your purchase of our common stock might result in a risk of you becoming a 5% stockholder, your exercise may be reduced in order to eliminate that risk. We may also limit the exercise of warrants being offered in the offering by holders who possess 5% of our outstanding common stock. In addition, you may be required to provide certain information concerning your share ownership in order to help us enforce these restrictions.

The irrevocable exercise of warrants may adversely affect investors.

Once you have exercised your warrants to purchase our common stock, your exercise may not be revoked in whole or in part for any reason, including a decline in our common stock price. Warrants not exercised prior to the expiration date will lose their value.

The market price of our common stock may decline prior to the expiration date of the offering.

The exercise of warrants pursuant to the offering is irrevocable. During the past twelve months, the market price per share of our common stock on the American Stock Exchange (on which our common stock was listed until the close of trading on October 4, 2005) and the NYSE (on which our common stock has been listed from October 5, 2005 through the present) has ranged from \$7.95 to \$17.70. Although the exercise prices of both Base Warrants and Contingent Warrants to purchase our common stock are at a significant discount to the market price per share of our common stock as of the commencement of the offering, the market price of our common stock may decline prior to the expiration date due to many factors, including business exigencies, acts of terrorism, general market declines, interruptions to our business, accidents or other catastrophic events, changes in investor perception, unanticipated financial results, defaults on indebtedness or other factors that could affect our stock price. In such event, you may be forced to purchase the common stock at a price higher than the market price.

Covanta Holding Corporation-Specific Risks

We cannot be certain that our NOLs will continue to be available to offset our tax liability.

As of December 31, 2004, we estimated that we had approximately \$516 million of NOLs. In order to utilize the NOLs, we must generate consolidated taxable income which can offset such carryforwards. The NOLs are also utilized by income from certain grantor trusts that were established as part of the Mission Insurance reorganization. The NOLs will expire if not used. The availability of NOLs to offset taxable income would be substantially reduced if we were to undergo an ownership change within the meaning of Section 382(g)(1) of the Internal Revenue Code. We will be treated as having had an ownership change if there is more than a 50% increase in stock ownership during a three-year testing period by 5% stockholders.

In order to help us preserve the NOLs, our certificate of incorporation contains stock transfer restrictions designed to reduce the risk of an ownership change for purposes of Section 382 of the Internal Revenue Code. The transfer restrictions were implemented in 1990, and we expect that the restrictions will remain in force as long as the NOLs are available. We cannot assure you, however, that these restrictions will prevent an ownership change.

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The NOLs will expire in various amounts, if not used, between 2005 and 2023. The Internal Revenue Service, referred to in this prospectus as the 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 and we may not be able to satisfy our obligations to Covanta under a tax sharing agreement described below or to pay taxes that may be due from our consolidated tax group.

Reductions in our NOLs could occur in connection with the administration of the grantor trusts associated with the Mission Insurance entities which are in state insolvency proceedings. During or at the conclusion of the administration of these grantor trusts, material taxable income could result which could utilize a substantial portion of our NOLs, which in turn could materially reduce our cash flow and ability to service our current debt. The impact of a material reduction in our NOLs could also cause an event of default under our current debt and a possible substantial reduction of our deferred tax asset, as reflected in our financial statements. For a more detailed discussion of the Mission Insurance entities and the grantor trusts, please see Note 25 to Notes to our Consolidated Financial Statements for the years ended December 31, 2004 and 2003 and December 27, 2002 included in Appendix A attached to this prospectus, such Notes referred to as the Notes to the Audited Annual Financial Statements in this prospectus, Note 12 to the Notes to the Unaudited Interim Financial Statements, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Executive Summary*, *NOLs* and *The Business General Overview* in this prospectus below.

In addition, if our existing insurance business were to require capital infusions from us in order to meet certain regulatory capital requirements and were we 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 and we may not be able to recognize significant taxable income.

The market for our common stock has been historically illiquid which may affect your ability to sell your shares.

The volume of trading in our stock has historically been low. In the last six months, the daily trading volume for our stock has been approximately 420,603 shares. Having a market for shares without substantial liquidity can adversely affect the price of the stock at a time when you might want to sell your shares.

Reduced liquidity and price volatility could result in a loss to investors.

Although our common stock is listed on the NYSE, there can be no assurance as to the liquidity of an investment in our common stock or as to the price an investor may realize upon the sale of our common stock. These prices are determined in the marketplace and may be influenced by many factors, including the liquidity of the market for our common stock, the market price of our common stock, investor perception and general economic and market conditions.

Concentrated stock ownership and a restrictive certificate of incorporation provision may discourage unsolicited acquisition proposals.

Assuming the issuance of 5,700,000 shares of our common stock in the offering described in this prospectus, SZ Investments, Third Avenue and Laminar, separately own as of January 13, 2006, approximately 15.8%, 6.0% and 18.0%, respectively, or when aggregated, 39.8% of our outstanding common stock. In addition, Laminar is an eligible offeree in the offering. Although there are no agreements among SZ Investments, Third Avenue and Laminar regarding their voting or disposition of shares of our common stock, the level of their combined ownership of shares of common stock could have the effect of discouraging or impeding an unsolicited acquisition proposal. In addition, the change in ownership limitations contained in

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Article Fifth of our certificate of incorporation could have the effect of discouraging or impeding an unsolicited takeover proposal.

Future sales of our common stock may depress our stock price.

No prediction can be made as to the effect, if any, that future sales of our common stock, or the availability of our common stock for future sales, will have on the market price of our common stock. Sales in the public market of substantial amounts of our common stock, or the perception that such sales could occur, could adversely affect prevailing market prices for our common stock. In addition, in connection with the Covanta acquisition financing, we filed a registration statement on Form S-3 to register the resale of 17,711,491 shares of our common stock held by Laminar, Third Avenue and SZ Investments, which was declared effective on August 24, 2004. In connection with our acquisition of Ref-Fuel, we have agreed to register, within twelve months of the June 24, 2005 closing of the Ref-Fuel acquisition, the resale of certain shares held or acquired by Laminar, Third Avenue and SZ Investments in an underwritten public offering. The potential effect of these shares being sold may be to depress the price at which our common stock trades.

Our disclosure controls and procedures may not prevent or detect all acts of fraud.

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 Securities Exchange Act is accumulated and communicated to management, recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission commonly referred to as the SEC.

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 reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within our companies have been prevented or detected. These inherent limitations 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. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under 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 not be 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 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, and in the future may discover, areas of our internal control over financial reporting which may require improvement. For example, during the course of its audit of our 2004 financial statements, our independent auditors, Ernst & Young LLP, referred to as Ernst & Young in this prospectus, identified errors, principally related to complex manual fresh-start accounting calculations, predominately affecting Covanta's investments in its international businesses. Although the net effect of these errors was immaterial

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(less than \$2.0 million, pretax), and such errors were corrected before our 2004 consolidated financial statements were issued, management determined that errors in complex fresh-start and other technical accounting areas originally went undetected due to insufficient technical in-house expertise necessary to provide sufficiently rigorous review. As a result, management has concluded that our internal control over financial reporting was not effective as of December 31, 2004. Although we have identified and undertaken steps necessary in order to remediate this material weakness, as of our quarterly report on Form 10-Q for the period ended September 30, 2005, we were unable to conclude that we had remediated this material weakness. The effectiveness of our internal control over financial reporting in the future will depend on our ability to fulfill these steps to remediate this material weakness. 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.

Waste and Energy Services Business-Specific Risks

In connection with the Ref-Fuel acquisition, Covanta has incurred a large amount of debt, and we cannot assure you that our cash flow from operations will be sufficient to pay this debt.

Following the acquisition of Ref-Fuel, Covanta had corporate debt of \$675 million, which we have guaranteed.

Our ability to service this debt will depend upon:

the continued operation and maintenance of our facilities, consistent with historical performance levels;

compliance with our debt covenants under our, and our subsidiaries, various credit arrangements;

compliance by our subsidiaries with their respective debt covenants in order to permit distributions of cash to Covanta;

maintenance or enhancement of revenue from renewals or replacement of existing contracts, which begin to expire in 2007, and from new contracts to expand existing facilities or operate additional facilities;

market conditions affecting waste disposal and energy pricing, as well as competition from other companies for contract renewals, expansions and additional contracts, particularly after Covanta's existing contracts expire; and

the continued availability to Covanta of the benefit of our NOLs under a tax sharing agreement.

For a more detailed discussion of Covanta's domestic debt covenants, please see *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Management's Discussion and Analysis of Liquidity and Capital Resources*, *Waste and Energy Services Segment* and Note 11 to the Notes to the Unaudited Interim Financial Statements.

Covanta's ability to make payments on its indebtedness and to fund planned capital expenditures and other necessary expenses will depend on its ability to generate cash and receive dividends and distributions from its subsidiaries in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that Covanta's business will generate sufficient cash flow from operations to pay this debt.

We may be unable to integrate the operations of Ref-Fuel and Covanta successfully and may not realize the full anticipated benefits of the acquisition.

Achieving the anticipated benefits of the recent acquisition of Ref-Fuel will depend in part upon our ability to integrate the two companies' businesses in an efficient and effective manner. Our attempt to integrate two companies that have previously operated independently may result in significant challenges, and we may be unable to accomplish the integration smoothly or successfully. In particular, the necessity of coordinating organizations in additional locations and addressing possible differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration will require the

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dedication of significant management resources, which may temporarily distract management's attention from the day-to-day operations of the businesses of the combined company. The process of integrating operations after the transaction could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the loss of key personnel. Employee uncertainty and lack of focus during the integration process may also disrupt the businesses of the combined company. Any inability of management to successfully integrate Ref-Fuel's operations with the operations of Covanta could have a material adverse effect on our business and financial condition.

The anticipated benefits of the transaction include the elimination of duplicative costs, the strategic expansion of Covanta's core waste-to-energy business in the northeast region of the United States and the strengthening of Covanta's credit profile and lowering of our costs of capital. We may not be able to realize, in whole or in part, or within the anticipated time frames, any of these expected costs of savings or improvements. The realization of the anticipated benefits of the transaction are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. As a result, we may not be able to achieve our expected results of operations and our actual income, cash flow or earnings available to satisfy debt obligations may be materially lower than the pro forma results we have previously filed with the SEC and that are included in this prospectus.

We may not have access to the cash flow and other assets of our subsidiaries that may be needed to make payment on Covanta's debt.

Much of our business is conducted through our subsidiaries. Our ability to make payments on the debt incurred by Covanta is dependent on the earnings and the distribution of funds from our subsidiaries.

Certain of our subsidiaries and affiliates are already subject to project and other financing and will not guarantee our obligations on Covanta's debts. The debt agreements of these subsidiaries and affiliates generally restrict their ability to pay dividends, make distributions or otherwise transfer funds to us. In addition, a substantial amount of the assets of our non-guarantor subsidiaries and affiliates has been pledged as collateral under their respective project financing agreements, or financings at intermediate subsidiary levels, and will be excluded entirely from the liens in favor of Covanta's new financing. See *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Management's Discussion and Analysis of Liquidity and Capital Resources*, *Waste and Energy Services Segment* and Note 11 to the Notes to the Unaudited Interim Financial Statements for a more complete description of the terms of such indebtedness. We cannot assure you that certain of the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund payments on the Covanta indebtedness when due.

Our ability to grow our Waste and Energy Services business may be limited.

Our ability to grow our Waste and Energy Services business by investing in new projects may be limited by debt covenants in Covanta's principal financing agreements, and by potentially fewer market opportunities for new waste-to-energy facilities. Our Waste and Energy Services business is based upon building and operating municipal solid waste disposal and energy generating projects, which are capital intensive businesses that require financing through direct investment and the incurrence of debt. The covenants in Covanta's financing agreements limit investments in new projects or acquisitions of new businesses and place restrictions on Covanta's ability to expand existing projects. The covenants limit borrowings to finance new construction, except in limited circumstances related to expansions of existing facilities.

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Operation of our Waste and Energy Services facilities and the expansion of facilities involve significant risks.

The operation of our Waste and Energy Services facilities and the construction of new or expanded facilities involve 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;
- the unavailability of sufficient quantities of waste;
- decreases in the fees for solid waste disposal;
- 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 Waste and Energy Services business or operations. These risks, if they were to occur, could prevent Covanta and its subsidiaries from meeting their obligations under their operating contracts.

Development, construction and operation of new projects may not commence as scheduled, or at all.

The development and construction of new facilities involves many risks including siting, permitting, financing and construction delays and expenses, start-up problems, the breakdown of equipment and performance below expected levels of output and efficiency. New facilities have no operating history and may employ recently developed technology and equipment. Our Waste and Energy Services 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.

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

Although our Waste and Energy Services 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.

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Most service agreements for our waste-to-energy 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 contract. In most cases, such contractual provisions excuse our Waste and Energy Services businesses from performance obligations to the extent affected by uncontrollable circumstances and provide for service fee adjustments if uncontrollable circumstances increase its costs. We cannot assure you that these provisions will prevent our Waste and Energy Services businesses from incurring losses upon the occurrence of uncontrollable circumstances or that if our Waste and Energy Services businesses were to incur such losses they would continue to be able to service their debt.

Covanta and certain of its subsidiaries have issued or are party to performance guarantees and related contractual obligations associated with its waste-to-energy, independent power and water facilities. With respect to its domestic businesses, Covanta and certain of its subsidiaries have issued guarantees to their 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. The obligations guaranteed will depend upon the contract involved. Many of our subsidiaries have contracts to operate and maintain waste-to-energy 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 Covanta and certain of its subsidiaries 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 waste-to-energy facilities could expose us to recourse liability on project debt. Covanta and certain of its subsidiaries may not have sufficient sources of cash to pay such damages or other obligations. We cannot assure you that Covanta and such subsidiaries will be able to continue to avoid incurring material payment obligations under such guarantees or that if it did incur such obligations that they would have the cash resources to pay them.

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

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

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Covanta and certain of its subsidiaries have provided guarantees and support in connection with its subsidiaries projects.

Covanta and certain of its subsidiaries are obligated to guarantee or provide financial support for its subsidiaries 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 three of its facilities;

contingent obligation to pay lease payment installments in connection with two of its facilities;

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.

Covanta may face increased risk of market influences on its domestic revenues after its contracts expire.

Covanta's contracts to operate waste-to-energy projects expire on various dates between 2007 and 2023, and its contracts to sell energy output generally expire when the project's operating contract expires. One of Covanta's contracts will expire in 2007. During the twelve-month period from January 1 to December 31, 2004, this contract contributed \$12.5 million in revenues. Expiration of these contracts will subject Covanta to greater market risk in maintaining and enhancing its revenues. As its operating contracts at municipally-owned projects approach expiration, Covanta will seek to enter into renewal or replacement contracts to continue operating such projects. However, we cannot assure you that Covanta will be able to enter into renewal or replacement contracts on terms favorable to it, or at all. Covanta 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 Covanta to sell project energy output either into the electricity grid or pursuant to new contracts.

At some of our facilities, market conditions may allow Covanta to effect extensions of existing operating contracts along with facility expansions. Such extensions and expansions are currently being considered at a limited number of Covanta's facilities in conjunction with its municipal clients. If Covanta were unable to reach agreement with its municipal clients on the terms under which it 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 Covanta's cash flow and profitability. We cannot assure you that Covanta will be able to enter into such contracts or that the terms available in the market at the time will be favorable to it.

Our Waste and Energy Services 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 its 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 Waste and Energy Services 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

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bankruptcy or insolvency of a participant or third party in our Waste and Energy Services facilities could result in nonpayment or nonperformance of that party's 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.

Our Waste and Energy Services 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 facility's output. In most cases our Waste and Energy Services 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 Waste and Energy Services business.

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

Our Waste and Energy Services business is subject to pricing fluctuations caused by the waste disposal and energy market.

While our Waste and Energy Services businesses both sell the majority of their waste disposal capacity and energy output pursuant to long-term contracts, a portion of this capacity and output representing less than 30% of our revenue is subject to market price fluctuation. With the acquisition of Ref-Fuel, a larger percentage of our revenue is subject to market risk from fluctuations in waste market prices than has historically been the case. Consequently, short-term fluctuations in the waste and energy markets may have a greater impact on our revenues than we have previously experienced.

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

The majority of Covanta's waste disposal facilities are located in the northeastern United States, primarily along the Washington, D.C. to Boston corridor. Adverse economic developments in this region could affect regional waste generation rates and demand for waste disposal services provided by Covanta. 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 Covanta's revenues and cash generation.

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

While our historic energy business typically is contractually entitled to only a small share (generally 10%) of the energy revenues generated by a waste-to-energy project, subsequent to the Ref-Fuel acquisition, seven of our 31 waste-to-energy facilities receive 100% of the energy revenues they generate.

As a result, if we are unable to operate these seven facilities at their historical performance levels for any reason, our revenues from energy sales could materially decrease.

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

Covanta Power International Holdings, Inc., which we refer to as CPIH in this prospectus, is a wholly-owned subsidiary of Covanta. CPIH's operations are entirely outside the United States and expose it to 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 CPIH of a foreign project.

CPIH's projected cash distributions from existing facilities comes from facilities located in countries with sovereign ratings below investment grade, including Bangladesh, the Philippines and India. 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 tariffs;

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; and

expropriation and confiscation of assets and facilities.

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

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

Exposure to foreign currency fluctuations may affect CPIH's costs of operations.

CPIH participates in projects in jurisdictions where limitations on the convertibility and expatriation of currency have been lifted by the host country and where such local currency is freely exchangeable on the international markets. In most 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 CPIH's costs and results of operations.

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

The market prices and availability of fuel supplies of some of CPIH's facilities fluctuate. Any price increase, delivery disruption or reduction in the availability of such supplies could affect CPIH's ability to operate its facilities and impair its cash flow and profitability. CPIH may be subject to further exposure if any

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of its future 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 waste-to-energy facilities depend on solid waste for fuel, which provides a source of revenue. For most of our facilities, the prices they 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 waste-to-energy facilities, the availability of solid waste to us, as well as the tipping fee that we must charge to attract solid waste to its facilities, depends upon competition from a number of sources such as other waste-to-energy 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 affiliated companies. Such activities can affect both the availability of waste to us for disposal at some of our waste-to-energy facilities and market pricing.

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

Costs of compliance with federal, state and local 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 Waste and Energy Services 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 Waste and Energy Services 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. In addition, lawsuits or enforcement actions by federal and/or state 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.

Our Waste and Energy Services 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.

Federal 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 and state authorities. 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, commonly referred to as the 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, commonly referred to as PURPA, our domestic facilities are exempt from most provisions of the FPA and state rate regulation. In addition, PURPA requires utility

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companies to purchase electricity produced by exempt non-utility generators, such as Covanta. Our foreign projects are also exempt from regulation under the FPA.

The Energy Policy Act of 2005, referred to as the Policy Act in this prospectus, enacted comprehensive changes to the domestic energy industry which may affect our businesses. The 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 Policy Act includes provisions that may remove some of the benefits provided to non-utility electricity generators, like Covanta, after its existing energy sale contracts expire. As a result, we may face increased competition after such expirations occur.

If our Waste and Energy Services businesses become subject to either the FPA or lose the ability under PURPA to require utilities to purchase our electricity, 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, referred to as the FERC in this prospectus, 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 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 and local approvals required to operate our facilities. While our Waste and Energy Services 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 Waste and Energy Services 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 U.S. competitive pressures increase and the pricing and sale of electricity assumes more characteristics of a commodity business, the economics of our business may come under increasing pressure. Regulatory initiatives in foreign countries where our Waste and Energy Services businesses have or will have operations involve the same types of risks.

Changes in laws and regulations affecting the solid waste and the energy industries could adversely affect our Waste and Energy Services business.

Our Waste and Energy Services business is highly regulated. We cannot predict whether the federal or state governments or foreign governments will adopt legislation or regulations relating to the solid waste or energy industries. These laws and regulations can result in increased capital, operating and other costs to our Waste and Energy Services business, particularly with regard to enforcement efforts. The introduction of new laws or other future regulatory developments that increase the costs of operation or capital to us may have a material adverse effect on our business, financial condition or results of operations.

Table of Contents***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 or produce power, including fuel cells, microturbines and solar cells. It is possible that advances in these or other technologies will reduce the cost of waste disposal or power production from these technologies to a level below our costs. Furthermore, increased conservation efforts could reduce the demand for power or reduce the value of our facilities. Any of these changes could have a material adverse effect on our revenues and profitability.

We have incurred and will continue to incur significant transaction and combination-related costs in connection with the acquisition of Ref-Fuel.

We expect to incur significant costs, which we currently estimate to be approximately \$20 million through 2007, associated with combining the operations of Covanta and Ref-Fuel. However, we cannot predict with certainty the specific size of those charges at this preliminary stage of the integration process. Although we expect the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, we cannot give any assurance that this net benefit will be achieved as planned in the near future or at all.

Insurance Business-Specific Risks***Insurance regulations may affect NAICC's operations.***

The insurance industry is highly regulated. NAICC is subject to regulation by state and federal regulators, and a significant portion of NAICC's operations are subject to regulation by the state of California. Changes in existing insurance regulations or adoption of new regulations or laws which could affect NAICC's results of operations and financial condition may include, without limitation, proposed changes to California regulations regarding a broker's fiduciary duty to select the best carrier for an insured, extension of California's Low Cost Automobile Program beyond Los Angeles and San Francisco counties and changes to California's workers' compensation laws. We cannot predict the impact of changes in existing insurance regulations or adoption of new regulations or laws on NAICC's results of operations and financial condition.

The insurance products sold by NAICC are subject to intense competition.

The insurance products sold by NAICC are subject to intense competition from many competitors, many of whom have substantially greater resources than NAICC. The California non-standard personal automobile marketplace consists of over 100 carriers.

In order to decrease rates, insurers in California must obtain prior permission for rate reductions from the California Department of Insurance. In lieu of requesting rate decreases, competitors may soften underwriting standards as an alternative means of attracting new business. Such tactics, should they occur, would introduce new levels of risk for NAICC and could limit NAICC's ability to write new policies or renew existing profitable policies. We cannot assure you that NAICC will be able to successfully compete in these markets and generate sufficient premium volume at attractive prices to be profitable. This risk is enhanced by the reduction in lines of business NAICC writes as a result of its decision to reduce underwriting operations.

If NAICC's loss experience exceeds its estimates, additional capital may be required.

Unpaid losses and loss adjustment expenses are based on estimates of reported losses, historical company experience of losses reported for reinsurance assumed and historical company experience for unreported claims. Such liability is, by necessity, based on estimates that may change in the near term. NAICC cannot assure you that the ultimate liabilities will not exceed, or even materially exceed, the amounts estimated. If the ultimate liability materially exceeds estimates, then additional capital may be required to be contributed to some of our insurance subsidiaries. NAICC and the other insurance subsidiaries received additional capital contributions from us in 2003 and 2002, and NAICC cannot provide any assurance that it and its subsidiaries will be able to obtain additional capital on commercially reasonable terms or at all.

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In addition, due to the fact that NAICC and its other insurance subsidiaries are in the process of running off several significant lines of business, the risk of adverse development and the subsequent requirement to obtain additional capital is heightened.

Failure to satisfy capital adequacy and risk-based capital requirements would require NAICC to obtain additional capital.

NAICC is subject to regulatory risk-based capital requirements. Depending on its risk-based capital, NAICC could be subject to various levels of increasing regulatory intervention ranging from company action to mandatory control by insurance regulatory authorities. NAICC's capital and surplus is also one factor used to determine its ability to distribute or loan funds to us. If NAICC has insufficient capital and surplus, as determined under the risk-based capital test, it will need to obtain additional capital to establish additional reserves. NAICC cannot provide any assurance that it will be able to obtain such additional capital on commercially reasonable terms or at all.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated financial statements for the nine-month period ended September 30, 2005 and the year ended December 31, 2004, are based on our historical financial statements and the historical financial statements of Covanta, Ref-Fuel and Ref-Fuel Holdings. The unaudited pro forma condensed statements of combined operations are presented as if the acquisitions of Covanta and Ref-Fuel both occurred on January 1, 2004 adjusted for events that are (1) directly attributable to the transactions, (2) expected to have continuing impact, and (3) factually supportable.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with:

The accompanying notes to the unaudited pro forma condensed consolidated financial statements;

Our separate historical financial statements (1) as of and for the year ended December 31, 2004 attached to this prospectus as Appendix A, and (2) as of and for the nine months ended September 30, 2005 attached to this prospectus as Appendix B;

Ref-Fuel's separate historical financial statements (1) as of and for the year ended December 31, 2004 attached to this prospectus as Appendix C, and (2) as of and for the nine months ended September 30, 2005 attached to this prospectus as Appendix D; and

Covanta's separate historical financial statements as of and for the year ended December 31, 2004 attached to this prospectus as Appendix E.

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Covanta Holding Corporation
Pro Forma Nine Months Ended September 30, 2005
Unaudited Pro Forma Consolidated Statement of Operations

	Covanta Holding Jan. 1 Sep. 30, 2005	Ref-Fuel Jan. 1 June 24, 2005	Pro Forma Adjustments	ADJ	Pro Forma Combined
(In thousands of dollars)					
OPERATING REVENUES					
Waste and service revenues	\$ 436,624	\$ 148,792	\$		\$ 585,416
Energy and steam sales	225,541	79,660			305,201
Other operating revenues	13,236				13,236
Total operating revenues	675,401	228,452			903,853
OPERATING EXPENSES					
Plant operating expenses	393,343	103,617	3,136	J	500,096
Depreciation and amortization expense	78,027	57,032	(5,380)	J	129,679
Net interest expense on project debt	36,700	13,964	1,474	J	52,138
Other operating expenses	7,736	519			8,255
General and administrative expenses	46,313	52,133	(41,675)	M	56,047
			(724)	J	
Restructuring charges	2,655		(2,655)	M	
Acquisition-related charges	2,963		(2,963)	M	
Total operating expenses	567,737	227,265	(48,787)		746,215
Operating income	107,664	1,187	48,787		157,638
Investment income	3,530	1,225			4,755
Interest expense	(59,053)	(26,368)			(90,859)
			28,944	H	
			(37,362)	I	
			2,980	J	
Gain on derivative instrument, unexercised ACL warrants	14,796				14,796
Total other expenses	(40,727)	(25,143)	(5,438)		(71,308)
Income before income taxes, minority interests and equity in net income from unconsolidated investments	66,937	(23,956)	43,349		86,330
Income tax benefit (expense)	(24,008)	6,033	(20,874)	K	(38,849)
Minority interest expense	(9,311)	(56)			(9,367)
	20,003				20,003

Equity in net income from
unconsolidated investments

NET INCOME (LOSS)	\$	53,621	\$	(17,979)	\$	22,475	\$	58,117
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Covanta Holding Corporation
Pro Forma Year Ended December 31, 2004
Unaudited Pro Forma Consolidated Statement of Operations

	Jan. 1 to Dec. 31, 2004	Jan. 1 to Mar. 10, 2004	Jan. 1 to Mar. 10, 2004	Jan. 1 to Dec. 31, 2004	Jan. 1 to Apr. 30, 2004	Pro Forma	Pro Forma	Pro Forma
	Covanta Holding	Covanta Energy	Deconsolidation of Covanta Energy Entities(A)	Ref-Fuel	Ref-Fuel Ownership Changes(G)	Adjustments	ADJ	Combined
(In thousands of dollars)								
OPERATING REVENUES								
Waste and service revenues	\$ 372,748	\$ 89,867	\$ (5,282)	\$ 194,950	\$ 89,496	\$ (7,219)	L	\$ 778,729
						44,169	L	
Energy and steam sales	181,074	53,307	(535)	93,188	41,566	59,770	L	398,797
						(29,573)	L	
Other operating revenues	22,374	58		10,506	6,475	(16,981)	L	22,432
Total operating revenues	576,196	143,232	(5,817)	298,644	137,537	50,166		1,199,598
OPERATING EXPENSES								
Plant operating expenses	348,867	100,774	(3,632)	116,089	73,322	15,840	L	657,619
						6,359	J	
Depreciation and amortization expense	53,131	13,426	(786)	45,154	22,842	(12,640)	B	173,315
						8,598	C	
						3,375	D	
						59,770	L	
						(7,219)	L	
						(12,336)	J	
Net interest expense on project debt	32,586	13,407	(1,045)			(2,400)	L	76,960
						30,779	L	
						(3,419)	E	
						7,052	J	
	16,560	(2,234)	116	1,462	220	(425)	L	15,699

Other operating expenses								
General and administrative expenses								
	48,182	7,597	(322)	30,216	15,031	(18,634)	L	76,037
						(4,949)	M	
						(1,084)	J	
Total operating expenses								
	499,326	132,970	(5,669)	192,921	111,415	68,667		999,630
Operating income								
	76,870	10,262	(148)	105,723	26,122	(18,501)		200,328
Investment income								
	2,343	935		2,967	1,022	(2,400)	L	4,867
Interest expense								
	(43,739)	(6,142)	6	(69,219)	(21,626)	30,779	L	(123,339)
						55,400	H	
						(74,724)	I	
						5,926	J	
Reorganization items								
		(58,282)				58,282	F	
Fresh-start adjustments								
		(399,063)				399,063	F	
Gain on extinguishment of debt								
		510,680				(510,680)	F	
Income (loss) before income taxes, minority interests and equity in net income from unconsolidated investments								
	35,474	58,390	(142)	39,471	5,518	(56,855)		81,856
Income tax benefit (expense)								
	(11,535)	(30,240)		(17,818)		21,939	K	(37,654)
Minority interest expense								
	(6,869)	(2,511)		(12,283)	11,372			(10,291)
Equity in net income (loss) from unconsolidated investments								
	17,024	3,924	142	6,148	(6,148)			21,090
NET INCOME								
	\$ 34,094	\$ 29,563	\$	\$ 15,518	\$ 10,742	\$ (34,916)		\$ 55,001

Table of Contents**NOTE 1: BASIS OF PRESENTATION*****Covanta***

On December 2, 2003, we executed a definitive investment and purchase agreement to acquire Covanta in connection with Covanta's emergence from Chapter 11 proceedings after the non-core and geothermal assets of Covanta were divested. The primary components of the transaction were: (1) our purchase of 100% of the equity of Covanta in consideration for a cash purchase price of approximately \$30 million, and (2) agreement as to new letter of credit and revolving credit facilities for Covanta's domestic and international operations, provided by some of the existing Covanta lenders and a group of additional lenders we organized. Our acquisition of Covanta was consummated on March 10, 2004.

The aggregate purchase price was \$47.5 million which included the cash purchase price of \$30 million, \$6.4 million for professional fees and other estimated costs incurred in connection with the acquisition, and an estimated fair value of \$11.3 million for our commitment to sell up to 3.0 million shares of our common stock at \$1.53 per share to certain creditors of Covanta, subject to certain limitations.

In addition to the purchase price allocation adjustments, Covanta's emergence from Chapter 11 proceedings on March 10, 2004 resulted in Covanta becoming a new reporting entity and adoption of fresh-start accounting as of that date, in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, referred to as SOP 90-7 in this prospectus. The following table summarizes the final allocation of values to the assets acquired and liabilities assumed at March 10, 2004 in conformity with Statement of Financial Accounting Standards, referred to in this prospectus as SFAS, No. 141, Business Combinations, referred to as SFAS No. 141 in this prospectus, and SFAS No. 109, Accounting for Income Taxes, referred to as SFAS No. 109 in this prospectus (in thousands of dollars):

Current assets	\$	522,659
Property, plant and equipment		814,369
Intangible assets		191,943
Other assets		327,065
Total assets acquired	\$	1,856,036
Current liabilities	\$	364,480
Long-term debt		328,053
Project debt		850,591
Deferred income taxes		88,405
Other liabilities		176,982
Total liabilities assumed	\$	1,808,511
Net assets acquired	\$	47,525

The acquired intangible assets of \$191.9 million primarily relate to service and energy agreements on publicly-owned waste-to-energy projects with an approximate 17-year weighted average useful life. However, many such contracts have remaining lives that are significantly shorter.

Table of Contents***Ref-Fuel***

The following table summarizes the preliminary allocation of values to the assets acquired and liabilities assumed as of June 24, 2005, the acquisition date of Ref-Fuel, in conformity with SFAS No. 141 and SFAS No. 109. The allocation of purchase price to Ref-Fuel is preliminary and subject to change as additional information and analysis is obtained. We are in the process of performing the valuation studies necessary to finalize the fair values of the assets and liabilities of Ref-Fuel and the related allocation of purchase price. We expect that adjustments to the preliminary fair values may include those related to:

property, plant and equipment, intangibles, goodwill and debt, all of which may change based on consideration of additional analysis by us and our valuation consultants;

accrued expenses for transaction costs and restructuring efforts which may change based on identification of final fees and costs; and

tax liabilities and deferred taxes, which may be adjusted based upon additional information to be received from taxing authorities and which result from changes in the allocated book basis of items for which deferred taxes are provided.

	Purchase Price Allocation as of	
	June 24, 2005	September 30, 2005
	(In thousands of dollars)	
Current assets	\$ 233,885	\$ 233,885
Property, plant and equipment	1,901,786	1,901,786
Intangible assets (excluding goodwill)	269,436	269,436
Goodwill	298,089	292,810
Other assets	111,458	108,869
 Total assets acquired	 \$ 2,814,654	 \$ 2,806,786
Current liabilities	\$ 156,610	\$ 156,610
Long-term debt	655,270	655,270
Project debt	718,805	706,732
Deferred income taxes	368,907	372,684
Other liabilities	164,787	165,215
 Total liabilities assumed	 2,064,379	 2,056,511
Minority interest acquired	3,058	3,058
 Net assets acquired	 \$ 747,217	 \$ 747,217

The acquired intangible assets of \$269.4 million relate to favorable energy and waste contracts and a favorable leasehold interest with an approximate ten-year average useful life. In its initial purchase price allocation as of June 24, 2005, goodwill of \$298.1 million was recorded to reflect the excess of cost over the preliminary fair value of acquired net assets. As of September 30, 2005, goodwill was \$292.8 million which reflected adjustments to the carrying value of project debt by \$12.1 million, a fair value adjustment related to a service agreement of \$2.5 million,

a deferred tax adjustment of \$3.8 million and various other liability adjustments of \$0.5 million as part of Covanta's ongoing purchase accounting review.

NOTE 2: PRO FORMA ADJUSTMENTS

Adjustments for the Covanta Transactions

A. The Deconsolidation of Covanta Energy Entities column of the unaudited pro forma condensed consolidated statements of operations pertains to six of Covanta's subsidiaries which had not reorganized or filed a liquidation plan under Chapter 11 as of March 10, 2004. For the 2004 pro forma period presented, these

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entities were not consolidated because we did not control these debtors or the ultimate outcome of their respective Chapter 11 cases. The subsidiaries related to the Tampa Bay desalination and Lake County waste-to-energy projects emerged from Chapter 11 on August 6, 2004 and December 14, 2004, respectively, when they were reconsolidated.

B. To reverse Covanta's historical depreciation and amortization expense, for the period January 1, 2004 to March 10, 2004.

C. To include pro forma depreciation expense based on fair values assigned to Covanta's property, plant and equipment for the period January 1, 2004 to March 10, 2004. The weighted average remaining useful life of property, plant and equipment acquired in the Covanta acquisition was approximately 19 years, consisting principally of energy facilities and buildings with a weighted average remaining useful life of approximately 21 years and machinery and equipment with a weighted average remaining useful life of approximately 13 years.

D. To include pro forma amortization expense based on fair values assigned to Covanta's acquired intangible assets for the period January 1, 2004 to March 10, 2004, primarily service agreements on publicly owned waste-to-energy projects.

E. To reverse Covanta's historical amortization of bond issuance costs (\$0.8 million) on outstanding project debt and include pro forma amortization of the premium on project debt (\$2.6 million) based on fair values assigned to Covanta's project debt, for the period January 1, 2004 to March 10, 2004.

F. To remove historical reorganization items, fresh-start adjustments and the gain on extinguishment of debt resulting from Covanta's bankruptcy proceedings. Since the pro forma condensed statement of combined operations has been prepared on the basis that Covanta's emergence from bankruptcy and the business combination with us both occurred on January 1, 2004, these items have been removed, as these transactions to effect Covanta's reorganization would have been completed and these items would have been recorded prior to January 1, 2004.

Adjustments for the Ref-Fuel Transactions

G. On April 30, 2004, Ref-Fuel entered into a series of transactions, referred to as Equalization Transactions in this prospectus, that changed its ownership structure. As a result of the Equalization Transactions, Ref-Fuel gained control of MSW Energy Holdings LLC, referred to as MSW I in this prospectus, and MSW Energy Holdings II LLC, referred to as MSW II in this prospectus (each being subsidiaries of Ref-Fuel), which on a combined basis, owned substantially all interests in Ref-Fuel Holdings. Ref-Fuel Holdings is a holding company with a 100% membership interest in ARC, which through subsidiaries, owns and operates six waste-to-energy facilities in the United States. As a result of the Equalization Transactions, Ref-Fuel had effective control of Ref-Fuel Holdings, and therefore began consolidating its results of operations from May 1, 2004.

The Ref-Fuel Ownership Changes column of the unaudited pro forma condensed consolidated statement of operations for the year-ended December 31, 2004 pertains to entities that were not consolidated by Ref-Fuel until ownership interests changed effective April 30, 2004 (the Equalization Transactions described above). Ref-Fuel reported its 50% share of earnings from its investment in Ref-Fuel Holdings under the equity method from January 1, 2004 to April 30, 2004 (four-month period) and consolidated such operations from May 1, 2004 to December 31, 2004 (eight-month period). In addition, as a result of the Equalization Transactions, Ref-Fuel obtained a 0.01% interest and was named managing member of MSW I and began consolidating its operations as of April 30, 2004. On August 31, 2004, in another transaction, Ref-Fuel acquired the 99.99% non-managing interests in MSW I. As a result, Ref-Fuel owned 100% of the interests in MSW I after that date.

This column reverses the impact of accounting under the equity method for the investment in Ref-Fuel Holdings for the four-month period ended April 30, 2004 and reflects the results of operations as if they had been consolidated as of January 1, 2004. In addition, this column reflects the results of operations for MSW I

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as if Ref-Fuel had owned a 100% interest in MSW I as of January 1, 2004, which includes reversing the minority interest relating to MSW I for the period of May 1, 2004 through August 31, 2004.

H. Covanta entered into new credit arrangements, referred to as the Debt Financing Package in this prospectus, as part of the Ref-Fuel acquisition which were assumed to have occurred as of January 1, 2004 on a pro forma basis.

To reverse historical interest expense (including letter of credit fees) associated with recourse debt and unfunded credit facilities refinanced with the Debt Financing Package, the net proceeds from a rights offering undertaken by us during the second quarter of 2005 as part of the financing of the Ref-Fuel acquisition, the interest expense related to Ref-Fuel's \$40 million, 9% interest senior notes contributed by Ref-Fuel's members as a result of the August 31, 2004 transactions, and the interest expense for a related bridge loan (in thousands of dollars).

	Nine Months Ended Sept. 2005	Full Year 2004
Covanta Energy recourse debt (January 1 to March 10, 2004)	\$	\$ 6,142
Covanta recourse debt (January 1 to December 31, 2004)		9,033
Covanta Energy recourse debt and credit facilities	28,352	34,706
Ref-Fuel credit facilities	592	432
Ref-Fuel senior notes & bridge		5,087
 Total	 \$ 28,944	 \$ 55,400

I. To include pro forma interest expense based on the Debt Financing Package (in thousands of dollars).

	Principal	Rate	Nine Months Ended Sept. 2005	Full Year 2004
Borrowings:				
First Lien Facility	\$ 275,000	7.07%	\$ 9,721	\$ 19,443
Second Lien Facility	100,000	9.57%	4,785	9,570
Second Lien Facility	60,000	9.77%	2,932	5,863
Second Lien Facility	240,000	9.78%	11,736	23,472
 Total Borrowings	 \$ 675,000		 \$ 29,174	 \$ 58,348
 Available for letters of credit and revolving credit				
Letter of credit availability under First Lien Facility	\$ 340,000	3%	\$ 5,100	\$ 10,200
Revolving credit facility*	100,000	0.5%	250	500
 Total unfunded	 \$ 440,000		 \$ 5,350	 \$ 10,700
Amortization of Debt Financing			2,838	5,676
 Package financing costs				
Total			\$ 37,362	\$ 74,724

(*) Available for up to \$75 million of letters of credit as an alternative to borrowings. This facility remains unused.

Interest rates under the Debt Financing Package are based on the three-month London InterBank Offering Rate, referred to as LIBOR, plus a margin of 3.00% for the First Lien Facility and 5.50% for the Second Lien Facility. The rates used to determine the pro forma adjustments above were selected with regard to our current credit ratings and the three-month LIBOR rate of 4.07% used for the October through December 2005 payment period.

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J. To record the difference between the preliminary estimates of the fair values and the historical amounts of Ref-Fuel's assets and debt assumed by Covanta on June 24, 2005, the date we acquired Ref-Fuel, and the related impacts on depreciation, amortization and interest expense as if the acquisition had occurred on January 1, 2004. The fair value of contract related assets (classified as intangible assets, net) were attributable to revenue arrangements for which the contractual rates were greater than the market rates. The fair value of contract-related liabilities (classified as other liabilities) were attributable to revenue arrangements for which contractual rates were less than the market rates.

Other adjustments

K. To record the estimated income tax effects associated with the pro forma adjustments to pre-tax income other than item (g) to arrive at a blended assumed effective tax rate of 47% for the combined company for the nine months ended September 30, 2005.

L. Represents the reclassification of certain amounts among revenue and expense categories to conform Ref-Fuel's historical presentation to our policies. These reclassifications consisted of the following:

Reclassification of the amortization of waste and energy contracts from revenue and expense to depreciation and amortization;

Other revenues, which primarily consisted of sales of scrap metals, were reclassified from other revenues into waste and service revenues;

Certain costs associated with operating facilities and TransRiver were reclassified from general and administrative expenses into plant operating expenses;

Reimbursements from certain municipal clients for operating expenses were reclassified from revenues to reductions of operating expenses;

Reductions of revenues shared with certain municipal customers for energy produced were reclassified from waste and service revenues to energy revenues; and

Other minor miscellaneous reclassifications were also made.

M. Represents costs related to Ref-Fuel's officers that were terminated in connection with the transaction as well as transaction related costs incurred by Ref-Fuel as follows (in thousands of dollars):

	Nine Months Ended Sept. 2005	Full Year 2004
Transaction costs	\$ 12,150	\$
Executive severance	25,730	
Executive compensation	3,795	4,949
	\$ 41,675	\$ 4,949

Additionally, our September 30, 2005 financial statements reflect charges of \$2.7 million and \$3.0 million related to restructuring and integration expenses, respectively.

Table of Contents**SELECTED FINANCIAL DATA**

The following table sets forth selected components of our consolidated financial data as of and for the fiscal years ended December 31, 2004 and 2003, December 27, 2002, and December 31, 2001 and 2000 and as of and for the nine months ended September 30, 2005 and 2004.

The selected consolidated financial data at September 30, 2005 and for the nine months ended September 30, 2005 and 2004 have been derived from our unaudited financial statements which are included elsewhere in this prospectus. The selected consolidated financial data at and for the fiscal years ended December 31, 2004 and 2003 and December 27, 2002 have been derived from each of our audited financial statements which are included elsewhere in this prospectus. The selected consolidated financial data at and for the years ended December 31, 2001 and 2000 have been derived from our audited financial statements which are not included in this prospectus but that can be obtained from our Annual Reports that we have filed with the SEC on Form 10-K for each of the years ended December 31, 2001 and 2000.

Results for past periods are not necessarily indicative of results that may be expected for any future period.

The selected consolidated financial and other data presented below have been derived from financial statements that have been prepared in accordance with U.S. generally accepted accounting principles. You should read the selected consolidated financial data presented below together with *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our consolidated financial statements and the notes to those consolidated financial statements appearing elsewhere in this prospectus. Certain prior period amounts presented below, including various revenues and expenses, have been reclassified to conform to the current period presentation (other than certain subsequent reclassifications related to the investment income at our parent level). (In thousands of dollars, except per share amounts.)

	Nine Months Ended September 30, 2005(1)	Nine Months Ended September 30, 2004	2004(2)(3)	2003(3)	Years Ended			2001	2000
	(Unaudited)		(Audited)						
Statement of Operations Data									
Operating revenue	\$ 675,401	\$ 402,375	\$ 576,196	\$ 41,123	\$ 531,501	\$ 92,104	\$ 84,331		
Operating expense	567,737	346,111	499,326	54,029	528,168	106,365	85,073		
Operating income (loss)	107,664	56,264	76,870	(12,906)	3,333	(14,261)	(742)		
Other income (loss)	14,796				2,793		(1,906)		
Interest expense, net	55,523	31,265	41,396	1,424	38,735				
Income (loss) before taxes, minority interest and equity income	66,937	24,999	35,474	(14,330)	(32,609)	(14,261)	1,164		
Minority interest expense	9,311	3,922	6,869						
Income taxes	24,008	8,436	11,535	18	346	73	134		
Equity in net income (loss) from unconsolidated	20,003	13,196	17,024	(54,877)					

investments

Net income (loss)	\$	53,621	\$	25,837	\$	34,094	\$	(69,225)	\$	(32,955)	\$	(14,334)	\$	1,030
Income (loss) per share(6)														
Basic	\$	0.46	\$	0.31	\$	0.39	\$	(1.05)	\$	(0.58)	\$	(0.34)	\$	0.03
Diluted	\$	0.44	\$	0.30	\$	0.37	\$	(1.05)	\$	(0.58)	\$	(0.34)	\$	0.03

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	Nine Months Ended		Years Ended				
	September 30, 2005(1)	September 30, 2004	2004(2)(3)	2003(3)	2002(4)	2001	2000
	(Unaudited)		(Audited)				
Balance Sheet Data							
Cash and cash equivalents	\$ 165,732	\$ 112,661	\$ 96,148	\$ 17,952	\$ 25,183	\$ 17,866	\$ 12,545
Restricted funds held in trust	428,738	255,693	239,918				
Investments	70,580	61,920	65,042	71,057	93,746	148,512	147,667
Properties net	2,675,799	862,609	819,400	254	654,575	131	56
Service and energy contracts	426,197	192,389	177,290				
Goodwill	292,810						
Deferred tax asset	39,583	83,213	26,910				
Total assets	4,706,294	2,059,212	1,939,081	162,648	1,032,945	208,871	210,829
Deferred income taxes	488,118	225,767	109,465				
Unpaid losses and LAE	51,557	66,741	64,270	83,380	101,249	105,745	100,030
Recourse debt	1,343,015	318,438	312,896	40,000	597,246		
Project debt(7)	1,632,681	932,098	944,737				
Project debt premium	66,091	40,927	37,910				
Minority interest	83,410	83,174	83,350				
Shareholders equity	\$ 591,497	\$ 121,992	\$ 134,815	\$ 27,791	\$ 77,360	\$ 74,463	\$ 81,330
Book value per share of common stock(6)	\$ 4.19	\$ 1.68	\$ 1.84	\$ 0.50	\$ 1.63	\$ 2.48	\$ 2.74
Shares of common stock outstanding(5),(6)	141,175	72,814	73,430	55,105	47,459	30,039	29,716

(1) For the nine months ended September 30, 2005, Ref-Fuel's results of operations are included in our consolidated results subsequent to June 24, 2005. As a result of the consummation of the Ref-Fuel acquisition on June 24, 2005, our future performance will be significantly driven by the combined performance of Covanta and Ref-Fuel's operations. As a result, the nature of our business, the risks attendant to such business and the trends that it will face have been significantly altered by the acquisitions of Covanta and Ref-Fuel. Accordingly, our historic financial performance and results of operations will not be indicative of our future performance.

(2) For the year ended December 31, 2004, Covanta's results of operations are included in our consolidated results subsequent to March 10, 2004. As a result of the consummation of the Covanta acquisition on March 10, 2004,

our future performance will predominantly reflect the performance of Covanta's operations which are significantly larger than our insurance operations. As a result, the nature of our business, the risks attendant to such business and the trends that it will face have been significantly altered by the acquisition of Covanta. Accordingly, our historic financial performance and results of operations will not be indicative of our future performance.

- (3) ACL, which was acquired on May 29, 2002, and certain of its subsidiaries, filed a petition on January 31, 2003 with the U.S. Bankruptcy Court for the Southern District of Indiana, New Albany Division to reorganize under Chapter 11. As a result of this filing, we no longer maintained control of the activities of ACL. Our equity interest in ACL was cancelled when ACL's plan of reorganization was confirmed on

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December 31, 2004 and it emerged from bankruptcy on January 11, 2005. Accordingly, as of December 31, 2004 we did not include ACL and its subsidiaries as consolidated subsidiaries in our financial statements. Our investments in these entities were presented using the equity method effective as of the beginning of the year ending December 31, 2003. Other (loss) income above consists of our equity in the net loss of ACL, GMS and Vessel Leasing in 2003.

- (4) In 2002, we purchased 100% of ACL, 5.4% of GMS and 50% of Vessel Leasing.
- (5) Does not give effect to currently exercisable options, and, in 2001 and 2000, warrants to purchase shares of our common stock.
- (6) Basic and diluted earnings per share and the average shares used in the calculation of basic and diluted earnings per share and book value per share of common stock and shares of common stock outstanding for all periods have been adjusted retroactively to reflect the bonus element contained in the rights offering issued on May 18, 2004 and for the Ref-Fuel rights offering issued on May 31, 2005.
- (7) Includes \$66 million, \$41 million and \$38 million of unamortized debt premium as of September 30, 2005 and 2004 and as of December 31, 2004.

SUPPLEMENTAL QUARTERLY FINANCIAL DATA

The following tables present quarterly unaudited financial data for the periods presented on the consolidated statements of operations (in thousands of dollars, except per share amounts):

2005

Fiscal Quarter	First	Second	Third
Operating revenue	\$ 174,819	\$ 199,092	\$ 301,490
Operating income	13,859	28,814	64,991
Net income	10,303	5,917	37,401
Net income per share:			
Basic	0.10	0.06	0.27
Diluted	0.10	0.05	0.26

2004

Fiscal Quarter	First	Second	Third	Fourth	Total
Operating revenue	\$ 45,875	\$ 184,878	\$ 171,622	\$ 173,821	\$ 576,196
Operating income	3,799	30,757	21,708	20,606	76,870
Net (Loss) income	(2,173)	15,195	12,815	8,257	34,094
Net (Loss) income per share:					
Basic	(0.03)	0.19	0.13	0.08	0.39
Diluted	(0.03)	0.18	0.12	0.08	0.37

2003

Fiscal Quarter	First	Second	Third	Fourth	Total
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Operating revenue	\$ 11,076	\$ 11,837	\$ 8,909	\$ 9,301	\$ 41,123
Operating income	(2,650)	(4,578)	(3,546)	(2,132)	(12,906)
Net (Loss) income	(57,836)	(4,501)	(3,442)	(3,446)	(69,225)
Net (Loss) income per basic and diluted share	(0.87)	(0.07)	(0.05)	(0.05)	(1.05)

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FORWARD-LOOKING STATEMENTS

Cautionary Note Regarding Forward-Looking Statements

This prospectus and registration statement contain statements that may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995, referred to as the PSLRA in this prospectus, or in releases made by the 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 us and our subsidiaries, 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, w should, seeks, or scheduled to, or other 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 of 1933, the Exchange Act of 1934 and the PSLRA with the intention of obtaining the benefits of the safe harbor provisions of such laws. We caution investors that any forward-looking statements made by us 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 us include, but are not limited to, the risks and uncertainties affecting their businesses described in Item 1 of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2004 and in registration statements and other securities filings by us and our subsidiaries, including MSW I and MSW II.

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 its 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 prospectus and registration statement 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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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion addresses our financial condition, including the following: our parent-level liquidity and capital resources and cash flow as of and for the years ended December 31, 2004 and 2003 and for the nine-month periods ended as of September 30, 2005 and 2004; our parent-level investment income and expenses as of and for the years ended December 31, 2004 and 2003 and the year ended December 27, 2002; the operating results of our Waste and Energy Services business as of and for the years ended December 31, 2004 and 2003 and for the nine-month periods ended as of September 30, 2005 and 2004; and, the operating results and cash flows of our insurance business for the years ended December 31, 2004 and 2003 and December 27, 2002 and for the nine-month periods ended September 30, 2005 and 2004.

This discussion should be read in conjunction with our Audited Consolidated Financial Statements and related notes for the periods ended December 31, 2004 and 2003 and December 27, 2002, attached to this prospectus as Appendix A, and our Interim Financial Statements as of September 30, 2005 (unaudited) and December 31, 2004 and for the nine-month periods ended September 30, 2005 and 2004 (unaudited), attached to this prospectus as Appendix B.

The preparation of interim financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of our business, as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and classification of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. As described in Note 3 to the Notes to the Unaudited Interim Financial Statements, our purchase accounting of our acquisition of Covanta reflected the final allocation of value to the assets acquired and liabilities assumed and our preliminary allocation of value to the assets acquired and liabilities assumed for the acquisition of Ref-Fuel.

EXECUTIVE SUMMARY

We are organized as a holding company and substantially all of our operations were conducted in the insurance services industry prior to the acquisition of Covanta's business in 2004 and of Ref-Fuel's business in 2005. As a result of the consummation of the Covanta and Ref-Fuel acquisitions, our future performance will predominantly reflect the performance of the Waste and Energy Services operations which are significantly larger than our insurance operations.

Covanta Acquisition

On March 10, 2004, Covanta and most of its subsidiaries engaged in waste-to-energy, water and independent power production in the United States consummated reorganization and emerged from proceedings under Chapter 11. As a result of the consummation of the Covanta Plan of Reorganization, Covanta is a wholly-owned subsidiary of ours. The results of operations and financial condition of Covanta are consolidated for financial reporting purposes from March 11, 2004.

After the consummation of the Covanta Plan of Reorganization, the subsidiaries of Covanta that own and operate the Warren County, New Jersey, and Lake County, Florida, waste-to-energy facilities and the Covanta subsidiaries which were involved in the Tampa Bay desalination facility, which are collectively referred to as the Remaining Debtors in this prospectus, remained in Chapter 11 proceedings. At March 10, 2004, we did not include these entities as consolidated subsidiaries in our financial statements. Our investment in these entities was recorded in the financial statements using the cost method as of March 10, 2004.

Subsequently, the subsidiaries of Covanta that were involved in the Tampa Bay desalination project emerged from bankruptcy on August 6, 2004. In connection with the settlement of litigation associated with the Tampa Bay project, these subsidiaries emerged from bankruptcy without material assets or liabilities and without contractual rights to operate the Tampa Bay facility. In addition, the subsidiaries of Covanta involved

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in the Lake County, Florida waste-to-energy facility reached agreements with their counterparties and emerged from bankruptcy on December 14, 2004. The Lake County subsidiaries are consolidated in our financial statements as of December 14, 2004. In September 2005, Covanta's subsidiaries involved with the Warren County, New Jersey project filed a reorganization plan after they reached agreement with various contract counterparties, which was confirmed by the bankruptcy court on December 1, 2005. The subsidiaries emerged from bankruptcy on December 15, 2005 and after such emergence they were consolidated in our financial statements.

ACL Bankruptcy and Warrants

Throughout 2004, we also had subsidiaries engaged in the marine services industry which, beginning in 2003, were accounted for under the equity method. Most of these subsidiaries were involved in the bankruptcy proceedings of ACL, pursuant to which these subsidiaries were sold or reorganized. On December 30, 2004, a plan of reorganization was confirmed, without any material conditions, and on January 10, 2005, these subsidiaries emerged from bankruptcy and our ownership interests in ACL were cancelled.

As discussed in Note 16 to the Notes to the Unaudited Interim Financial Statements, on January 12, 2005, a subsidiary of ours received 168,230 warrants to purchase the common stock of ACL at \$12.00 per share. The warrants were given by certain of the former creditors of ACL. The number of shares and exercise price subject to the warrants were subsequently adjusted to 672,920 shares at an exercise price of \$3.00 per share, as a result of a four for one stock split effective as of August 2005. We wrote our investment in ACL down to zero in 2003. We determined that the aggregate fair value of the warrant on the grant date was \$0.8 million.

Covanta recorded the warrants as a derivative security in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities. On October 7, 2005, ACL issued 7.5 million shares in an initial public offering. Covanta proceeded to exercise the warrants it owned and received shares of ACL common stock in order to begin monetizing these shares. Based on market quotes as of September 30, 2005, Covanta recorded a mark-to-market adjustment for the period ended September 30, 2005 which increased the investment in ACL warrants to \$15.6 million in the condensed consolidated balance sheet and recorded a corresponding pre-tax gain on derivative instruments of \$10.6 million in the condensed consolidated statements of operations for the three months ended September 30, 2005. During October 2005, Covanta monetized its investment in all ACL shares it owned. The average gross selling price was \$26.79 per share and resulted in net cash proceeds of \$18 million and a realized gain of \$16 million. As of September 30, 2005, Covanta had recognized approximately \$14.8 million in unrealized gains related to these shares. As a result, Covanta will recognize an additional \$0.4 million realized gain in the fourth quarter of 2005.

During 2004, our investment in marine services business included a direct 5.4% interest in Global Material Services, LLC, referred to as GMS in this prospectus, and a direct 50% interest in Vessel Leasing, LLC, referred to as Vessel Leasing in this prospectus. Neither of these two companies filed for Chapter 11 protection. GMS was a joint venture among ACL, us and a third party, which owned and operated marine terminals and warehouse operations. Vessel Leasing was a joint venture between ACL and us which leased barges to ACL's barge transportation operations. Neither GMS, Vessel Leasing nor us were guarantors of ACL's debt nor were we liable for any of ACL's liabilities. On October 6, 2004, we and ACL sold our interests in GMS to the third party joint venture member, and on January 13, 2005 we sold our interest in Vessel Leasing to ACL. As a result, we no longer are engaged in the marine services business.

As a result of ACL's bankruptcy filing, while we continued to exercise influence over the operating and financial policies of ACL throughout 2004, we no longer maintained control of ACL. Accordingly, for the years ended December 31, 2004 and 2003, we accounted for our investments in ACL, GMS and Vessel Leasing using the equity method of accounting. Under the equity method of accounting, we report our share of the equity investees' income or loss based on our ownership interest.

As a result of ACL's continued losses and our management's belief that we would recover little, if any, of our investment in ACL, we wrote off our remaining investment in ACL during the first quarter of 2003. The equity in net loss of unconsolidated marine services subsidiaries included a loss from ACL of \$47 million, an

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other than temporary impairment of the remaining investment in ACL of \$8.2 million and income from GMS and Vessel Leasing of \$0.3 million. The GMS and Vessel Leasing investments were not considered to be impaired. The marine services subsidiaries' operating results in 2002 were consolidated in our operating results from the date of acquisition, May 29, 2002, through December 27, 2002, but were deconsolidated in 2003 as a result of ACL's bankruptcy.

Ref-Fuel Acquisition

On June 24, 2005, we acquired, through Covanta, 100% of the issued and outstanding shares of Ref-Fuel in accordance with a stock purchase agreement dated January 31, 2005 with Ref-Fuel. Ref-Fuel and its subsidiaries operate six waste-to-energy facilities located in the northeastern United States and TransRiver Marketing Company, L.P., referred to as TransRiver in this prospectus, a waste procurement company. The Ref-Fuel subsidiaries that operate the waste-to-energy facilities derive revenues principally from disposal or tipping fees received for accepting waste, and from the sale of electricity and steam produced by those facilities. Immediately upon the closing of the acquisition, Ref-Fuel became a wholly-owned subsidiary of Covanta, and Covanta assumed control of the management and operations of the Ref-Fuel facilities. Covanta has changed the names of many of the Ref-Fuel subsidiaries so that they now conduct business under the Covanta Energy name. Ref-Fuel's results of operations were consolidated into ours beginning June 25, 2005. Our condensed consolidated balance sheet included the accounts of Ref-Fuel as of September 30, 2005 and reflected preliminary purchase accounting allocations.

We paid \$740 million in cash for all of the outstanding stock of Ref-Fuel and assumed Ref-Fuel's consolidated net debt of \$1.3 billion (\$1.5 billion of consolidated indebtedness and \$0.2 billion of cash and restricted cash). We financed the Ref-Fuel acquisition through a combination of debt and equity financing. The debt component of the financing consisted of various senior secured credit facilities entered into by Covanta and guaranteed by us and certain of Covanta's domestic subsidiaries. These credit facilities are described below under *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Management's Discussion and Analysis of Liquidity and Capital Resources* *Waste and Energy Services Segment*. The equity component of the financing consisted of the Ref-Fuel rights offering, a \$400 million offering of warrants or other rights to purchase our common stock to all of our existing stockholders. Under the Ref-Fuel rights offering each holder was entitled to purchase 0.9 shares of our common stock at an exercise price of \$6.00 for each share of our common stock held as of May 27, 2005, the record date.

NOLs

In addition to the risks attendant to the operation of the Waste and Energy Services business in the future and the integration of Ref-Fuel and its employees into Covanta, our ability to utilize our NOLs to offset taxable income generated by the Waste and Energy Services' operations will have a material effect on our financial condition and results of operations. NOLs predominantly arose from predecessor insurance entities of ours (formerly named Mission Insurance Group Inc.).

We had NOLs estimated to be approximately \$516 million for federal income tax purposes as of December 31, 2004. The NOLs will expire in various amounts from December 31, 2005 through December 31, 2023, if not used. The amount of NOLs available to Covanta will be reduced by any taxable income, with certain exceptions, generated by current members of our consolidated tax group. The IRS has not audited any of our tax returns relating to the years during which the NOLs were generated.

A portion of our NOLs were utilized in 2004 as a result of income we recognized in connection with ACL's emergence from bankruptcy, Covanta's operations and from income from certain grantor trusts relating to our historic insurance business conducted by the Mission Insurance entities.

In addition, reductions in our NOLs could occur in connection with the administration of the grantor trusts associated with the Mission Insurance entities which are in state insolvency proceedings. During or at the conclusion of the administration of these grantor trusts, material taxable income could result which could utilize a substantial portion of our NOLs, which in turn could materially reduce cash flow and the ability to

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service current debt. The impact of a material reduction in our NOLs could also cause an event of default under current secured credit facilities and/or a reduction of a substantial portion of our deferred tax asset relating to such NOLs. For a more detailed discussion of the Mission Insurance entities and the grantor trusts, please see Note 25 to the Notes to the Audited Annual Financial Statements and Note 12 of the Unaudited Interim Financial Statements.

While we cannot predict with certainty what amounts, if any, may be includable in our taxable income, we have received preliminary information which raises the possibility that we may recognize taxable income in connection with the conclusion of the administration of the insolvency estates. However, after reviewing the preliminary information, we determined that it was insufficient to warrant inclusion of taxable income in our 2004 tax filing based on such preliminary information. We are in the process of obtaining additional information regarding the potential amount of includible taxable income. We are also considering a number of potential permissible actions and approaches intended to reduce the amount of taxable income we may be required to recognize. These include agreements that we have recently entered into with the California insurance regulatory agencies to clarify the treatment of certain liabilities and the manner of distributions to claimholders in such insolvency proceedings, as well as the application of the tax rules consistent with the original Mission Insurance restructuring, and the terms of our agreement with the grantor trusts established in connection with the restructuring. These agreements, among other things, resolve differences in the interpretations of existing agreements with the grantor trusts and require us to administer certain claims under these prior agreements and are subject to and will not take effect prior to court approval at a hearing scheduled on February 24, 2006 and satisfaction of specified conditions. These conditions include determination of the amount of certain claims entitled to receive distributions of our common stock held by the California Insurance Commissioner on their behalf and the payment by us of approximately \$9.14 million. Given the lack of definitive or complete information available as of the date of this prospectus, we cannot assure you of the amount, if any, of additional income that could possibly be recognized. Further in response to court filings to set a final hearing date for the closing of the insolvency proceedings, we have filed an objection in order to preserve our right with respect to the agreements entered into in connection with the formation of the grantor trusts.

For additional detail relating to our NOLs and risks attendant thereto, see Note 12 to the Notes to the Unaudited Interim Financial Statements, and *Risk Factors Covanta Holding Corporation-Specific Risks We cannot be certain that our NOLs will continue to be available to offset our tax liability.*

If we were to undergo, an ownership change as such term is used in Section 382 of the Internal Revenue Code, the use of our NOLs would be limited. We will be treated as having had an ownership change if there is a more than 50% increase in stock ownership during a three-year testing period by 5% stockholders. Our certificate of incorporation contains stock transfer restrictions that were designed to help preserve our NOLs by avoiding an ownership change. The transfer restrictions were implemented in 1990, and we expect that they will remain in-force as long as we have NOLs. We cannot be certain, however, that these restrictions will prevent an ownership change.

Business Segments

Given the significance of the Covanta and Ref-Fuel acquisitions to our business results of operations and financial condition, we decided, during the third quarter of 2005, to combine the previously separate business segments of our insurance business and our parent-level operations into one reportable segment referred to as Other Services. Therefore, we currently have two reportable business segments Waste and Energy Services and Other Services.

Waste and Energy Services develops, constructs, owns and operates for others key infrastructure for the disposal of waste (primarily waste-to-energy) and independent power production facilities in the United States and abroad. The Other Services segment is comprised of our insurance business, which writes property and casualty insurance in the western United States, primarily in California, and our operations as the parent company which involves primarily the receipt of income from our investments and incurrence of general and administrative expenses prior to the acquisition of Covanta.

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We, on a parent-only basis, have continuing expenditures for administrative expenses and derive income primarily from investment returns on portfolio securities. Therefore, the analysis of our results of operations and financial condition is generally done on a business segment basis. Our long-term strategic and business objective is to enhance the value of our investment in Covanta and acquire businesses that will allow us to earn an attractive return on our investments.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes attached as Appendixes A and B to this prospectus. This discussion and analysis of results of operations and financial condition has been prepared on a business segment basis.

The results of operations from Covanta are included in our consolidated results of operations beginning March 11, 2004. However, given the significance of the Covanta acquisition to our future results of operations and financial condition, the Waste and Energy Services business segment discussion includes combined information for the year ended December 31, 2004 as compared to predecessor information for the year ended December 31, 2003 in order to provide a more informative comparison of results. Predecessor information refers to financial information of Covanta and its subsidiaries pertaining to periods prior to our acquisition of Covanta on March 10, 2004. Subsequent to our acquisition of Ref-Fuel on June 24, 2005, we have included the results of operations from Ref-Fuel in our consolidated results of operations. We also present in this discussion as reported, and where applicable, pro forma results of operations, as we believe that an understanding of our reported results, trends and ongoing performance is enhanced by presenting results on a pro forma basis at both the consolidated and Waste and Energy Services segment level.

Waste and Energy Services Overview

The Waste and Energy Services segment includes Covanta's domestic and international businesses. Its domestic businesses include those of Ref-Fuel as of June 24, 2005. Covanta has changed the names of many of the Ref-Fuel subsidiaries such that they will conduct business under the Covanta name. Covanta's subsidiary CPIH and CPIH's subsidiaries engage in the independent power production business outside the United States.

With respect to its domestic business, Covanta designs, constructs and operates key infrastructure for municipalities and others in waste-to-energy, waste disposal and independent power production. Covanta's principal business, from which it earns most of its revenue, is the ownership and/or operation of waste-to-energy facilities. Waste-to-energy facilities combust municipal solid waste as a means of environmentally sound waste disposal and produce energy that is sold as electricity or steam to utilities and other purchasers. Covanta generally operates waste-to-energy facilities under long-term contracts with municipal clients. Some of these facilities are owned by subsidiaries of Covanta, while others are owned by the municipal client or other third parties. For those facilities owned by it, Covanta retains the ability to operate such projects after current contracts expire. For those facilities not owned by Covanta, municipal clients generally have the contractual right, but not the obligation, to extend the contract and continue to retain Covanta's service after the initial contract expiration date. For all waste-to-energy projects, Covanta receives revenue from two primary sources: fees it charges for processing waste received and payments for electricity and steam sales. Covanta also has ownership interests in and/or operates waste transfer stations and landfills, for which it receives revenue in the form of fees per ton of waste accepted for disposal.

Covanta operates, and in some cases has ownership interests in, other renewable energy projects in the United States which generate electricity from wood waste, landfill gas and hydroelectric resources. The electricity from these projects is sold to utilities. For these projects, Covanta receives revenue from electricity sales and, in some cases, cash from equity distributions.

Covanta also operates one domestic water project which produces potable water that is distributed by a municipal entity. For this project, Covanta receives revenue from service fees it charges the municipal entity. Covanta does not expect to grow its water business and may consider further divestitures.

In its international business, as of September 30, 2005, Covanta's subsidiaries have ownership interests in, and/or operated, independent power production facilities in the Philippines, China, Bangladesh, India and

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Costa Rica and one waste-to-energy facility in Italy. The Costa Rica facilities generate electricity from hydroelectric resources, while the other independent power production facilities generate electricity and steam by combusting coal, natural gas or heavy fuel oil. For these projects, Covanta receives revenue from operating fees, electricity and steam sales and, in some cases, cash from equity distributions.

Covanta (including Ref-Fuel) has historically performed its operating obligations without experiencing material unexpected service interruptions or incurring material increases in costs. In addition, with respect to many of its contracts at domestic projects, Covanta generally has limited its exposure for risks not within its control. With respect to projects comprising of Ref-Fuel subsidiaries, Covanta has 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 Covanta may owe for its unexcused operating performance failures, see *Risk Factors Waste and Energy Services Business-Specific Risks Some of Covanta's energy contracts involve greater risk of exposure to performance levels which could result in materially lower revenues.* In monitoring and assessing the ongoing operating and financial performance of Covanta's businesses, management focuses on certain key factors:

tons of waste processed;

electricity and steam sold; and

boiler availability.

A material portion of Covanta's domestic service revenues and energy revenues is relatively predictable because it is derived from long-term contracts relating to waste-to-energy projects. At seven of its thirty-one waste-to-energy projects, Covanta receives such revenue primarily based on the amount of waste processed and energy generated. Projects where these contractual structures exist are sometimes referred to in this prospectus as having a Tip Fee Structure. At other waste-to-energy projects, Covanta receives such revenue primarily through a fixed operating fee (which does not vary based on the amount of waste processed or energy generated) that escalates over time. Projects where these contractual structures exist are sometimes referred to in this prospectus as having a Service Fee Structure. Covanta receives these revenues for performing to base contractual standards, which vary among contracts, including standards for waste processing and energy generation efficiency. Its ability to meet or exceed such standards at projects, and its general financial performance, is affected by the following:

Seasonal or long-term changes in market prices for waste, energy or scrap metals, for projects where Covanta sells into those markets;

Seasonal, geographic and other variations in the heat content of waste processed, and thereby the amount of waste that can be processed by a waste-to-energy facility;

Its 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 Covanta's 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 Covanta's 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 CPIH's international projects is affected by the following:

Changes in fuel price for projects in which such costs are not completely passed through to the electricity purchaser through tariff adjustments, or delays in the effectiveness of tariff adjustments;

The amounts of electricity actually requested by purchasers of electricity, and whether or when such requests are made, CPIH s facilities are then available to deliver such electricity;

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CPIH's 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;

The financial condition and creditworthiness of purchasers of power and services provided by CPIH;

Fluctuations in the value of the domestic currency against the value of the U.S. dollar for projects in which CPIH is 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.

Covanta's 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.

Covanta typically conducts scheduled maintenance periodically each year, which requires that individual boiler units temporarily cease operations. During these scheduled maintenance periods, Covanta incurs material repair and maintenance expenses and receives less revenue, until the boiler units resume operations. This scheduled maintenance typically occurs during periods of off-peak electric demand and lower waste volume in the spring and fall. The spring scheduled maintenance period is typically more extensive than scheduled maintenance conducted during the fall. As a result, Covanta has typically incurred its highest maintenance expense in the first half of the year.

Given the seasonal factors discussed above, Covanta has typically experienced lower operating income from its projects during the first six months of each year and higher operating income during the second six months of each year.

Covanta's cash available for corporate debt service also varies seasonally. Generally, cash provided by operating activities follows income with a one to two month timing delay for maintenance expense payables. Further, certain substantial operating expenses (including annual insurance payments typically due in the fourth quarter) are accrued each month throughout the year while the corresponding cash payments are made only a few times each year.

The acquired Ref-Fuel businesses have several layers of debt, each of which restricts when cash may be distributed. Several of the projects have debt that restricts distributions to one or two times a year. Also, due to the timing of debt payments on intermediate layers of debt, most of the cash available for corporate debt service from the acquired Ref-Fuel business is distributed in the first and fourth quarters.

Cash distributions from international operating subsidiaries and partnerships also vary seasonally but are generally unrelated to income seasonality. Covanta receives on a monthly basis modest distributions of operating fees. In addition, Covanta receives partnership distributions, which are typically prescribed by project debt documents and occur no more than several times per year for each project. Scheduled cash distributions from the Quezon, Haripur and Indian facilities, which typically represent the largest distributions from CPIH projects, generally occur during the second and fourth quarters.

Covanta expects the factors discussed above will cause its cash available for corporate debt (including those of the Ref-Fuel businesses and international projects) to be the lowest during the second quarter and the highest during the fourth quarter.

Covanta's annual and quarterly financial performance can be affected by many factors, several of which are outside Covanta's control as noted above. These factors can overshadow the seasonal dynamics described in this prospectus; particularly, with regard to quarterly cash from operations, which can be materially affected by changes in working capital.

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Other Services Overview

Our Other Services segment is comprised of the holding company and insurance subsidiaries. The operations of the holding company prior to the acquisition of Covanta on March 10, 2004, primarily included general and administrative expense related to officer salaries, legal and other professional fees and insurance. Subsequent to the acquisition of Covanta, these expenses are reimbursed to us by Covanta under an administrative services agreement. The parent company operations also include income earned on its investments.

The operations of our insurance subsidiary, NAICC, and its subsidiary Valor Insurance Company, Incorporated, referred to as Valor in this prospectus, are primarily property and casualty insurance. Effective July 2003, the decision was made to focus exclusively on the California non-standard personal automobile insurance market. Effective July 7, 2003, NAICC ceased writing new policy applications for commercial automobile insurance and began the process of providing the required statutory notice of its intention not to renew existing policies. From July 2003 to November 2004, our insurance business had placed a moratorium on writing new non-standard automobile policies. However, on November 15, 2004, our insurance business commenced writing a new non-standard automobile program under a new rate and class plan; and subsequently on January 1, 2005, entered into a quota share reinsurance agreements ceding 40% of new policy business and 28% of the renewal policy business, including new non-owner vehicle policies. As a result of declining net premium production, our insurance business investment base has steadily declined, its reserve adjustments on discontinued lines have disproportionately impacted current operating ratios, and it continues to lose operating leverage.

Our Business Strategy

With the acquisition of Covanta and Ref-Fuel, we are focused on our Waste and Energy Services business. Our mission statement is to be the world's leading Waste-to-Energy company, with a complementary network of waste disposal and energy generation assets. We expect to build value for our shareholder by satisfying our clients' waste disposal and energy generation needs with safe, reliable and environmentally superior solutions. In order to accomplish this mission, we intend to:

Leverage our core competencies by:

providing outstanding client service,

utilizing an experienced management team,

developing and utilizing world-class technologies and operational expertise, and

applying proven asset management and cost control; and

Maximize long-term value of our existing portfolio by:

continuing to operate at historic production levels,

continuing to execute effective maintenance programs,

extending operating contracts, and

enhancing the value of Covanta-owned facilities after expiration of existing contracts, and

Capitalize on growth opportunities by:

expanding existing waste-to-energy facilities in attractive markets,

developing TransRiver and its waste procurement and other expertise by leveraging that knowledge across a larger platform,

seeking new ownership opportunities or operating contracts for waste-to-energy and other energy projects, and

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seeking additional opportunities in businesses ancillary to its existing business, including additional waste transfer, transportation, processing and landfill businesses.

In furtherance of this business strategy, in August 2005, Covanta announced the execution of contracts with Hillsborough County, Florida to construct, operate and maintain an expansion to the Hillsborough County Solid Waste Energy Recovery Facility. A subsidiary of Covanta constructed this facility and has been operating it since 1987. Construction of the expansion is expected to begin in mid to late 2006 once necessary federal, state and local permits are obtained by Hillsborough County and certain other conditions are satisfied. If these conditions are satisfied, Covanta's original 20-year contract with Hillsborough County to operate and maintain the facility, including the expansion, will be extended to 2027.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS**Our Earnings**

The nature of our business, the risks attendant to such business and the trends that we will face have been significantly altered by the acquisitions of Covanta and Ref-Fuel. Accordingly, our prior financial performance will not be comparable with our future performance and readers are directed to see the other sections in *Management's Discussion and Analysis of Financial Condition and Results of Operations* including *Executive Summary*, *Management's Discussion and Analysis of Results of Operations - Optimizing Cash*, *Management's Discussion and Analysis of Results of Operations - Interim Operating Results* *Factors in Operating Results* for a discussion of management's perspective on important factors of operations and financial performance.

Covanta's emergence from bankruptcy did not affect the operating performance of its facilities or its ability to generate cash. However, as a result of the application of fresh-start and purchase accounting adjustments required upon Covanta's emergence from bankruptcy and acquisition by us, the carrying value of Covanta's assets was adjusted to reflect its current estimated fair value based on discounted anticipated cash flows and estimates of management in consultation with valuation experts. These adjustments will result in future changes in non-cash items such as depreciation and amortization which will not be consistent with the amounts of such items for prior periods. Such future changes for post-emergence periods may affect earnings as compared to pre-emergence periods.

In addition, Covanta's consolidated financial statements have been further adjusted to deconsolidate six subsidiaries that remained in bankruptcy after March 10, 2004, when Covanta and its other subsidiaries emerged. Of these six subsidiaries, two subsequently emerged in the third quarter of 2004, and one emerged in the fourth quarter of 2004. The remaining three subsidiaries are expected to emerge during the fourth quarter of 2005. Each of these subsidiaries have been, or will be, included in our consolidated financial statements after their respective dates of emergence.

Our acquisition of Ref-Fuel markedly increased the size and scale of the business comprising our Waste and Energy Services segment, and thus our business. It also provided Covanta with the opportunity to achieve cost savings by combining the businesses of Covanta and Ref-Fuel. Furthermore, Covanta lowered its cost of capital and obtained less restrictive covenants than under its previous financing arrangements when it refinanced its existing recourse debt concurrent with the acquisition of Ref-Fuel.

The acquisition of Ref-Fuel is expected to enhance our earnings. However, as a result of the application of purchase accounting adjustments required in connection with the acquisition, the historical carrying value of Ref-Fuel's assets was adjusted to reflect their current estimated fair value, using a combination of replacement cost and discounted anticipated cash flows, based on estimates of management in consultation with valuation experts. The preliminary adjustments resulted in changes in non-cash items such as depreciation and amortization which will not be consistent with the amounts of such items for prior periods, as previously reported on periodic reports filed with the Commission for MSW I, MSW Energy Finance Co., Inc, MSW II, and MSW Energy Finance Co. II, Inc., each of which are subsidiaries of Ref-Fuel.

Although management has endeavored to use its best efforts to make appropriate estimates of fair value of the assets and liabilities of Ref-Fuel, the estimation process is subject to inherent limitations and is based

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upon the preliminary work of management and its valuation consultants. Moreover, under applicable accounting principles to the extent that relevant information remains to be developed, analyzed and fully evaluated, such preliminary estimates may be adjusted during the year following the June 24, 2005 acquisition date. The adjusted values assigned to depreciable and amortizable assets may affect our earnings. See Note 3 to the Notes to the Unaudited Interim Financial Statements for additional information on the impact of purchase accounting adjustments on our financial statements.

Generating sufficient cash to meet Covanta's liquidity needs, paying down its debt, and investing in its business remain important objectives of management. Maintaining historic facility production levels while effectively managing operating and maintenance expense is important to optimize Covanta's long-term cash generation. Covanta does not expect to receive any cash contributions from us, and is prohibited under its principal financing arrangements from using its cash to issue dividends to us except in limited circumstances. For expanded discussions of liquidity, see *Management's Discussion and Analysis of Financial Condition and Results of Operations - Management's Discussion and Analysis of Liquidity and Capital Resources* below.

Covanta owns certain waste-to-energy facilities for which the debt service (principal and interest) on project debt is expressly included as a component of the service fee paid by the municipal client. As of September 30, 2005, the principal amount of project debt outstanding with respect to these projects was approximately \$781 million. In accordance with GAAP, regardless of the actual amounts paid by the municipal client with respect to this component, Covanta records revenues with respect thereto based on levelized principal payments during the contract term, which are then discounted to reflect when the principal payments are actually paid by the municipal client. Accordingly, the amount of revenues recorded does not equal the actual payment of this component by the municipal client in any given contract year and the difference between the two methods gives rise to the unbilled service receivable recorded on Covanta's balance sheet. The interest expense component of the debt service payment is recorded based upon the actual amount of this component paid by the municipal client.

Covanta also owns seven waste-to-energy projects for which debt service is not expressly included in the fee it is paid. Rather, Covanta receives a fee for each ton of waste processed at these projects. As of September 30, 2005, the principal amount of project debt outstanding with respect to these projects was approximately \$694 million. Accordingly, Covanta does not record revenue reflecting principal on this project debt. Its 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 when due.

Optimizing Cash

Generating sufficient cash to meet Covanta's liquidity needs, pay down its recourse debt and invest in its business remains an important objective of management. Maintaining historic facility production levels while effectively managing operating and maintenance expense is important to optimize Covanta's long-term cash generation. Covanta does not expect to receive any cash contributions from us and is prohibited under its principal financing arrangements from using its cash to issue dividends to us except in limited circumstances.

Covanta believes that when combined with its other sources of liquidity, Covanta's operations generate sufficient cash to meet operational needs, capital expenditures and debt service due prior to maturity on its recourse debt as well as the recourse debt of its intermediate holding companies comprising part of the Ref-Fuel acquisition. Management will also seek to enhance Covanta's cash flow from renewals or replacement of existing contracts from new contracts to expand existing facilities or operate additional facilities and by investing in new projects. Covanta's new financing arrangements place certain restrictions on its ability to make investments in new projects or to expand existing projects.

As part of the Ref-Fuel acquisition, Covanta entered into new financing arrangements. These arrangements included a \$100 million revolving credit facility, which provides an additional source of liquidity to Covanta.

Covanta derives its cash flow principally from its domestic and international project operations and businesses. The frequency and predictability of Covanta's receipt of cash from projects differs, depending upon

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various factors, including whether restrictions on distributions exist in applicable project debt arrangements or in debt arrangements at intermediate holding companies, whether a project is domestic or international and whether a project has been able to operate at historical levels of production.

A material portion of Covanta's domestic cash flows is expected to be derived from projects acquired as part of the Ref-Fuel acquisition. For these projects, financial tests and other covenants contained in their respective debt arrangements must be satisfied in order for project subsidiaries to make cash distributions to intermediate holding companies and for intermediate holding companies to make cash distributions to Covanta. Distributions from these intermediate holding companies may only be made quarterly, if such financial tests and other covenants are satisfied. The Ref-Fuel business has historically satisfied all such financial tests and covenants and has made quarterly distributions, if funds were available. See *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Management's Discussion and Analysis of Liquidity and Capital Resources*, *Waste and Energy Services Segment* for a description of debt facilities at such intermediate holding companies.

Covanta's remaining domestic projects generally are not restricted in making cash distributions, and no restrictions exist at intermediate holding company levels. As a result, Covanta generally receives cash from these projects on a monthly basis.

Covanta's receipt of cash from its international projects is also subject to satisfaction of financial tests and other covenants contained in applicable project debt arrangements. A material portion of cash distributions from Covanta's international projects are received semi-annually, during the second and fourth quarters. In addition, risks inherent in international operations can affect the reliability of such cash distributions.

Covanta's ability to optimize its cash flow should be enhanced under a tax sharing agreement with us entered into on March 10, 2004. This agreement provides that we will file a federal tax return for Covanta's consolidated group of companies, and that certain of our NOLs will be available to offset the federal tax liability of Covanta. Consequently, Covanta's federal income tax obligations will be substantially reduced. Covanta is not obligated to make any payments to us with respect to the use of these NOLs. The NOLs will expire in varying amounts from December 31, 2005 through December 31, 2023, if not used. The IRS has not audited our tax returns. See Note 25 to the Notes to the Audited Annual Financial Statements and Note 12 to the Notes to the Unaudited Interim Financial Statements for additional information regarding our NOLs and factors which may affect its availability to offset taxable income of Covanta. If the NOLs were not available to offset the federal income tax liability of Covanta, Covanta may not have sufficient cash flow available to pay debt service on its corporate credit facilities. See *Covanta Holding Corporation-Specific Risks* *We cannot be certain that our NOLs will continue to be available to affect our tax liability.*

Since March 10, 2004, CPIH has not been included as a member of our consolidated taxpayer group, and as such CPIH has not benefited from the tax sharing agreement. However, as of July 31, 2005, Covanta has caused CPIH to be included in our consolidated taxpayer group.

Interim Operating Results

As discussed above, given the significance of the Covanta and Ref-Fuel acquisitions to Covanta's business results of operations and financial condition, we combined the previously separate business segments of our insurance business and our parent-level operations into one reportable segment referred to as *Other Services* during the third quarter of 2005. Therefore, we currently have two reportable business segments *Waste and Energy Services* and *Other Services*. The information set forth below regarding our operating results is compiled according to our consolidated operations and these two business segments.

Factors in Operating Results – Nine Months Ended September 30, 2005 vs. Nine Months Ended September 30, 2004

The results of operations for the nine months period ended September 30, 2004 and for the nine months ended September 30, 2005 are not representative of our ongoing results since we only included Covanta's and

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Ref-Fuel's results of operations in our consolidated results of operations from March 11, 2004 and June 25, 2005 forward, respectively.

Therefore, given the significance of the Covanta and Ref-Fuel acquisition to our current and future results of operations and financial condition, we believe that an understanding of our reported results, trends and ongoing performance is enhanced by presenting results on a pro forma basis at both the consolidated and Waste and Energy Services segment level. Our consolidated and segment results of operations, as reported and where applicable, on a pro forma basis, are summarized in the tables below. The pro forma basis presentation assumes that the acquisition of Covanta and Covanta's subsequent acquisition of Ref-Fuel occurred on January 1, 2004.

The pro forma financial information is presented for information purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of each period or that may result in the future. In addition, the following pro forma information has not been adjusted to reflect any operating efficiencies that may be realized as a result of the Ref-Fuel acquisition.

In addition to the Ref-Fuel acquisition, the information provided below with respect to Covanta's revenue, expense and certain other items for periods during 2004 was affected materially by several factors which did not affect such items for comparable periods during 2005. These factors principally include:

The exclusion of revenue and expense after May 2004 relating to the operations of the Philippines Magellan Project, referred to in this prospectus as the MCI facility, which commenced a reorganization proceeding under Philippine law on May 31, 2004, and is no longer included as a consolidated subsidiary after such date;

The substantial reduction of revenue and expense after August 2004 relating to the Philippines Edison Bataan facility, which ceased operations due to the expiration and termination of energy contracts; and

The Remaining Debtors involved in the Lake County, Florida waste-to-energy facility emerged from bankruptcy on December 14, 2004 and are included as consolidated subsidiaries from such date forward.

The factors noted above must be taken into account in developing meaningful comparisons between the periods compared below. Covanta's predecessor and successor periods for 2004 have been combined on a non-GAAP basis to facilitate the following year to year comparison of Covanta's operations. Ref-Fuel results of operations are included in Covanta's consolidated results beginning June 25, 2005.

Table of Contents**Our Consolidated Results of Operations Nine Months Ended September 30, 2005 vs. Nine Months Ended September 30, 2004**

Our consolidated results of operations on both a reported and pro forma basis are summarized below (in thousands of dollars, except per share amounts):

	Nine Months Ended September 30,			
	Reported		Pro Forma	
	2005	2004	2005	2004
	(Unaudited)			
CONSOLIDATED RESULTS OF OPERATIONS				
Total operating revenues	\$ 675,401	\$ 402,375	\$ 903,853	\$ 901,449
Total operating expenses	567,737	346,111	746,215	758,442
Consolidated operating income	107,664	56,264	157,638	143,007
OTHER INCOME (EXPENSE)				
Investment income	3,530	2,002	4,755	3,895
Interest expense	(59,053)	(33,267)	(90,859)	(92,353)
Gain on derivative instrument, unexercised ACL warrants	14,796		14,796	
Total other expense	(40,727)	(31,265)	(71,308)	(88,458)
Income before income taxes, minority interests and equity in net income from unconsolidated investments	66,937	24,999	86,330	54,549
Income tax expense	(24,008)	(8,436)	(38,849)	(25,093)
Minority interest expense	(9,311)	(3,922)	(9,367)	(6,433)
Equity in net income from unconsolidated investments	20,003	13,196	20,003	17,262
NET INCOME	\$ 53,621	\$ 25,837	\$ 58,117	\$ 40,285
EARNINGS PER SHARE OF COMMON STOCK:				
Basic	\$ 0.46	\$ 0.31	\$ 0.41	\$ 0.29
Diluted	\$ 0.44	\$ 0.30	\$ 0.40	\$ 0.28

The following general discussions should be read in conjunction with the above table, the condensed consolidated financial statements and the notes to those statements and other financial information appearing and referred to elsewhere in this report. Additional detail on comparable revenues, costs and expenses, and operating income of Covanta is provided in the pro forma Waste and Energy Services segment discussion and reported Other Services segment discussion below.

Our Reported Results

Our net income increased by \$27.8 million for the nine months ended September 30, 2005, as compared to the same period in 2004. Operating income for the Waste and Energy Services segment increased by \$48.7 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to the Covanta and Ref-Fuel acquisitions. The nine months ended September 30, 2005 included the write-off of deferred financing charges of \$7.0 million on Covanta's prior domestic and international debt, as well as \$5.6 million of restructuring and acquisition-related charges. Operating income for the Other Services segment increased by \$2.7 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to decreased parent company expenses primarily as a result of the corporate services agreement as discussed below under Other Services.

Total investment income increased by \$1.5 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to higher invested cash balances. Interest expense increased by \$25.8 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due amortization of accrued interest on the bridge financing for the acquisition of Covanta and the new financing arrangements put into place in the second quarter of 2005 as part of the Ref-Fuel acquisition. Equity in net income from unconsolidated investments increased by \$6.8 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to Covanta's emergence from bankruptcy on March 10, 2004, a change in local tax law which occurred in the third quarter of 2005 at a project in Bangladesh, revenue adjustments which occurred in 2004 at a project in the Philippines and lower project debt interest expense at both projects in 2005 as a result of project debt payments. As

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discussed in Note 16 to the Notes to the Unaudited Interim Financial Statements, Covanta recorded a mark-to-market adjustment for the period ended September 30, 2005 which increased the investment in ACL warrants to \$15.6 million and resulted in a pre-tax gain on derivative instruments of \$14.8 million for the nine months ended September 30, 2005.

Our Pro Forma Results

Our net income increased by \$17.8 million for the nine months ended September 30, 2005, as compared to the same period in 2004. Operating income for the Waste and Energy Services segment increased by \$12.0 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to lower operating expenses. Operating income for the Other Services segment increased by \$2.7 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to decreased parent company expenses primarily as a result of the corporate services agreement as discussed below under Other Services.

Total investment income increased by \$0.9 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to higher invested cash balances. Interest expense decreased \$1.5 million for the nine months ended September 30, 2005, as compared to the same period in 2004. Equity in net income from unconsolidated investments increased by \$2.7 million for the nine months ended September 30, 2005, as compared to the same period in 2004, primarily due to a change in local tax law which occurred in the third quarter of 2005 at a project in Bangladesh, revenue adjustments which occurred in 2004 at a project in the Philippines and lower project debt interest expense at both projects in 2005 as a result of project debt payments. As discussed in Note 16 to the Notes to the Unaudited Interim Financial Statements, we recorded a mark-to-market adjustment for the period ended September 30, 2005 which increased the investment in ACL warrants to \$15.6 million and resulted in a pre-tax gain on derivative instruments of \$14.8 million for the nine months ended September 30, 2005.

Waste and Energy Services Nine Months Ended September 30, 2005 vs. Nine Months Ended September 30, 2004

Waste and Energy Services results of operations on both a reported and pro forma basis are summarized below (in thousands of dollars):

Nine Months Ended September 30,

	Reported		Pro Forma	
	2005	2004	2005	2004
	(Unaudited)			
Waste and service revenues	\$ 436,624	\$ 260,563	\$ 585,416	\$ 583,722
Electricity and steam sales	225,541	124,153	305,201	300,010
Other operating revenues	1,779	1,109	1,779	1,167
Total revenues	663,944	385,825	892,396	884,899
Plant operating expenses	393,343	41,149	500,096	503,485
Depreciation and amortization	78,027	36,784	129,679	129,565
Net interest expense on project debt	36,700	23,194	52,138	59,082
Other operating expense	(705)	(529)	(186)	(1,687)
General and administrative expenses	43,770	26,762	53,504	49,246
Restructuring charges	2,655			
Acquisition-related charges	2,963			
Total operating expenses	556,753	327,360	735,231	739,691
Operating income	\$ 107,191	\$ 58,465	\$ 157,165	\$ 145,208

The following business segment results of operations are discussed on a pro forma basis only. Management believes that due to the significance of the Covanta and Ref-Fuel acquisitions to our current and

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future results of operations and financial condition that an understanding of our reported results, trends and ongoing performance is enhanced by a discussion of the Waste and Energy Services Segment on a pro forma basis. The following general discussions should be read in conjunction with the above table, the condensed consolidated financial statements and the notes to those statements and other financial information appearing and referred to elsewhere in this prospectus. Additional detail on comparable revenues, costs and expenses, and operating income, within the Waste and Energy Services segment is provided in the pro forma domestic and international business discussions below.

Waste and Energy Services Pro Forma Results

Operating income for the nine months ended September 30, 2005 increased by \$12.0 million, compared to the same period in 2004. Revenues increased \$7.5 million for the nine-month period ended September 30, 2005 compared with the same period in 2004, primarily from increases in electricity and steam sales in domestic operations offset by declines in these revenues in international operations. Total costs and expenses for the nine months ended September 30, 2005 decreased by \$4.5 million compared to the same period in 2004 as a result of lower plant operating expenses, lower project debt interest expense in both the domestic and international operations offset by increased domestic general and administrative expense.

Domestic Business

The domestic business results of operations on both a reported and pro forma basis are summarized below (in thousands of dollars):

Nine Months Ended September 30,

	Reported		Pro Forma	
	2005	2004	2005	2004
	(Unaudited)			
Waste and service revenues	\$ 433,319	\$ 258,705	\$ 582,111	\$ 580,694
Electricity and steam sales	124,241	51,822	203,901	193,314
Other operating revenues	1,779	1,109	1,779	1,167
Total revenues	559,339	311,636	787,791	775,175
Plant operating expenses	321,302	191,024	428,055	428,123
Depreciation and amortization	71,435	32,305	123,087	121,719
Net interest expense on project debt	30,778	16,223	46,216	49,022
Other operating (income) expenses	(2,821)	128	(2,302)	(1,323)
General and administrative expenses	40,195	23,707	49,929	45,772
Acquisition-related charges	2,963			
Total operating expenses	463,852	263,387	644,985	643,313
Operating income	\$ 95,487	\$ 48,249	\$ 142,806	\$ 131,862

Total Revenues**Waste and Service Revenues**

Waste and service revenues for the nine months ended September 30, 2005 increased by \$1.4 million compared to the same period in 2004.

Revenue from projects structured as service fee agreements was unchanged. Primary drivers were increased revenue of \$5.2 million due to contractual escalations, which was offset by a \$1.2 million reduction in revenue earned explicitly to service debt, and a \$4.0 million decrease in revenue at one facility due to a second quarter 2004 contract amendment in exchange for reduced letter of credit obligations;

Revenue from projects structured as tipping fee agreements increased by \$1.5 million primarily driven by pricing improvements;

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Revenue from scrap metal sales decreased \$2.7 million primarily due to lower market pricing; and

All other waste and service revenues increased \$2.6 million primarily due to the impact of restructuring certain bio-gas operations and waste energy operations, and the termination or sale of certain non-core operations primarily in the fourth quarter of 2004.

Electricity and Steam Sales

Electricity and steam sales for the nine months ended September 30, 2005 increased \$10.6 million compared to the same period in 2004.

Higher energy rates drove a \$5.0 million increase in revenue; and

Other factors including the impact of restructuring certain bio-gas operations resulted in revenue increases of \$5.6 million.

Plant Operating Expenses

Plant operating costs for the nine months ended September 30, 2005 were flat compared to the first nine months of 2004. During the first nine months of 2005 there was a reduction in hauling services expense of \$3.0 million due primarily to lower waste volumes shipped to a third party landfill, a \$1.4 million decrease due to an ash marketing arrangement that ended in the first quarter of 2004, and a reduction in compensation expense of \$1.7 million. Maintenance and repair expense at two facilities increased \$6.9 million during 2005 and all other plant operating expenses decreased \$0.8 million, including the impact of restructuring and the termination or sale of certain of our non-core operations.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2005 was comparable to the same period in 2004.

Net Interest Expense on Project Debt

Net interest expense on project debt for the nine months ended September 30, 2005 decreased \$2.8 million, compared to the same period in 2004, primarily as a result of lower project debt balances.

Other Operating Expenses

Other operating expenses were (\$2.3) million, an increase of \$1.0 million in the first nine months of 2005, compared to the same period in 2004, primarily due to a gain at a facility related to a debt refinancing in April 2005 and to third quarter insurance recoveries as noted above.

General and administrative expenses

General and administrative expenses increased \$4.2 million in the first nine months of 2005 compared to the first nine months of 2004. This increase was primarily due to a \$4.0 million increase in professional fees, a \$1.7 million increase due to costs incurred for Covanta's parent operations, and a \$1.6 million increase in non-cash stock compensation expense primarily due to the amortization of restricted stock granted in October 2004 and July 2005. These increases were partially offset by a \$2.4 million decrease in wages and benefits and by other reductions in various general and administrative expenses.

Operating Income

Operating income from the domestic Waste and Energy Services segment for the first nine months of 2005 increased by \$10.9 million compared to the first nine months of 2004, comprised of increases in total revenues (\$12.6 million), lower interest expense on project debt (\$2.8 million), and a gain in other income (\$1.0 million), offset by higher depreciation and amortization (\$1.4 million) and general and administrative expenses (\$4.2 million).

Table of Contents**International Business**

The international business results of operations on both a reported and pro forma basis are summarized below (in thousands of dollars):

Nine Months Ended September 30,

	Reported		Pro Forma	
	2005	2004	2005	2004
	(Unaudited)			
Waste and service revenues	\$ 3,305	\$ 1,858	\$ 3,305	\$ 3,028
Electricity and steam sales	101,300	72,331	101,300	106,696
Total revenues	104,605	74,189	104,605	109,724
Plant operating expenses	72,041	50,125	72,041	75,362
Depreciation and amortization	6,592	4,479	6,592	7,846
Net interest expense on project debt	5,922	6,971	5,922	10,060
Other operating expenses (income)	2,116	(657)	2,116	(364)
General and administrative expenses	3,575	3,055	3,575	3,474
Restructuring charges	2,655			
Total operating expenses	92,901	63,973	90,246	96,378
Operating income	\$ 11,704	\$ 10,216	\$ 14,359	\$ 13,346

Total Revenues

Total revenues for the international business for the first nine months of 2005 decreased \$5.1 million compared to the first nine months of 2004. This decrease was primarily due to a \$7.5 million decrease from the expiration of an energy contract in the Philippines and a \$4.2 million decrease from the deconsolidation of the MCI facility. These decreases were partially offset by a \$6.6 million increase primarily due to improved demand and increased tariffs, which resulted from higher fuel prices, at two facilities in India in 2005.

Plant Operating Expenses

Plant operating costs were lower by \$3.3 million in the first nine months of 2005. Plant operating costs decreased primarily as a result of a \$4.8 million decrease in costs from the expiration of an energy contract in the Philippines and a \$4.6 million reduction in costs due to the deconsolidation of the MCI facility in the Philippines. These decreases were partially offset by a \$6.2 million increase in plant operating costs due primarily to improved demand and higher fuel prices at two facilities in India.

Depreciation and Amortization

Depreciation and amortization for the first nine months of 2005 decreased \$1.3 million compared to the same period in 2004 as a result of fresh-start accounting adjustments.

Net Interest Expense on Project Debt

Net interest expense on project debt for the first nine months of 2005 decreased \$4.1 million compared to the first nine months of 2004. The decrease was primarily due to lower expenses at two Indian facilities resulting from the October 2004 refinancing and scheduled quarterly pay down of project debt, and the deconsolidation of the MCI facility in May 2004.

Other Operating Expenses

Other operating expense was \$2.5 million higher for the nine months of 2005 primarily due to the write-off of remaining assets at the Edison Bataan facility (\$1.8 million).

Table of Contents**Operating Income**

Operating income for the international businesses for the first nine months of 2005 was \$1.0 million higher than the first nine months of 2004. The increase was attributable to lower plant operating costs (\$3.3 million), a reduction of interest due to refinancing and scheduled quarterly pay down of project debt at two Indian facilities (\$4.1 million) and lower depreciation expense due to fresh-start accounting adjustments (\$1.3 million). These increases in operating income were partially offset by lower revenues (\$5.1 million), and a write-off of remaining assets at the Bataan facility (\$1.8 million).

Other Services Nine Months Ended September 30, 2005 vs. Nine Months Ended September 30, 2004

Other Services reported results of operations are summarized below (in thousands of dollars):

	Nine Months Ended September 30,	
	2005	2004
	(Unaudited)	
OPERATING REVENUES:		
Net earned premiums	\$ 9,928	\$ 14,317
Net investment income	1,513	1,872
Net realized investment gains (losses)	(75)	223
Other income	91	138
Total operating revenues	11,457	16,550
Other operating expenses	8,441	13,132
General and administrative expenses	2,543	5,619
Total Other Services operating expenses	10,984	18,751
Operating income (loss) from Other Services	\$ 473	\$ (2,201)

Premiums

Net written premiums decreased by \$1.8 million for the nine months ended September 30, 2005 as compared to the same period in 2004. The decrease in net written premiums for 2005 was attributable to our insurance business entering into quota share arrangements as described in the *Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Other Services-Overview* section above.

Net earned premiums decreased by \$4.4 million for the nine months ended September 30, 2005 as compared to the same period in 2004. The change in net earned premiums during those periods was directly related to the change in net written premiums and the run-off of the commercial automobile program.

Other Operating Expenses

Other operating expenses decreased by \$4.7 million for the nine months ended September 30, 2005 as compared to the same period in 2004. Other operating expenses consists of net loss and loss adjustment expenses, referred to as LAE in this prospectus, and policy acquisition costs as described below.

Net loss and LAE decreased by \$3.2 million for the nine months ended September 30, 2005 as compared to the same period in 2004. The resulting loss and LAE ratios were 69.7% and 70.7% for the nine months ended September 30, 2005 and 2004, respectively. The loss and LAE ratio improved in the nine-month period ended September 30, 2005 over the comparable period in 2004 due to net favorable reserve adjustments on discontinued lines.

Policy acquisition costs decreased by \$1.5 million for the nine months ended September 30, 2005 as compared to the same periods in 2004. As a percentage of net earned premiums, policy acquisition costs were 15.4% and 21.0% for the nine months ended September 30, 2005 and 2004, respectively. Policy acquisition costs decreased compared to the 2004 period due to reduced profit commissions incurred related to non-

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standard personal automobile and from ceding commissions received under reinsurance agreements during 2005.

General and Administrative Expenses

General and administrative expenses decreased by \$3.1 million for the nine months ended September 30, 2005 as compared to the same period in 2004. Reductions in administrative personnel and rent in the insurance business contributed to the decrease in general and administrative expenses. Decreases in parent company expenses were primarily the result of the corporate services agreement, entered into between us and Covanta, pursuant to which we provided to Covanta, at Covanta's expense, certain administrative and professional services and Covanta paid our expenses. Such expenses totaled zero and \$2.1 million for the nine months ended September 30, 2005 and 2004, respectively.

Pro Forma Reconciliations

The following tables provides a reconciliation from the as reported results to the pro forma results presented above for us and our Waste and Energy Services segment where applicable (in thousands of dollars, except per share amounts). Notes to the pro forma reconciliations begin directly after the tables.

Consolidated Pro Forma Reconciliations

	Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2004				
	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma
	(Unaudited)			(Unaudited)				
Operating revenues								
Waste and service revenues	\$ 436,624	\$ 148,792	\$	\$ 585,416	\$ 260,563	\$ 328,441	\$ (5,282)	\$ 583,722
Electricity and steam sales	225,541	79,660		305,201	124,153	176,392	(535)	300,010
Other operating revenues	13,236			13,236	17,659	58		17,717
Total operating revenues	675,401	228,452		903,853	402,375	504,891	(5,817)	901,449
Operating expenses								
Plant operating expenses	393,343	103,617	3,136	500,096	241,149	261,164	1,172	503,485
Depreciation and amortization expense	78,027	57,032	(5,380)	129,679	36,784	103,893	(11,112)	129,565
Net interest expense on project debt	36,700	13,964	1,474	52,138	23,194	34,605	1,283	59,082
Other operating expenses	7,736	519		8,255	12,603	(1,515)	357	11,445
General and administrative expenses	46,313	52,133	(42,399)	56,047	32,381	27,278	(4,794)	54,865
Restructuring charges	2,655		(2,655)					
	2,963		(2,963)					

Acquisition-related charges								
Reorganization items						58,282	(58,282)	
Fresh-start adjustments						399,063	(399,063)	
Gain on extinguishment of debt						(510,680)	510,680	
Total operating expenses	567,737	227,265	(48,787)	746,215	346,111	372,090	40,241	758,442
Operating income (loss)	107,664	1,187	48,787	157,638	56,264	132,801	(46,058)	143,007
Other income (expenses)								
Investment income	3,530	1,225		4,755	2,002	1,893		3,895
Interest expense	(59,053)	(26,368)	(5,438)	(90,859)	(33,267)	(52,291)	(6,795)	(92,353)
Gain on derivative instrument, unexercised ACL warrants	14,796			14,796				
Total other expenses	(40,727)	(25,143)	(5,438)	(71,308)	(31,265)	(50,398)	(6,795)	(88,458)

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	Nine Months Ended September 30, 2005				Nine Months Ended September 30, 2004			
	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma
	(Unaudited)				(Unaudited)			
Income before income tax provision, minority interests and equity in net income from unconsolidated investments	66,937	(23,956)	43,349	86,330	24,999	82,403	(52,853)	54,549
Income expense	(24,008)	6,033	(20,874)	(38,849)	(8,436)	(30,240)	13,583	(25,093)
Minority interest expense	(9,311)	(56)		(9,367)	(3,922)	(2,511)		(6,433)
Equity in net income from unconsolidated investments	20,003			20,003	13,196	3,924	142	17,262
Net Income (Loss)	\$ 53,621	\$ (17,979)	\$ 22,475	\$ 58,117	\$ 25,837	\$ 53,576	\$ (39,128)	\$ 40,285
Earnings Per Share:								
Basic	\$ 0.46			\$ 0.41	\$ 0.31			\$ 0.29
Diluted	\$ 0.44			\$ 0.40	\$ 0.30			\$ 0.28

Waste And Energy Services Pro Forma Reconciliations Domestic

	Nine Months Ended September 30, 2005				Nine Months Ended September 30, 2004			
	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma
	(Unaudited)				(Unaudited)			
Waste and service revenues	\$ 433,319	\$ 148,792	\$	\$ 582,111	\$ 258,705	\$ 327,271	\$ (5,282)	\$ 580,694
Electricity and steam sales	124,241	79,660		203,901	51,822	142,027	(535)	193,314
	1,779			1,779	1,109	58		1,167

Other operating revenues								
Total operating revenues	559,339	228,452		787,791	311,636	469,356	(5,817)	775,175
Plant operating expenses	321,302	103,617	3,136	428,055	191,024	235,927	1,172	428,123
Depreciation and amortization expense	71,435	57,032	(5,380)	123,087	32,305	100,526	(11,112)	121,719
Net interest expense on project debt	30,778	13,964	1,474	46,216	16,223	31,516	1,283	49,022
Other operating (income) expenses	(2,821)	519		(2,302)	128	(1,808)	357	(1,323)
General and administrative expenses	40,195	52,133	(42,399)	49,929	23,707	26,859	(4,794)	45,772
Acquisition related charges	2,963		(2,963)					
Reorganization items						58,282	(58,282)	
Fresh-start adjustments						399,063	(399,063)	
Gain on extinguishment of debt						(510,680)	510,680	
Total operating expenses	463,852	227,265	(46,132)	644,985	263,387	339,685	40,241	643,313
Operating income (loss)	\$ 95,487	\$ 1,187	\$ 46,132	\$ 142,806	\$ 48,249	\$ 129,671	\$ (46,058)	\$ 131,862

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	Nine Months Ended September 30, 2005				Nine Months Ended September 30, 2004			
	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma	As Reported	Acquisition Activity	Pro Forma Adjust.	Pro Forma
	(Unaudited)				(Unaudited)			
Waste and service revenues	\$ 3,305	\$	\$	\$ 3,305	\$ 1,858	\$ 1,170	\$	\$ 3,028
Electricity and steam sales	101,300			101,300	72,331	34,365		106,696
Other operating revenues								
Total operating revenues	104,605			104,605	74,189	35,535		109,724
Operating Expenses								
Plant operating expenses	72,041			72,041	50,125	25,237		75,362
Depreciation and amortization expense	6,592			6,592	4,479	3,367		7,846
Net interest expense on project debt	5,922			5,922	6,971	3,089		10,060
Other operating (income) expenses	2,116			2,116	(657)	293		(364)
General and administrative expenses	3,575			3,575	3,055	419		3,474
Restructuring charges	2,655		(2,655)					
Total operating expenses	92,901		(2,655)	90,246	63,973	32,405		96,378
Operating income	\$ 11,704	\$	\$ 2,655	\$ 14,359	\$ 10,216	\$ 3,130	\$	\$ 13,346

Notes To Pro Forma Reconciliations**Pro Forma Assumptions**

The unaudited pro forma condensed combined financial statements reflect the following assumptions:

Covanta Transactions:

We purchased Covanta on January 1, 2004, on the same terms described in *Acquisitions Covanta Energy* in Note 3 to the Notes to the Unaudited Interim Financial Statements.

The debt structure of Covanta and CPIH that was in place upon Covanta's emergence from bankruptcy on March 10, 2004, was assumed to be refinanced in connection with the acquisition of Ref-Fuel as of January 1, 2004 as more fully described in Note 11 to the Notes to the Unaudited Interim Financial Statements.

Ref-Fuel Transactions:

We, through Covanta, purchased 100% of the issued and outstanding shares of Ref-Fuel's capital stock on January 1, 2004 on the same terms described in *Acquisitions Ref-Fuel* in Note 3 to the Notes to the Unaudited Interim Financial Statements.

The April 30, 2004 equalization transactions and the ownership changes that occurred on August 31, 2004 between and among Ref-Fuel and its owners are assumed to have taken place on January 1, 2004.

Acquisition Activity:

Acquisition activity includes Covanta's results of operations prior to March 11, 2004 for the pro forma nine months ended September 30, 2004 and Ref-Fuel's results of operations prior to June 25, 2005 for the pro forma nine months ended September 30, 2005 and for the pro forma nine months ended September 30, 2004.

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Pro Forma Adjustments

The following are a summary of the pro forma adjustments made:

To reverse the operating results of the Waste and Energy Services domestic business comprising the Remaining Debtors for the period January 1 through March 10, 2004, referred to as the predecessor period in this prospectus.

Plant operating costs: To record as rent expense the net impact of the change in the fair value of a lease owned by an operating subsidiary of Ref-Fuel as of January 1, 2004.

Depreciation and amortization: To reverse historical depreciation and amortization expense and to record pro forma depreciation and amortization expense based on fair values assigned to Covanta's and Ref-Fuel's property, plant and equipment and amortizable intangible assets prior to their respective acquisition dates of March 1, 2004 and June 24, 2005.

General and administrative: To reverse the buy out of Ref-Fuel's stock option plan, at the acquisition date of Ref-Fuel and to reverse Ref-Fuel's compensation and related expenses of its executives in the periods prior to the acquisition date.

Net interest expense on project debt: To reverse prior bond issue costs and amortization of Covanta's project debt and to reverse prior bond issue costs Ref-Fuel's project debt and to record the impact of the fair value adjustment to their project debt prior to their respective acquisition dates.

Restructuring charges: To reverse severance and incentive payments to CPIH executives as a result of overhead reductions made possible by the elimination of CPIH's separate capital structure and debt repayments in connection with the refinancing of Covanta's and CPIH's debt and Covanta's acquisition of Ref-Fuel.

Acquisition related charges: To reverse employee bonuses and integration expenses as a result of the acquisition of Ref-Fuel.

Reorganization items, fresh-start adjustments and gain on cancellation of pre-petition debt: To reverse the historical items resulting from Covanta's bankruptcy proceedings. Since the pro forma condensed statement of combined operations has been prepared on the basis that Covanta's emergence from bankruptcy and the business combination with Covanta both occurred on January 1, 2004, these items have been removed, as these transactions to effect Covanta's reorganization would have been completed and these items would have been recorded prior to January 1, 2004.

Interest expense: To reverse Covanta's predecessor period and Ref-Fuel's pre-acquisition period amortization of deferred financing costs; to record the impact of the fair value adjustment to the intermediate debt of Ref-Fuel; and to record the net adjustment to interest expense as a result of the new capital structure of Covanta described below.

Income tax expense: To record the adjustment for the estimated income tax effects associated with the pro forma adjustments to pre-tax income and arrive at a blended assumed effective tax rate of 46% for the combined company for the nine months ended September 30, 2004 and 45% for the nine months ended September 30, 2005.

Basic and diluted earnings per share and the average shares outstanding used in the calculation of basic and diluted earnings per share of common stock and shares of common stock outstanding for the pro forma nine months ended September 30, 2004 and the nine months ended September 30, 2005 have been adjusted, as necessary, to reflect the following equity transactions, as if they occurred on January 1, 2004, the issuance of: (1) 5.1 million shares for the bridge lenders relating to the Covanta acquisition; (2) 27.4 million shares in

connection with a pro rata rights offering to all of our stockholders on May 18, 2004; (3) 8.75 million shares pursuant to the conversion of approximately \$13.4 million in principal amount of Covanta convertible notes; and (4) 66.7 million shares associated with the Ref-Fuel rights offering. In addition, diluted earnings per share and the average shares used in the calculation of diluted earnings per share of common stock and shares of common stock outstanding

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for the pro forma nine months ended September 30, 2004 and the nine months ended September 30, 2005 have been adjusted, as necessary, to reflect the following additional equity transactions, as if they occurred on January 1, 2004: (1) our commitment to sell up to 3.0 million shares of our common stock at \$1.53 per share to certain creditors of Covanta; and (2) an additional 2.7 million shares to such creditors in this offering at \$6.00 per share.

Historic Operating Results

As discussed above, while we combined the previously separate business segments of our insurance business and our parent-level operations into one reportable segment referred to as Other Services during the third quarter of 2005, prior to the third quarter of 2005 we reported our operations based on Waste and Energy Services and Insurance Services segments. Therefore, the following information is compiled according to these two historic segments, instead of our current segments of Waste and Energy Services and Other Services. Also included is historic financial information with respect to parent-level investment income.

Waste and Energy Services Operating Results**Waste and Energy Services Operating Results 2004 vs. 2003**

The discussion below provides comparative information regarding Covanta's historical consolidated results of operations. The information provided below with respect to revenue, expense and certain other items for periods during 2004 was affected materially by several factors which did not affect such items for comparable periods during 2003. These factors principally include:

the application of fresh-start and purchase accounting following Covanta's emergence from bankruptcy, which are described in Note 2 to the Notes to the Audited Annual Financial Statements;

the exclusion of revenue and expense after March 10, 2004 relating to the operations of the Remaining Debtors (which prior to August 6, 2004 included subsidiaries involved with the Tampa Bay Project and prior to December 14, 2004 included the subsidiaries involved with the Lake County facility), which were no longer included as consolidated subsidiaries after such date;

the exclusion of revenue and expense after May 2004 relating to the operations of the MCI facility, which commenced a reorganization proceeding under Philippine law on such date, and is no longer included as a consolidated subsidiary after such date;

the reduction of revenue and expense during 2004 from one hydroelectric facility because of the scheduled expiration of an operating agreement relating to such facility;

the reduction of revenue and expense as a result of project restructurings effected during 2003 and the first quarter of 2004 as part of Covanta's overall restructuring and emergence from bankruptcy; and

upon our acquisition of Covanta, we entered into a tax sharing agreement by which our existing NOLs generated before 2003 would be made available to Covanta. This agreement provides that we will file a federal tax return for our consolidated group of companies and that certain of our NOLs will be available to offset the federal tax liability of Covanta. These NOLs are maintained at the holding company level and are not reflected in the historical combined pro forma consolidated results of operations of Covanta for the years ended December 31, 2004 and 2003 for purposes of the following discussion of Covanta's operating results.

The factors noted above must be taken into account in developing meaningful comparisons between the periods compared below.

The periods for 2004 before and after our acquisition of Covanta have been combined on a non-GAAP basis to facilitate the following year-to-year comparison of Covanta's operations. Only the period after the Covanta acquisition is included in our financial statements and the information prior to the acquisition is presented only to facilitate the review of Covanta's operating results.

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The following table summarizes the historical consolidated results of operations of Covanta for the years ended December 31, 2004 and 2003 (in thousands of dollars):

	For the Period January 1, through March 10, 2004	For the Period March 11, through December 31, 2004	Combined Results for the Year Ended December 31, 2004	Results for the Year Ended December 31, 2003
Service revenues	\$ 89,867	\$ 374,622	\$ 464,489	\$ 499,245
Electricity and steam sales	53,307	181,074	234,381	277,766
Construction revenues	58	1,506	1,564	13,448
Other revenues				9
Total revenues	143,232	557,202	700,434	790,468
Plant operating expenses	100,774	352,617	453,391	500,627
Construction costs	73	1,925	1,998	20,479
Depreciation and amortization	13,426	55,821	69,247	71,932
Net interest on project debt	13,407	32,586	45,993	76,770
Other operating costs and expenses	(209)	1,366	1,157	2,209
Net (gain) loss on sale of businesses and equity investments	(175)	(245)	(420)	7,246
Selling, general and administrative expenses	7,597	38,076	45,673	35,639
Other income net	(1,923)	(1,952)	(3,875)	(1,119)
Write-down of and obligations related to assets held for use				16,704
Total costs and expenses	132,970	480,194	613,164	730,487
Operating income	10,262	77,008	87,270	59,981
Interest income	935	1,858	2,793	2,948
Interest expense	(6,142)	(34,706)	(40,848)	(39,938)
Reorganization items-expense	(58,282)		(58,282)	(83,346)
Gain on cancellation of pre-petition debt	510,680		510,680	
Fresh-start adjustments	(399,063)		(399,063)	
Income (loss) from continuing operations before income taxes, minority interests and equity in net income from unconsolidated investments	58,390	44,160	102,550	(60,355)
Income tax (expense) benefit	(30,240)	(23,637)	(53,877)	18,096

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Minority interests	(2,511)	(6,919)	(9,430)	(8,905)
Equity in net income from unconsolidated investments	3,924	17,535	21,459	24,400
Gain from discontinued operations				78,814
Cumulative effect of change in accounting principle				(8,538)
Net income (loss)	\$ 29,563	\$ 31,139	\$ 60,702	\$ 43,512

The following general discussion should be read in conjunction with the above table, the consolidated financial statements and the notes to those statements and other financial information appearing in Appendixes A and B to this prospectus. Additional detail on comparable revenues, costs and expenses and operating income of Covanta is provided in the *Domestic Business* and *International Business* discussions below.

Revenues for 2004 decreased \$90 million compared to 2003, which resulted from a reduction in energy sales in both the domestic and the international segments primarily due to the factors described above.

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Additional reductions in revenue are attributable to decreases in service fees and construction revenues in the domestic segment. See separate segment discussion below for details relating to these variances.

Total costs and expenses before operating income for 2004 decreased \$117.3 million compared to 2003, primarily due to the factors described above. Included in the reduction of total costs and expenses in 2004 was lower depreciation and amortization expense of \$2.7 million. This decrease in depreciation and amortization was primarily due to the factors described above offset by service and energy contract amortization of \$16.1 million in 2004 resulting from recording the estimated fair value of such contract assets and amortizing them over their remaining estimated useful lives. Additionally, on March 10, 2004, property, plant and equipment were recorded at their fair value, and subsequently, the estimated useful lives of property plant and equipment were adjusted resulting in revised depreciation expense.

Operating income for the combined period ended December 31, 2004 increased \$27.3 million compared to 2003. The improvement in operating income was due to the operating factors described above.

Equity in net income of unconsolidated investments decreased \$2.9 million in 2004 from a \$3 million decrease in the domestic segment primarily due to the sale of the geothermal business in December of 2003.

Interest expense for 2004 increased \$0.9 million compared to 2003. The increase was primarily attributable to a \$6.2 million increase in the international segment primarily due to the CPIH term loan which debt was incurred upon emergence from Chapter 11. These increases were offset by a \$5.3 million decrease in the domestic segment primarily attributable to the restructuring of contracts at the Onondaga County, New York and Hennepin County, Minnesota facilities in 2003.

Reorganization items for 2004 decreased \$25.1 million compared to 2003. The decrease was primarily the result of a decrease in bankruptcy exit costs of \$8.9 million and a \$20.7 million reduction in legal and professional fees, offset by an increase in severance costs of \$4.6 million in the period ended March 10, 2004.

Gain on cancellation of pre-petition debt was \$510.7 million for 2004. Gain on cancellation of pre-petition debt resulted from the cancellation on March 10, 2004 of Covanta's pre-petition debt and other liabilities subject to compromise net of the fair value of cash and securities distributed to petition creditors.

Fresh-start adjustments were \$399.1 million for 2004. Fresh-start adjustments represent adjustments to the carrying amount of Covanta's assets and liabilities to fair value in accordance with the provisions of SOP 90-7, as more fully described in Note 2 to the Notes to the Audited Annual Financial Statements.

The gain from discontinued operations in 2003 was \$78.8 million due to the rejection of a waste-to-energy lease, sale of the geothermal business, and the final disposition of the Arrowhead Pond interests.

The cumulative effect of change in accounting principle of \$8.5 million in 2003 related to the January 1, 2003 adoption of SFAS No. 143, Accounting for Asset Retirement Obligations, referred to as SFAS No. 143 in this prospectus.

Domestic Business Waste and Energy Services Operating Results 2004 vs. 2003

The following table summarizes the historical results of operations of the domestic segment for the years ended December 31, 2004 and 2003 (in thousands of dollars):

	For the Period January 1, through March 10, 2004	For the Period March 11, through December 31, 2004	Combined Results for the Year Ended December 31, 2004	Results for the Year Ended December 31, 2003
Service revenues	\$ 88,697	\$ 369,531	\$ 458,228	\$ 492,065
Electric & steam sales	18,942	81,894	100,836	113,584
Construction revenues	58	1,506	1,564	13,448
Other revenues				4

Total revenues	\$	107,697	\$	452,931	\$	560,628	\$	619,101
Operating income	\$	7,132	\$	62,232	\$	69,364	\$	35,846

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Total revenues for the domestic segment for 2004 decreased \$58.5 million compared to 2003. Service revenues declined \$33.8 million, which was comprised of a \$12.5 million decrease resulting from contracts which were restructured at the Hennepin and Onondaga facilities (including the elimination of project debt at the Hennepin facility) during the second half of 2003 as part of Covanta's overall restructuring. It also reflected a \$22.5 million reduction of service revenues due to deconsolidation of the Remaining Debtors after March 10, 2004, and a \$6.5 million decrease due to the elimination of 2004 revenues on two bio-gas facilities, which resulted from the consolidation of the partnership. These decreases were offset by a \$9.3 million increase resulting primarily from higher scrap metal prices, escalation increases under fixed service agreements, and increased supplemental waste processed.

Electricity and steam sales for 2004 decreased \$12.7 million compared to 2003. The decrease was primarily due to a \$16.2 million decrease resulting from the expiration of a lease at one domestic hydroelectric facility, \$1.5 million from the deconsolidation of the Remaining Debtors, and a \$7.2 million decrease due to fresh-start adjustments related to the elimination of amortization on the deferred gain relating to the Haverhill energy contract. The foregoing decreases were offset by revenue increases of \$3.7 million primarily related to increased energy pricing at the Union and Alexandria facilities, and a \$7 million increase due to the consolidation of a bio-gas facility in 2004 previously recorded on the partnership in 2003.

Construction revenues for 2004 decreased \$11.9 million compared to 2003. A decrease of \$13.1 million was due to Covanta's completion of the Tampa Bay desalination facility, offset by a \$1.1 million increase relating to initial work paid by clients in connection with planned waste-to-energy plant expansions.

Plant operating costs for 2004 decreased \$28.1 million compared to 2003. \$18.9 million of this decrease was due to the deconsolidation of the Remaining Debtors noted in the revenue discussion above, and \$13.5 million of this decrease was due to the expiration of a lease contract at a domestic hydroelectric facility in October 2003. These reductions were offset by an increase in domestic operating expense of \$4.3 million primarily attributable to facility operation and maintenance cost.

Construction costs for 2004 decreased \$18.5 million compared to 2003 primarily attributable to Covanta's completion of the Tampa Bay desalination facility, offset in part by increased plant expansions at three waste-to-energy facilities.

Depreciation and amortization for 2004 increased \$3.3 million compared to 2003. This increase in depreciation and amortization was due to service and energy contract amortization of \$16.1 million in 2004 resulting from recording the estimated fair value of such contract assets at March 10, 2004 and amortizing them over their remaining estimated useful lives. Additionally on March 10, 2004, property, plant and equipment were recorded at their fair value, and subsequently, the estimated useful lives of property plant and equipment were adjusted resulting in revised depreciation expense. These increases were offset by decreases in depreciation and amortization expense resulting from the deconsolidation of the remaining debtors and the sale and restructuring of businesses in 2003.

Net interest on project debt for 2004 decreased \$27 million compared to 2003. The decrease was primarily the result of a reduction in project debt due to exclusion of debt service related to the deconsolidation of the Remaining Debtors noted above, the restructuring of debt at two domestic facilities in the last six months of 2003, and the reduction of project debt on another facility.

Write-off of assets held for use for 2004 decreased \$16.7 million compared to 2003 due to the provision for arena commitments recorded in the second half of 2003.

Selling, general and administrative expenses had a net increase totaling \$4.7 million in 2004 compared to 2003 primarily due to a \$8.1 million increase in professional and management fees offset by a \$3.7 million decrease in wages and benefits.

Income from operations for the domestic segment for 2004 increased by \$34 million compared to 2003. This increase was comprised of net increases due to cessation of construction activities (\$6.6 million), higher energy and scrap metal revenues as well as increased supplemental waste processed (\$13 million), lower interest expense on project debt (\$27 million), a decrease in write-off of assets held for use (\$16.7 million)

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and a (\$5.8 million) decrease in operating costs and expenses related to the wind down of non-energy businesses. These increases were offset by net decreases due to higher operating and maintenance expenses (\$4.3 million), the expiration of a hydroelectric lease (\$2.7 million), restructuring of existing projects (\$12.5 million), the deconsolidation of Remaining Debtors (\$5.1 million), the elimination of amortization of deferred gains due to fresh-start adjustments (\$7.2 million), increases in selling, general and administrative expense (\$4.7 million) and the increase in depreciation expense due to fresh-start accounting adjustments (\$3.3 million).

International Business Waste and Energy Services Operating Results 2004 vs. 2003

The following table summarizes the historical results of operations of Covanta's international business for the years ended December 31, 2004 and 2003 (in thousands of dollars):

	For the Period January 1, through March 10, 2004	For the Period March 11, through December 31, 2004	Combined Results for the Year Ended December 31, 2004	Results for the Year Ended December 31, 2003
Service revenues	\$ 1,170	\$ 5,091	\$ 6,261	\$ 7,180
Electric & steam sales	34,365	99,180	133,545	164,182
Construction revenues				
Other revenues				5
Total revenues	\$ 35,535	\$ 104,271	\$ 139,806	\$ 171,367
Operating income	\$ 3,130	\$ 14,776	\$ 17,906	\$ 24,135

Total revenues for the international segment for 2004 compared to 2003 decreased by \$31.5 million. This decrease primarily resulted from the deconsolidation of the MCI facility totaling \$17.2 million, a \$12 million energy sales reduction due to lower demand in 2004 at the CPIH facilities in India and a \$4.6 million decrease due to the expiration and termination of contracts at one of the CPIH facilities in the Philippines. These decreases were offset by a \$3 million increase due to higher steam tariffs at CPIH's facilities in China.

International plant operating costs were lower by \$19.1 million, of which \$18.1 million was due to deconsolidation of the MCI facility and \$8 million was due to lower demand at CPIH's facilities in India, offset by a \$8.2 million increase in fuel costs at CPIH's facilities in China.

Depreciation and amortization for 2004 decreased \$6 million as a result of fresh-start accounting adjustments.

Net interest on project debt for 2004 decreased \$3.7 million compared to 2003. The decrease resulted from a \$1.6 million decrease due to the deconsolidation of the MCI facility and a \$2.9 million decrease due to lower interest rates at two facilities in India.

Income from operations for the international segment for 2004 decreased \$6.7 million compared to 2003 due to a decrease in revenues discussed above, an increase in fuel costs at the CPIH facilities in China and increased overhead costs at CPIH post emergence offset by a combination of lower plant operating costs in India, reductions in depreciation expense as a result of fresh-start accounting adjustments, the deconsolidation of the MCI facility and a reduction of interest on project debt.

Insurance Services Operating Results**Insurance Services Operating Results 2004 vs. 2003**

Net earned premiums were \$18 million and \$35.9 million for the years ended 2004 and 2003. The change in earned premiums was a direct result of our insurance business exiting the commercial automobile market in 2003. Net written premiums were \$15.2 million for 2004 consisting entirely of non-standard personal automobile policies.

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Net investment income was \$2.4 million and \$4 million for 2004 and 2003, respectively. The decrease was primarily due to a decrease in the fixed income portfolio basis as well as a reduction in the portfolio yield. Fixed income invested assets portfolio decreased by only \$12.1 million in 2004 despite net loss and LAE, reserves declining by \$18.9 million. The differential was a result of management reducing its cash and short-term investment positions. Due to the decrease in written premiums on business placed in run-off noted above, NAICC also experienced negative underwriting cash flows. For the years ended 2004 and 2003, the weighted average yield on the bond portfolio was 3.8% and 4.9%, respectively. Of the \$1.6 million change in investment income, \$0.2 million was the result of amortization recognized on a single bond that was called prior to its maturity date. The effective duration of the portfolio at December 31, 2004 was 2.3 years which management believed was appropriate given the relative short-tail nature of the auto programs and projected run-off of all other lines of business.

Net realized investment gains of \$0.2 million were recognized in 2004 compared to \$1.0 million in 2003. The difference in activity was attributed to management engaging new investment advisors in June 2003 to rebalance the portfolio to address extension, credit and reinvestment risk exposures. Concurrently, interest rates were at 40-year lows and the stock market rebounded significantly in 2003 providing for improved gains. For 2004, interest rates remained relatively low providing for some gain activity, but the portfolio provided better matching of principal pay-down to claim settlements thus not requiring the same level of disposition activity.

The net loss and LAE ratios were 71.5% in 2004 and 102.3% in 2003. The decrease in the loss and LAE ratio during 2004 was attributable to much more stable development activity on prior accident years. Although commercial automobile, assumed property and casualty, and Valor workers' compensation reserves continued to generate unfavorable claim development, the non-standard personal automobile and California workers' compensation performed better than anticipated.

The non-standard personal automobile loss and allocated LAE, referred to as ALAE in this prospectus, ratio was 49.3% for accident year 2004 versus 60.4% for accident year 2003 recorded in 2003. The accident year 2003 loss and ALAE ratio reduced to 53.7% by 2004 year-end. Non-standard personal automobile claim frequency was 7.7 and 7.9 per 1000 vehicle months for accident years 2004 and 2003, respectively. Claim severity trended favorably for non-standard decreasing by 5.6% from the prior year. Meanwhile average premium per vehicle on the non-standard personal automobile remained constant, despite the mix of business moving towards non-owner policies 37% in 2004 versus 28% in 2003. Historically non-owner policies yield loss and ALAE ratios 10% to 30% lower than owner policies.

Workers' compensation reforms were enacted in California in late 2003 and again in April 2004. The reforms were designed to curb medical cost spending and appear to have resulted in more favorable settlement activity. Although the reforms did not eliminate systemic abuse, they do appear to have modified the behavior of claimants, providers and applicant attorneys. Although the impact of the reforms can not be measured, management was able to recognize favorable development in the amount of \$1.6 million.

Policy acquisition costs as a percentage of net earned premiums were 24.6% in 2004 and 22.2% in 2003. Policy acquisition costs include expenses which are directly related to premium volume (i.e., commissions, premium taxes and state assessments), as well as certain underwriting expenses which vary with and are directly related to policy issuance. The increase was a result of profit commissions earned by the agent responsible for the marketing, underwriting and policy administration of the non-standard personal automobile program. The recognition of the profit commission was a direct result of favorable reserve development recognized on accident year 2003 and slightly improved results for accident year 2004.

General and administrative expenses were \$4.4 million in 2004 compared to \$6.7 million in 2003. In 2004, management recognized additional pension expense of \$0.8 million related to participants electing to receive lump sum distributions of the pension plan and severance costs of \$0.1 million related to the outsourcing of its workers compensation claims. In 2003, additional allowance for uncollectible reinsurance recoverable of \$1.3 million and \$0.2 million in employee severance expenses related to business contraction inflated normal expenses. Normalizing both years for items noted, general and administrative costs expenses reduced by \$1.6 million. Management continues to examine its expense structure; however, given the decreases in

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premium production and its obligation to run-off several lines of business, a core amount of fixed governance costs is required and consequently its expense ratio will run higher than industry averages until it can increase premium production.

Insurance Services Operating Results 2003 vs. 2002

Net earned premiums were \$35.9 million and \$62.2 million for the years ended 2003 and 2002, respectively. The change in net earned premiums during 2003 was directly related to the change in net written premiums. Net written premiums were \$30.4 million and \$52.7 million in 2003 and 2002, respectively. Net earned premiums exceeded net written premiums in 2002 due to a significant reduction in NAICC's commercial automobile line and the decision made in 2001 to exit both the workers' compensation line of business in all states and private passenger automobile outside of California. Workers' compensation net written premiums decreased \$7.3 million during 2003 over the comparable period in 2002. The commercial automobile net written premiums decreased from \$19.5 million in 2002 to \$11.9 million in 2003 due to the decision to exit the line in July 2003. Net written premiums for personal automobile lines decreased by \$7.4 million during 2003 primarily due to underwriting restrictions placed on the non-standard California private passenger automobile program and the decline in net written premiums outside of California.

Net investment income decreased primarily due to a decrease in the fixed income portfolio basis as well as a reduction in the portfolio yield. Fixed income invested asset portfolio decreased by \$5.6 million in 2003, despite net loss and LAE reserves declining by \$8.6 million. The differential was a result of NAICC disposing of substantially all of its equity security holdings in the fourth quarter of 2003 and reinvesting those proceeds, approximately \$4.1 million, in fixed income securities. Additionally, NAICC received \$2 million in additional paid-in capital from us at year-end. Due to the decrease in written premiums on business placed in run-off noted above, NAICC also experienced negative underwriting cash flows. As of December 31, 2003 and 2002, the weighted average yield on NAICC's portfolio was 4.9% and 5.9%, respectively. The effective duration of the portfolio at December 31, 2003 was 2.3 years which management believed was appropriate given the relative short-tail nature of the auto programs and projected run-off of all lines of business.

In 2003, NAICC recognized \$1.0 million in gains from fixed income securities that were maturing in 2004 as a consequence of a dynamic interest rate environment throughout the year. In 2002, a realized investment gain of \$5.2 million was recognized upon conversion of the ACL notes into equity. This gain was offset by a \$5.1 million loss on non-affiliated equity securities and a \$0.9 million gain on fixed maturities. Of the \$5.1 million loss on equity securities, \$1.0 million was recorded for other than temporary declines in fair value. NAICC had a net unrealized loss of \$1.4 million on its equity portfolio at the end of December 2002 and a modest net unrealized gain at December 31, 2003.

Net losses and LAE ratios were 102.3% in 2003 and 96.3% in 2002. The increase in the loss and LAE ratio during 2003 was attributable to further recognition of prior accident year reserve development on workers' compensation and commercial automobile insurance. NAICC has historically priced its non-standard private passenger and commercial auto premium at 68% to 69% of its expected loss and ALAE costs in order to balance its expense structure and market conditions. In 2003, NAICC believed it had a far more successful underwriting year, posting loss and ALAE ratios of 60.4% and 59.5% for its California non-standard auto and entire commercial auto program. These results were commensurate with industry results for 2003 driven primarily by the hard insurance market. Non-standard private passenger and commercial auto claim frequency was 7.9 and 10.6 per 1,000 vehicle months in accident year 2003 compared to 9.5 and 10.8 per 1,000 vehicle months in 2002, respectively. Severity was favorable for both lines as well in 2003 compared to 2002 by reduction of average cost per claim of 3% and 6% for the personal and commercial auto lines, respectively. Although both these indicators were favorable in 2003, the average premium per vehicle on commercial lines had the most significant effect on the loss and ALAE ratio. The average premium per vehicle on commercial lines increased 17.8% for the 2003 accident year. With respect to the personal automobile insurance, the mix of business moving towards non-owner policies 28% in 2003 versus 10% in 2002 had the most significant impact for this program's improved loss and LAE ratio.

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Policy acquisition costs as a percentage of net earned premiums were 22.2% in 2003 and 22.7% in 2002. The modest decrease was a result of change in the mix of business and a favorable renegotiation by management of its commission structure with its general agent in the fourth quarter of 2003.

General and administrative expenses increased in 2003 over 2002 levels by \$0.8 million primarily due to recording an additional allowance for uncollectible reinsurance recoverable of \$1.3 million and \$0.2 million in employee severance expenses related to business contraction. Exclusive of the two items noted above, expenses decreased \$0.7 million compared to 2002 due to decreased production and previously implemented cost containment efforts.

Parent Investment Income and Expenses**Parent Investment Income and Expenses 2004 vs. 2003**

Our total investment income decreased to \$0.5 million for the year ended December 31, 2004 as compared to \$1.4 million for the year ended December 31, 2003 primarily due to lower realized investment gains. Our realized investment gains were \$0.3 million in 2004 compared to \$1.1 million in 2003.

Our interest expense of \$43.7 million for the year ended December 31, 2004 relates to parent company and Waste and Energy Services recourse debt of \$318.4 million for the year ended December 31, 2004. See Note 21 to the Notes to the Audited Annual Financial Statements for details.

As noted above, we accounted for our investments in marine services subsidiaries under the equity method. For the year ended December 31, 2004, the equity in net loss of unconsolidated marine services subsidiaries included our share of GMS and Vessel Leasing's reported net income of \$0.5 million.

Our expenses were primarily the result of the corporate services agreement between us and Covanta, pursuant to which we provide to Covanta, at Covanta's expense, certain administrative and professional services and Covanta pays most of our expenses. Such expenses totaled \$3.5 million for the period March 11, 2004 through December 31, 2004. In addition, we entered with Covanta into an agreement pursuant to which Covanta provides, at our expense, payroll and benefit services for Covanta Holding Corporation employees, which totaled \$0.5 million for the period March 11, 2004 through December 31, 2004.

Parent Investment Income and Expenses 2003 vs. 2002

Our total parent company investment income decreased to \$1.4 million for the year ended December 31, 2003 as compared to \$9.5 million for the year ended December 27, 2002 primarily due to recognition of \$8.4 million in gain on ACL bonds owned by us that were contributed as part of the purchase price of ACL Holdings recognized during 2002.

Our administrative expense decreased \$0.7 million to \$4.2 million for the year ended December 2003 as compared to \$4.9 million for the year ended December 2002. The decrease was primarily due to a reduction of facility and payroll related costs. In 2003, we entered into a corporate services agreement with Equity Group Investments, L.L.C., referred to as EGI in this prospectus. Samuel Zell, our Chairman of the Board and former Chief Executive Officer and President, is also the Chairman of EGI. EGI provided financial and administrative services to us. Subsequent to the ACL acquisition in 2002, ACL provided similar support services to us.

Interest expense decreased to \$1.4 million for the year ended December 31, 2003 compared to \$38.7 million during the year ended December 27, 2002. Interest expense in 2003 was due to the accrual of one month of interest on the bridge financing required for the Covanta acquisition. Interest expense in 2002 was primarily due to ACL's and GMS' interest expense after their acquisition.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF LIQUIDITY AND CAPITAL RESOURCES

The information set forth below regarding our liquidity and capital resources is compiled according to our consolidated operations and our current business segments of Waste and Energy Services and Other Services (which includes both our parent-level operations and those of our insurance business).

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Capital Resources and Commitments

As part of the Ref-Fuel acquisition, Covanta entered into new credit arrangements which totaled approximately \$1.1 billion and are guaranteed by us and certain domestic subsidiaries of Covanta. The proceeds of the new financing arrangements were used to fund the acquisition of Ref-Fuel, to refinance approximately \$479 million of Covanta's and CPIH's recourse debt and letter of credit facilities, and to pay the related fees and expenses. The new credit facilities are further available for ongoing permitted expenditures and for general corporate purposes. The following chart summarizes the various components and amounts of Covanta's project and intermediate debt and Credit Facilities as of September 30, 2005 (in millions of dollars):

Table of Contents**Cash Flow and Liquidity****Summary**

Our sources of funds are our investments as well as dividends, if any, and other payments received from our waste and energy and insurance subsidiaries. Various state insurance requirements restrict the amounts that may be transferred to us in the form of dividends or loans from our insurance subsidiaries without prior regulatory approval. Currently, NAICC cannot pay dividends or make loans to us. Under its new financing arrangements, Covanta's ability to pay dividends to us is limited, except in certain circumstances.

The following summarizes the actual inflows and outflows relating to the Ref-Fuel rights offering (in millions of dollars):

Proceeds from Ref-Fuel rights offering	\$	400.0
Transfers to Covanta (to fund a portion of Ref-Fuel purchase price)		(385.0)
Warrant agent and other costs		(4.1)
Net cash inflow to parent	\$	10.9

Summarized cash flow information for our current business segments reconciled to the condensed consolidated statements of cash flows is as follows (in thousands of dollars):

Nine Months Ended September 30, 2005

	Waste and Energy	Other	Eliminations	Total
Net cash provided by (used in) operating activities	\$ 158,715	\$ (10,863)	\$	\$ 147,852
Net cash provided by (used in) investing activities(1)	(700,687)	(372,477)	384,954	(688,210)
Net cash provided by (used in) financing activities	602,512	392,384	(384,954)	609,943
Net increase in cash and cash equivalents	\$ 60,540	\$ 9,044	\$	\$ 69,584

Nine Months Ended September 30, 2004

	Waste and Energy	Other	Eliminations	Total
Net cash provided by (used in) operating activities	\$ 108,595	\$ (19,312)	\$	\$ 89,283
Net cash provided by (used in) investing activities(2)	(4,895)	66,922		63,027
Net cash provided by (used in) financing activities	(70,474)	15,402		(55,072)

Net increase in cash and cash equivalents	\$	33,226	\$	63,012	\$		\$	96,238
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(1) Waste and Energy Services is net of cash acquired of Ref-Fuel of \$62,358.

(2) Other is net of cash acquired at parent-level of \$57,795.

Waste and Energy Services Segment

Cash Generation

Cash provided by operating activities was \$158.7 million and \$108.6 million for the nine months ended September 30, 2005 and 2004, respectively. The increase in cash flow from operating activities was primarily due to the Ref-Fuel acquisition. Net cash used in investing activities was \$700.7 million in the nine months ended September 30, 2005 and was primarily due to the purchase of Ref-Fuel, net of acquired cash. Net cash

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provided by financing activities was \$602.5 million for the nine months ended September 30, 2005 and was primarily driven by the capital contribution from us, the net impact of the refinancing of the prior debt and for the acquisition of Ref-Fuel, offset partially by the payment and future funding of project debt.

Cash from Ref-Fuel was \$74.1 million as of September 30, 2005. Restricted funds held in trust were \$428.7 million as of September 30, 2005. These restricted funds largely reflect payments from municipal clients under service agreements as part of the service fee due reflecting debt service. These payments are made directly to the trustee for the related project debt and are held by it until paid to project debt holders. We do not have access to these funds. In addition, as of September 30, 2005, we had \$24.2 million in cash held in restricted accounts to pay for additional bankruptcy emergence expenses that are estimated to be paid in the future. Cash held in such reserve accounts is not available for general corporate purposes.

Generating sufficient cash to meet Covanta's liquidity needs, pay down its debt and invest in its business remains an important objective of management. Maintaining historic facility production levels while effectively managing operating and maintenance expense is important to optimize Covanta's long-term cash generation. Covanta does not expect to receive any cash contributions from us and is prohibited under its principal financing arrangements from using its cash to issue dividends to us except in limited circumstances.

We believe that when combined with its other sources of liquidity, Covanta's operations generate sufficient cash to meet operational needs, capital expenditures, and service debt due prior to maturity. Management will also seek to enhance Covanta's cash flow from renewals or replacement of existing contracts, from new contracts to expand existing facilities or operate additional facilities and by investing in new projects. Covanta's new financing arrangements place certain restrictions on its ability to make investments in new projects or expansions of existing projects.

Covanta derives its cash flow principally from its domestic and international project operations and businesses. The frequency and predictability of Covanta's receipt of cash from projects differs, depending upon various factors, including whether restrictions on distributions exist in applicable project debt arrangements or in debt arrangements at Covanta's intermediate-level subsidiaries, whether a project is domestic or international, and whether a project has been able to operate at historical levels of production.

A material portion of Covanta's domestic cash flows are expected to be derived from projects of Ref-Fuel subsidiaries. For these projects, financial tests and other covenants contained in their respective debt arrangements must be satisfied in order for project subsidiaries to make cash distributions to intermediate Covanta subsidiaries, and for Covanta's intermediate-level subsidiaries to make cash distributions to Covanta. Distributions from these intermediate-level subsidiaries may only be made quarterly, if such financial tests and other covenants are satisfied. Ref-Fuel has historically satisfied all such financial tests and covenants and has made quarterly distributions, if funds were available. Covanta's remaining domestic projects generally are not restricted in making cash distributions, and no restrictions exist at intermediate Covanta subsidiary levels. As a result, Covanta generally receives cash from these projects on a monthly basis.

Covanta's receipt of cash from its international projects is also subject to satisfaction of financial tests and other covenants contained in applicable project debt arrangements. A material portion of cash distributions from Covanta's international projects are received semi-annually, during the second and fourth quarters. In addition, risks inherent in international operations can affect the reliability of such cash distributions.

Covanta's cash available for corporate debt service and letter of credit fees also varies seasonally. Cash available for corporate debt service and letter of credit fees is affected most significantly by the following three factors:

timing of income with a one to two month timing delay for seasonable payables/receivables such as scheduled maintenance expense and annual incentive revenue;

certain substantial operating expenses such as annual insurance payments that are accrued each month throughout the year while the corresponding cash payments are made only a few times each year; and

subsidiary debt restrictions on distributions described above.

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We expect the factors discussed above will cause its cash available for corporate debt and letter of credit fees (including those of Ref-Fuel and international projects) to be the lowest during the second quarter and the highest during the fourth quarter.

Covanta's annual and quarterly financial performance can be affected by many factors, several of which are outside Covanta's control as noted above. These factors can overshadow the seasonal dynamics described herein. In particular, quarterly cash from operations, can be materially affected by changes in working capital.

Financing Arrangements

Covanta Debt

On June 24, 2005, Covanta entered into two credit and guaranty agreements with syndicates of lenders led by Goldman Sachs Credit Partners, L.P. and Credit Suisse, respectively. The proceeds of the financing were used to pay for a portion of the purchase price of Ref-Fuel and related fees, commissions, premiums and expenses, and to refinance outstanding recourse debt of Covanta and its international holding company, CPIH. The financing also provided us with available credit for the working capital and general corporate needs of Covanta and its subsidiaries.

The two credit agreements consist of (1) the Credit and Guaranty Agreement, dated as of June 24, 2005, among Covanta, us, as a guarantor, certain subsidiaries of Covanta, as guarantors, various lenders, Credit Suisse, Cayman Islands Branch, as joint lead arranger and co-syndication agent, Goldman Sachs Credit Partners, L.P., as joint lead arranger, co-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, which we refer to as the "First Lien Credit Agreement" in this prospectus; and (2) the Second Lien Credit and Guaranty Agreement, dated as of June 24, 2005, among Covanta, us, as a guarantor, certain subsidiaries of Covanta, as guarantors, various lenders, Credit Suisse, Cayman Islands Branch, as joint lead arranger, co-syndication agent, administrative agent, collateral agent and paying agent, and Goldman Sachs Credit Partners, L.P., as joint lead arranger and co-syndication agent, which we refer to as the "Second Lien Credit Agreement" in this prospectus. Under these credit agreements, the lenders agreed to provide secured revolving credit, letter of credit and term loan facilities in the amount of up to \$1.115 billion as described below. The following is a description of the general terms of these senior secured credit facilities.

The senior secured credit facilities are comprised of the following:

- a first priority secured term loan facility in the initial amount of \$275 million that matures in 2012, which we refer to as the "First Lien Term Loan Facility" in this prospectus;

- a first priority secured revolving credit facility in the amount of \$100 million, up to \$75 million of which may be utilized for letters of credit, that matures in 2011, which we refer to as the "Revolving Credit Facility" in this prospectus;

- a first priority secured funded letter of credit facility in the amount of \$340 million that matures in 2012, which we refer to as the "Funded L/C Facility," and collectively with the First Lien Term Loan Facility and the Revolving Credit Facility, as the "First Lien Facilities" in this prospectus; and

- a second priority secured term loan facility in the amount of \$400 million that matures in 2013, which we refer to as the "Second Lien Term Loan Facility," and collectively with the First Lien Facilities, as the "Credit Facilities" in this prospectus.

Letters of credit that may in the future be issued under the Revolving Credit Facility will accrue fees at the then effective borrowing margins on eurodollar rate loans, 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 described above times the total availability under letters of credit (whether or not then utilized), plus a fee on each issued letter of credit payable to the issuing bank. In addition, Covanta has agreed to pay to the

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participants under the Funded L/ C Facility any shortfall between the eurodollar rate applicable to the relevant Funded L/ C Facility interest period and the investment income earned on the pre-agreed investments made by the relevant issuing banks with the purchase price paid by such participants for their participations under the Funded L/ C Facility.

As of September 30, 2005, Covanta had neither drawn on the Revolving Credit Facility nor caused to be issued any letters of credit under the Revolving Credit Facility. As of September 30, 2005, Covanta had \$304.3 million outstanding letters of credit under the Funded L/ C Facility.

Covanta also entered into the intercreditor agreement with the respective lenders under the Revolving Credit Facility, the Funded L/ C Facility, the First Lien Term Loan Facility and the Second Lien Term Loan Facility described above under *Capital Resources and Commitments*. This agreement includes certain provisions regarding the application of payments made by Covanta among the respective creditors and certain matters relating to priorities upon the exercise of remedies with respect to the collateral.

Under these agreements Covanta is obligated to apply 50% of excess cash from operations (calculated pursuant to the new credit agreements), as well as specified other sources, to repay borrowing under the First Lien Term Loan Facility and reduce commitments under the financing arrangements, and in some circumstances to collateralize its reimbursement obligations with respect to outstanding letters of credit and/or repay borrowings under the Second Lien Term Loan Facility.

The new debt issued in the refinancing transaction is outlined in the following table:

Designation	Principal Amount	Interest	Principal Payments
First Lien Term Loan Facility	\$274 million as of September 30, 2005	Eurodollar or base rate as elected by Covanta plus a margin of 3.00%	Annual amortization paid quarterly beginning September 30, 2005
Second Lien Term Loan Facility	\$400 million as of September 30, 2005	Eurodollar or base rate as elected by Covanta plus a margin of 5.50%	Due at maturity in 2013

The First Lien Term Loan Facility has mandatory annual amortization, paid in quarterly installments beginning September 30, 2005, through the date of maturity in annual amounts set forth in the following schedule (in thousands of dollars):

First Lien Term Loan Facility	Remaining Amortization
2005	\$ 688
2006	2,750
2007	2,750
2008	2,750
2009	2,750
2010	2,750
2011	130,625
2012	129,250

The Second Lien Term Loan Facility has no mandatory amortization requirements and is required to be repaid in full on its maturity date.

Loans under the senior secured credit facilities are designated, at Covanta's election, as Eurodollar rate loans or base rate loans. Eurodollar loans bear interest at a reserve adjusted British Bankers Association Interest Settlement Rate 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 0.50% per annum, plus (b) a borrowing margin as described below.

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The borrowing margins referred to above for the Revolving Credit Facility are as follows:

Company Leverage Ratio	Borrowing Margin for Revolving Eurodollar Loans	Borrowing Margin for Revolving Base Rate Loan
≥ 4.25:1.00	3.00%	2.00%
< 4.25:1.00	2.75%	1.75%
≥ 3.50:1.00		
< 3.50:1.00	2.50%	1.50%

The borrowing margins for First Lien Term Loan Facility and the Funded Letter of Credit Facility are 3.00% for Eurodollar rate loans and 2.00% for base rate loans. The borrowing margins under the Second Lien Term Loan Facility are 5.50% for Eurodollar rate loans and 4.50% for base rate loans.

The Credit Facilities provide that Covanta and its subsidiaries must comply with certain affirmative and negative covenants. See Note 11 to the Notes to the Unaudited Interim Financial Statements for a description of such covenants, as well as other material terms and conditions of such agreements.

As of December 31, 2005, Covanta was not in default under the Credit Facilities.

The obligations of Covanta under the Credit Facilities are guaranteed by us and by certain of Covanta's subsidiaries, which we refer to as the subsidiary guarantors in this prospectus. We and our subsidiary guarantors are required under the terms of the guarantee provisions in the credit agreements, among other things, to pay the sum of any unpaid principal amount of Covanta's obligations, as well as accrued and unpaid interest, and all other obligations then owed by Covanta, upon Covanta's failure to have paid any of its obligations under the Credit Facilities when such obligations became due and payable, whether by maturity, required prepayment, acceleration or other demand under the terms of the Credit Facilities.

Covanta's obligations under the First Lien Facilities and certain interest rate or other hedging arrangements entered into with any of the lenders and their affiliates and our subsidiary guarantors' guaranty obligation are secured by a first priority security interest in substantially all assets, including substantially all of the personal, real and mixed property of Covanta and the subsidiary guarantors pursuant to the terms of the First Lien Facilities documentation including the First Lien Pledge and Security Agreement between each of Covanta and the other grantors party to the agreement and Goldman Sachs Credit Partners, L.P., as collateral agent, dated as of June 24, 2005, which we refer to as the First Lien Security Agreement in this prospectus.

In addition, the First Lien Facilities are secured by a first priority perfected lien or pledge on 100% of the capital stock of Covanta and certain direct subsidiaries of Covanta and the subsidiary guarantors, up to 65% of the capital stock of certain first tier foreign subsidiaries of Covanta and the subsidiary guarantors, and all intercompany debt owed to Covanta or the subsidiary guarantors pursuant to the terms of the First Lien Facilities documentation including the First Lien Security Agreement and the First Lien Pledge Agreement between us and Goldman Sachs Credit Partners, L.P., as collateral agent, dated June 24, 2005, which we refer to as the First Lien Pledge Agreement in this prospectus. Other subsidiaries of ours are not subject to any guaranty.

The Second Lien Term Loan Facility is secured by a second priority security interest in the same collateral as secures the First Lien Facilities pursuant to the terms of the Second Lien Term Loan Facility documentation including the Parity Lien Pledge and Security Agreement between each of Covanta and the other grantors party to the agreement and Credit Suisse, Cayman Islands Branch, as collateral agent, dated as of June 24, 2005, which we refer to as the Parity Lien Security Agreement in this prospectus.

In addition, the Second Lien Term Loan Facility is secured by a second priority perfected lien or pledge on 100% of the capital stock of Covanta and certain direct subsidiaries of Covanta and the subsidiary guarantors, up to 65% of the capital stock of certain first tier foreign subsidiaries of Covanta and the subsidiary guarantors, and all intercompany debt owed to Covanta or the subsidiary guarantors pursuant to the terms of the Second Lien Term

Loan Facility documentation including the Parity Lien Security Agreement and the Parity Lien Pledge Agreement between us and Credit Suisse, Cayman Islands Branch, as collateral agent, dated June 24, 2005, which we refer to as the Parity Lien Pledge Agreement in this prospectus.

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The priority of the security interests and related creditor rights between the First Lien Facilities, which we refer to as the First Lien Obligations in this prospectus and those of the Second Lien Term Loan Facility, which we refer to as the Second Lien Obligations in this prospectus, are set forth in the Intercreditor Agreement among Covanta, Goldman Sachs Credit Partners, L.P., as collateral agent for the First Lien Claimholders, Credit Suisse, Cayman Islands Branch, as administrative agent for the Second Lien Credit Claimholders and as collateral agent for the Parity Lien Claimholders, dated as of June 24, 2005, which we refer to as the Intercreditor Agreement in this prospectus. Under the terms of the Intercreditor Agreement, for as long as any of the First Lien Obligations are outstanding:

liens securing the Second Lien Obligations will be junior and subordinated in all respects to liens securing the First Lien Obligations;

the collateral agent for the Second Lien Obligations will not exercise any rights or remedies with respect to any collateral for 180 days from the date of delivery of notice in writing to the collateral agent for the First Lien Obligations;

the collateral agent for the Second Lien Obligations will not take or receive any collateral or any proceeds of collateral in connection with the exercise of any right or remedy (including setoff) with respect to any collateral;

any proceeds of collateral received in connection with the sale or disposition of such collateral by the collateral agent for the holders of the First Lien Obligations will be applied to the First Lien Obligations in the order specified by the Intercreditor Agreement and the applicable First Lien Obligation documents. Upon discharge of the First Lien Obligations, any proceeds of collateral held by the collateral agent for the First Lien Obligations will be delivered to the collateral agent for the Second Lien Obligations to be applied in the order specified by the Intercreditor Agreement and the applicable Second Lien Obligation documents; and

except as permitted under the Intercreditor Agreement and the senior secured credit facilities, Covanta will not make prepayments of the Second Lien Obligations prior to any voluntary or mandatory prepayment of any amounts outstanding under the First Lien Obligations.

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants. During the term of the Credit Facilities, we expect that the negative covenants will restrict the ability of Covanta and its subsidiaries to take specified actions, subject to exceptions including, but not limited to: incurring additional indebtedness, including guarantees of indebtedness;

creating, incurring, assuming or permitting to exist liens on property and assets;

making loans and investments and entering into mergers, consolidations, acquisitions and joint ventures;

engaging in sales, transfers and other dispositions of their property or assets;

paying, redeeming or repurchasing debt, or amending or modifying the terms of certain material debt or certain other agreements;

declaring or paying dividends to, making distributions to or making redemptions and repurchases from, equity holders;

entering into certain affiliate transactions; and

entering into agreements that would restrict the ability of Covanta's subsidiaries to pay dividends and make distributions, making certain loans and advances to Covanta, and incurring liens or transferring property or assets

to Covanta or certain of its subsidiaries.

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The financial covenants of the First Lien Facilities include the following:

maximum Covanta leverage ratio, which measures Covanta-level recourse debt to a specified Covanta-level cash flow;

maximum capital expenditures;

minimum Covanta interest coverage ratio, which measures Covanta-level recourse debt interest expense to a specified Covanta-level cash flow; and

minimum consolidated adjusted earnings before interest, taxes, depreciation and amortization.

Covanta is required to make mandatory prepayments of the senior secured credit facilities in the amounts set forth in the Credit Facilities in the event it receives proceeds from the following specified sources:

excess cash flow, as defined in the loan documentation;

net cash proceeds of any property or asset sale, subject to certain exceptions and reinvestment requirements;

net insurance and condemnation proceeds, subject to certain exceptions and reinvestment provisions;

net cash proceeds from the issuance of additional equity securities, subject to certain exceptions; and

net cash proceeds of certain debt issuances, subject to certain exceptions.

Except as otherwise provided in the Intercreditor Agreement, mandatory prepayments are applied to prepay the First Lien Term Loan Facility prior to application with respect to the remaining Credit Facilities.

The loan documentation for the Credit Facilities contains events of default, including, but not limited to, failure to make payments when due, cross defaults to certain other debt of Covanta and its subsidiaries, certain change of control events and specified material reductions in net operating losses available to us, other than through utilization. Upon the occurrence and during the continuance of events of default under the Credit Facilities, and subject to the terms of the Intercreditor Agreement, the administrative agents and/or the lenders under the credit agreements may accelerate Covanta's payment obligations thereunder and the collateral agents under the documents securing these obligations may foreclose upon, and exercise other rights with respect to, our assets and the assets of Covanta and/or the subsidiary guarantors in which security interests have been granted.

Domestic Project Debt

Financing for Covanta's waste-to-energy projects is generally accomplished through tax-exempt and taxable municipal revenue bonds issued by or on behalf of the municipal client. For most facilities owned by a Covanta subsidiary, the issuer of the bonds loans the bond proceeds to a Covanta subsidiary to pay for facility construction. The municipality then pays to the subsidiary as part of its service fee amounts necessary to pay debt service on the project bonds. For such facilities, project-related debt is included as Project debt (short- and long-term) in Covanta's consolidated financial statements. Generally, such project debt is secured by the revenues generated by the project and other project assets including the related facility. Such project debt of Covanta subsidiaries is described in the chart below under *Capital Requirements* as non-recourse project debt. The only potential recourse to Covanta with respect to project debt arises under the operating performance guarantees described below under *Other Commitments*.

With respect to certain of its waste-to-energy projects, debt service on project debt is an explicit component of the fee paid by the municipal client. Such fees are paid by the municipal client to the trustee for the applicable project debt and held by the trustee until applied as required by the project debt documentation. While these funds are held by the trustee they are reported as restricted funds held in trust on our consolidated balance sheet. These funds are not generally available to Covanta.

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Certain subsidiaries of Ref-Fuel have recourse liability for project debt which is non-recourse to Covanta as of September 30, 2005 as follows (in thousands of dollars):

Niagara Series 2001	\$ 165,010
Seconn Corporate Credit Bonds	43,500
Hempstead Corporate Credit Bonds	42,670

International Project Debt

Financing for projects in which Covanta has 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 CPIH or us. Project debt relating to two CPIH 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 complied with.

Intermediate Subsidiary Debt

Three Ref-Fuel subsidiaries have outstanding non-project debt facilities. As of September 30, 2005, ARC has outstanding \$234 million aggregate principal amount of 6.26% senior notes due 2015, MSW I has outstanding \$196 million aggregate principal amount of 8.5% senior secured notes due 2010 and MSW II has outstanding \$224 million aggregate principal amount of 7.375% senior secured notes due 2010. The indentures defining the rights of note holders generally provide that these subsidiaries may not make distributions to its parent (including Covanta) until financial covenants are satisfied on a quarterly basis.

MSW I Financing

MSW I has outstanding debt financing consisting of \$200 million of 8.50% senior secured notes due 2010 (\$196 million as of September 30, 2005), referred to in this prospectus as the MSW I notes. Interest on the MSW I notes is payable semi-annually in arrears on March 1st and September 1st of each year. The MSW I notes mature on September 1, 2010. Holders of MSW I notes may require MSW I to repurchase the MSW I notes upon a change in control or if MSW I or any of its restricted subsidiaries receives any proceeds from certain financings or asset sales by Ref-Fuel Holdings and its subsidiaries.

The MSW I notes are general obligations of MSW I and are secured by a first priority lien on substantially all the assets of MSW I, including a first priority pledge of the membership interest in MSW I's subsidiaries and of Ref-Fuel Holdings indirectly owned by MSW I.

The indenture under which the MSW I notes were issued, referred to in this prospectus as the MSW I indenture, provides for certain restrictive covenants including, among other things, restrictions on incurrence of indebtedness, creation of liens, certain payments to related and unrelated parties, acquisitions, asset sales and transactions with affiliates.

The MSW I indenture provides that MSW I is not permitted to make certain distributions or other restricted payments, subject to certain exceptions, unless, and at the time of and after giving effect to such restricted payment: no default or event of default shall have occurred and be continuing or would occur as a consequence of such restricted payment;

MSW I is not required to make an offer, which they have not yet consummated, to repurchase or redeem MSW I notes with the net proceeds received from Ref-Fuel Holdings or its subsidiaries upon the issuance of debt or equity securities, incurrence of indebtedness or consummation of an asset sale by Ref-Fuel Holdings or any of its subsidiaries; and

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at the time of such restricted payment, the proportionate consolidated interest coverage ratio for MSW I's most recently ended four full fiscal quarters would have been at least 2.0 to 1.0 on a pro forma basis as if the restricted payment had been made at the beginning of such four-quarter period, and the projected proportionate consolidated interest coverage ratio for MSW I's four full fiscal quarters, commencing with the first full fiscal quarter after the date of the proposed restricted payment, would be at least 2.0 to 1.0.

Proportionate consolidated interest coverage ratio is defined in the MSW I indenture to mean the ratio obtained by dividing an amount equal to the applicable ownership percentage multiplied by the consolidated cash flow of Ref-Fuel Holdings for such period, by the sum of (1) an amount equal to the applicable ownership percentage multiplied by the consolidated interest expense of Ref-Fuel Holdings for the period, plus (2) without duplication, the consolidated interest expense of MSW I for such period. The consolidated interest coverage ratio of MSW I was 3.3x for the twelve-month period ended March 31, 2005.

Upon the occurrence of a change of control, as defined in the MSW I indenture, MSW I shall be required to make an offer to each holder of MSW I notes to repurchase all or any part of such holder's MSW I notes at a purchase price equal to 101% of the aggregate principal amount plus accrued and unpaid interest to the date of purchase. Within 30 days following a change of control, MSW I shall mail a notice to each holder of MSW I notes stating that a change of control offer is being made and setting forth, among other things, the purchase price and the purchase date, which shall be no earlier than 30 days and no later than 60 days from the date such notice is mailed.

The MSW I indenture governing the MSW I notes includes limitations on the ability of MSW I and its restricted subsidiaries to incur additional indebtedness or issue preferred equity. The MSW I indenture provides that MSW I and its subsidiaries may only incur indebtedness or issue preferred equity if the proportionate consolidated interest coverage ratio tests set forth above are met. Other permitted indebtedness under the MSW I indenture is generally limited to:

the MSW I notes;

indebtedness in respect of member loans;

refinancing indebtedness;

intercompany debt among MSW I and its restricted subsidiaries;

indebtedness in respect of hedging obligations;

guarantees of permitted indebtedness;

if ARC becomes a subsidiary of MSW I, under specific circumstances indebtedness may be permitted to be incurred by ARC and its subsidiaries including:

indebtedness under the ARC credit facility not to exceed \$75 million;

purchase money indebtedness;

indebtedness incurred to finance capital expenditures required by law;

indebtedness that is non-recourse to ARC; and

other indebtedness not to exceed \$30 million.

Ref-Fuel Holdings and its subsidiaries are not currently deemed to be restricted subsidiaries under the MSW I indenture, including for purposes of the restrictive covenants described above.

MSW II Financing

MSW II has outstanding debt financing consisting of \$225 million aggregate principal amount of 7.375% senior secured notes due 2010 (\$224 million as of September 30, 2005), referred to in this prospectus as the MSW II notes. Interest on the MSW II notes is payable semi-annually in arrears on March 1st and

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September 1st of each year. The MSW II notes mature on September 1, 2010. Holders of MSW II notes may require MSW II to repurchase the MSW II notes upon a change in control or if MSW II or any of its restricted subsidiaries receives any proceeds from certain financings or asset sales by Ref-Fuel Holdings and its subsidiaries.

The MSW II notes are general obligations of MSW II and are secured by a first priority lien on substantially all the assets of MSW II, including a first priority pledge of the membership interest in Ref-Fuel Holdings.

The indenture under which the MSW II notes were issued, referred to in this prospectus as the MSW II indenture, provides for certain restrictive covenants including, among other things, restrictions on incurrence of indebtedness, creation of liens, certain payments to related and unrelated parties, acquisitions, asset sales and transactions with affiliates.

The MSW II indenture provides that MSW II is not permitted to make certain distributions or other restricted payments, subject to certain exceptions, unless, and at the time of and after giving effect to such restricted payment:

no default or event of default shall have occurred and be continuing or would occur as a consequence of such restricted payment;

MSW II is not required to make an offer, which it has not yet consummated, to repurchase or redeem MSW II notes with the net proceeds received from Ref-Fuel Holdings or its subsidiaries upon the issuance of debt or equity securities, incurrence of indebtedness or consummation of an asset sale by Ref-Fuel Holdings or any of its subsidiaries; and

at the time of such restricted payment, the proportionate consolidated interest coverage ratio for MSW II's most recently ended four full fiscal quarters would have been at least 2.0 to 1.0 on a pro forma basis as if the restricted payment had been made at the beginning of such four-quarter period, and the projected proportionate consolidated interest coverage ratio for MSW II's four full fiscal quarters commencing with the first full fiscal quarter after the date of the proposed restricted payment would be at least 2.0 to 1.0.

Proportionate consolidated interest coverage ratio is defined in the indenture to mean the ratio obtained by dividing an amount equal to the applicable ownership percentage multiplied by the consolidated cash flow of Ref-Fuel Holdings for such period, by the sum of (1) an amount equal to the applicable ownership percentage multiplied by the consolidated interest expense of Ref-Fuel Holdings for the period, plus (2) without duplication, the consolidated interest expense of MSW II for such period. The consolidated interest coverage ratio of MSW II was 3.3x for the twelve-month period ended March 31, 2005.

Upon the occurrence of a change of control, as defined in the MSW II indenture, MSW II shall be required to make an offer to each holder of MSW II notes to repurchase all or any part of such holder's MSW II notes at a purchase price equal to 101% of the aggregate principal amount plus accrued and unpaid interest to the date of purchase. Within 30 days following a change of control, MSW II shall mail a notice to each holder of MSW II notes stating that a change of control offer is being made and setting forth, among other things, the purchase price and the purchase date, which shall be no earlier than 30 days and no later than 60 days from the date such notice is mailed.

The MSW II indenture governing the MSW II notes includes limitations on the ability of MSW II and its restricted subsidiaries to incur additional indebtedness or issue preferred equity. The MSW II indenture provides that MSW II and its subsidiaries may only incur indebtedness or issue preferred equity if the proportionate consolidated interest coverage ratio tests set forth above are met. Other permitted indebtedness under the MSW II indenture is generally limited to:

the MSW II notes;

indebtedness in respect of member loans;

refinancing indebtedness;

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intercompany debt among MSW II and its restricted subsidiaries;

indebtedness in respect of hedging obligations;

guarantees of permitted indebtedness;

if ARC becomes a subsidiary of MSW II, under specific circumstances indebtedness may be permitted to be incurred by ARC and its subsidiaries including:

indebtedness under the ARC credit facility not to exceed \$75 million;

purchase money indebtedness;

indebtedness incurred to finance capital expenditures required by law;

indebtedness that is non-recourse to ARC; and

other indebtedness not to exceed \$30 million.

Ref-Fuel Holdings and its subsidiaries are not currently deemed to be restricted subsidiaries under the MSW II indenture, including for purposes of the restrictive covenants described above.

As described in *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Management's Discussion and Analysis of Liquidity and Capital Resources - Waste and Energy Services Segment* and Note 11 to the Notes to the Unaudited Interim Financial Statements, MSW I and MSW II outstanding notes were issued pursuant to indentures containing covenants and other obligations of such subsidiaries. Under applicable indentures, holders of these notes were entitled to receive from the respective issuer an offer to repurchase such notes upon a change of control, such as was caused by the purchase of Ref-Fuel by Covanta. On June 24, 2005, change of control offers were issued by both MSW I and MSW II. Holders of approximately \$4.2 million of MSW I notes properly tendered their notes for repurchase, and holders of approximately \$0.9 million of MSW II notes properly tendered their notes for repurchase. All such notes were repurchased on July 26, 2005. MSW I and MSW II paid the purchase price of such notes, which was \$5.1 million in the aggregate, with cash made available by Covanta.

ARC Financing

ARC has outstanding debt financing consisting of \$240 million aggregate principal amount of 6.26% senior notes due 2015 (\$234 million as of September 30, 2005), referred to in this prospectus as the ARC notes. Interest on the ARC notes is payable June 30 and December 31st of each year through maturity.

The indenture under which the ARC notes were issued, referred to in this prospectus as the ARC indenture provides for certain restrictive covenants including, among other things, restrictions on the incurrence of indebtedness, certain payments to related and unrelated parties, acquisitions and asset sales. In addition, the ARC indenture provides that distributions of cash to parent entities (including Covanta) may occur quarterly and only if certain financial covenants are satisfied.

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The following table summarizes our gross contractual obligations including: project debt, recourse debt, estimated interest payments, leases and other contractual obligations as of September 30, 2005. (Amounts expressed in thousands of dollars. Note references are to the Notes to the Unaudited Interim Financial Statements.):

	Payments Due by Period				
	Total	Less Than One Year	1 to 3 Years	4 to 5 Years	After 5 Years
Domestic Covanta project debt (Note 11)	\$ 765,751	\$ 79,453	\$ 169,336	\$ 150,844	\$ 366,118
CPIH project debt (Note 11)	91,282	27,653	29,537	28,828	5,264
Ref-Fuel project debt (Note 11)	709,557	42,695	112,406	132,542	421,914
Total project debt (Note 11)	1,566,590	149,801	311,279	312,214	793,296
First lien term loan facility (Note 11)	274,313	3,438	5,500	5,500	259,875
Second lien term loan facility (Note 11)	400,000				400,000
6.26% senior notes (Note 11)	234,000	22,400	57,100	38,700	115,800
8.5% senior secured notes (Note 11)	195,785			195,785	
7.375% senior secured notes (Note 11)	224,100			224,100	
Other Long-term debt (Note 11)	225	122	85	18	
Total debt obligations of Covanta(1)	2,895,013	175,761	373,964	776,317	1,568,971
Less:					
Non-recourse project debt(2)	(2,220,700)	(172,323)	(368,464)	(770,817)	(909,096)
Covanta recourse debt	\$ 674,313	\$ 3,438	\$ 5,500	\$ 5,500	\$ 659,875
Operating leases	466,432	33,104	63,742	78,891	290,695
Less: Non-recourse rental payments	(434,085)	(29,636)	(59,342)	(75,361)	(269,746)
Covanta recourse rental payments	32,347	3,468	4,400	3,530	20,949
Interest payments(3)	1,307,308	212,327	378,414	330,960	385,607
Less: Non-recourse interest payments	(764,056)	(132,874)	(233,951)	(190,068)	(207,163)
Covanta recourse interest payments	543,252	79,453	144,463	140,892	178,444
Retirement plan obligations(4)	21,159	4,844	5,283	3,670	7,362
Duke long-term obligation	46,500	2,500	5,000	7,500	31,500
Other long-term obligations	33,283	4,998	8,190		20,095
Total Covanta contractual obligations	\$ 1,350,854	\$ 98,701	\$ 172,836	\$ 161,092	\$ 918,225

- (1) Excludes \$80.7 million of Covanta's unamortized debt premium.
- (2) Payment obligations for the project debt associated with waste-to-energy facilities owned by Covanta are limited recourse to the operating subsidiary and non-recourse to Covanta, subject to operating performance guarantees and commitments.
- (3) Interest payments and letter of credit fees are estimated.
- (4) Retirement plan obligations are based on actuarial estimates for pension plan obligations and post-retirement plan obligations as of December 31, 2004.

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Covanta's other commitments as of September 30, 2005 were as follows (in thousands of dollars):

	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	\$ 306,329	\$ 19,275	\$ 287,054
Surety bonds	44,948		44,948
Total other commitments net	\$ 351,277	\$ 19,275	\$ 332,002

The letters of credit were issued pursuant to the Funded L/ C Facility (and for one international project under a separate unsecured, letter of credit facility) to secure Covanta's performance under various contractual undertakings related to its domestic and international projects, or to secure obligations under its 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.

Some of these letters of credit reduce over time. As of September 30, 2005, Covanta had approximately \$35.7 million in available capacity for additional letters of credit under its Funded L/ C Facility and \$75 million under its Revolving Credit Facility.

Covanta believes that it will be able to fully perform its 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 its performance obligations. If any of Covanta's letters of credit were to be drawn under its current debt facilities, the amount drawn would be immediately repayable to the issuing bank. If Covanta were unable to immediately repay such amounts drawn under letters of credit, unreimbursed amounts would be treated under the Credit Facilities as additional term loans issued under the First Lien Facilities.

The surety bonds listed on the table above primarily relate to assumed contracts from Ref-Fuel (\$35.3 million) and possible closure costs for various energy projects when such projects cease operating (\$9.6 million). Were these bonds to be drawn upon, Covanta would have a contractual obligation to indemnify the surety company.

Covanta and certain of its subsidiaries have issued or are party to performance guarantees and related contractual support obligations undertaken mainly pursuant to agreements to construct and operate certain waste-to-energy and water facilities. With respect to its domestic businesses, Covanta and certain of its subsidiaries have issued guarantees to municipal clients and other parties that Covanta's subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. Such contractual damages or other obligations 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. For facilities owned by municipal clients and operated by Covanta, Covanta's potential maximum liability as of September 30, 2005 associated with the repayment of the municipalities' project debt on such facilities was in excess of \$1.0 billion. This amount was not recorded as a liability in Covanta's condensed consolidated balance sheet as of September 30, 2005 as Covanta believes that it had not incurred such liability at the date of the financial statements. Additionally, damages payable under such guarantees on Covanta-owned waste-to-energy facilities could expose Covanta to recourse liability on project debt shown on the foregoing table. Covanta also believes that it has not incurred such damages at the date of the financial statements. If Covanta is asked to perform under one or more of such guarantees, its 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, which is presently not estimable.

With respect to its international businesses, Covanta has issued guarantees of certain of CPIH's operating subsidiaries contractual obligations to operate power projects. The potential damages owed under such arrangements

for international projects may be material. See *Risk Factors* *Waste and Energy Services*
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Business-Specific Risks Covanta and certain of its subsidiaries have provided guarantees and support in connection with its subsidiaries' projects.

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 Covanta's then-available sources of funds. To date, Covanta has not incurred material liabilities under its guarantees, either on domestic or international projects.

Manila Electric Company, referred to as Meralco in this prospectus, the sole power purchaser for Covanta's Quezon Project, is engaged in discussions and legal proceedings with instrumentalities of the government of the Philippines relating to past billings to its customers, cancellations of recent tariff increases, and potential tariff increases. The outcome of these proceedings may affect Meralco's financial condition.

Quezon Project management continues to negotiate with Meralco with respect to proposed amendments to the power purchase agreement to modify certain commercial terms under the existing contract, and to resolve issues relating to the Quezon Project's performance during its first year of operation. Following the first year of the operation, in 2001, based on a claim that the plant's performance did not merit full payment, Meralco withheld a portion of each of several monthly payments to the Quezon Project that were due under the terms of the power purchase agreement. The total withheld amount was \$10.8 million. Although the Quezon Project was able to pay all of its debt service and operational costs, the withholding by Meralco constituted a default by Meralco under the power purchase agreement and a potential event of default under the project financing agreements. To address this issue, Quezon Project management agreed with the project lenders to hold back cash from distributions in excess of the reserve requirements under the financing agreements in the amount of approximately \$20.5 million. Based upon subsequent stable Meralco payments and Quezon Project cash-flows, and consistent plant operating performance, in November 2004 the project lenders agreed to release \$10.1 million of the \$20.5 million special reserve. In October 2005, the Quezon Project Board elected to make adjustments to the accounts receivable due from Meralco, as follows: (1) apply \$2.3 million to shortfall payments due from the Quezon Project to Meralco, and (2) write off \$8.5 million in accordance with the project financing agreements as an adjustment to receivables in the ordinary course of business. As a result of these actions, the project lenders agreed to release the \$10.4 million remaining balance of the special reserve.

In addition to the issues under the power purchase agreement, issues under the financing agreements arose during late 2003 and 2004 regarding compliance with the Quezon Project operational parameters and the Quezon Project's inability to obtain required insurance coverage. In October 2004, Covanta and other Quezon project participants, with the consent of the Quezon Project lenders, amended certain of the Quezon Project documents to address such operational matters, resolving all related contract issues. Subsequently, the project lenders granted a waiver with respect to the insurance coverage issue because contractual coverage levels were not then commercially available on reasonable terms. This waiver remains in effect.

Adverse developments in Meralco's financial condition or delays in finalizing the power purchase agreement amendments and potential consequent lender actions are not expected to adversely affect Covanta's liquidity. In late 2004, Meralco successfully refinanced \$228 million in expiring short-term debt on a long-term seven year basis, improving Meralco's financial condition. Meralco is reportedly current on all debt obligations.

Insurance Coverage

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.

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Subsidiaries of Covanta are parties to lease arrangements with Covanta's municipal clients at its Union County, New Jersey, its Alexandria, Virginia and its Delaware County, Pennsylvania waste-to-energy facilities. At its Union County facility, Covanta's operating subsidiary leases the facility from the Union County Utilities Authority, referred to as the UCUA, under a lease that expires in 2023, which Covanta may extend for an additional five years. Covanta guarantees 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 its Alexandria facility, a Covanta subsidiary is a party to a lease related to certain pollution control equipment that was required in connection with the Clean Air Act amendments of 1990, and which were financed by the City of Alexandria and by Arlington County, Virginia. Covanta's subsidiary owns this facility, and rent under this lease is sufficient to pay debt service on tax exempt bonds issued to finance such equipment and which mature in 2013.

At its Delaware Valley facility, a Covanta subsidiary is a party to a lease with the Delaware County Solid Waste Authority, known as DCSWA, for the facility that expires in 2019. Covanta's operating subsidiary, referred to as the Delaware Partnership, is 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 this prospectus, 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 Westinghouse in connection with the disposition of its interest in the Delaware Valley facility. Pursuant to the terms of various guarantee agreements, ARC has guaranteed the payments of Basic Rent B and Stipulated Loss to the extent such payments are not made by 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.

Covanta is also a party to lease arrangements pursuant to which it leases rolling stock in connection with its waste-to-energy and independent power facilities, as well as certain office equipment. Rent payable under these arrangements is not material to Covanta's financial condition.

Covanta generally uses operating lease treatment for all of the foregoing arrangements. A summary of Covanta's operating lease obligations is contained in Note 22 to the Notes to the Audited Annual Financial Statements. See *Waste and Energy Services Business - Domestic Waste and Energy Services Business - Other Waste-to-Energy Project Structures - Delaware County, Pennsylvania* for more information on the operating lease of Covanta's Delaware County, Pennsylvania facility.

Covanta and certain of its subsidiaries 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. With respect to its domestic businesses, Covanta has issued guarantees to municipal clients and other parties that Covanta's subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. Such contractual damages or other obligations 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. For facilities owned by municipal clients and operated by Covanta, Covanta's potential maximum liability as of December 31, 2004 associated with the repayment of the municipalities' debt on such facilities was in excess of \$1.0 billion. This amount was not recorded as a liability in our Consolidated Balance Sheet as of December 31, 2004 as Covanta believes that it had not incurred such liability at the date of the financial statements. Additionally, damages payable under such guarantees on Covanta-owned waste-to-energy facilities could expose Covanta to liability under the limited recourse provisions on project debt related to its facilities. See Note 20 to the Notes to the Audited Annual Financial Statements for additional information relating to Covanta's project debt. Covanta also believes that it has not incurred such damages at the date of the financial statements. If the local

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subsidiaries contractual breach of pertinent sections of their contract were to occur, its 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, which is presently not estimable.

To date, Covanta has not incurred material liabilities under its guarantees, either on domestic or international projects.

Covanta has investments in several investees and joint ventures which are accounted for under the equity and cost methods and therefore does not consolidate the financial information of those companies. See Note 5 to the Notes to the Audited Annual Financial Statements for additional information regarding these leases.

Contract Structures and Duration

Covanta attempts to structure contracts related to its domestic waste-to-energy projects as fixed price operating contracts which escalate in accordance with indices Covanta believes appropriate to reflect price inflation, so that its revenue is relatively stable for the contract term. Covanta's returns will be similarly stable if it does not incur material unexpected operation and maintenance or other expense. In addition, most of Covanta's waste-to-energy project contracts are structured so that contract counterparties generally bear the costs associated with events or circumstances not within Covanta's control, such as uninsured force majeure events and changes in legal requirements. The stability of Covanta's domestic revenue and returns could be affected by its ability to continue to enforce these obligations. Also, at some of Covanta's waste-to-energy facilities, commodity price risk is further mitigated by passing through commodity costs to contract counterparties. With respect to its domestic and international independent power projects, such structural features generally do not exist because either Covanta operates and maintains such facilities for its own account or does so on a cost-plus rather than a fixed fee basis.

Certain energy contracts related to domestic projects provide for energy sales prices linked to the avoided costs of producing such energy and, therefore, energy revenues fluctuate with various economic factors. In many of Covanta's waste-to-energy projects, the operating subsidiary retains only a fraction of the energy revenues (generally 10%) with the balance used to provide a credit to the client community against its disposal costs. Therefore, the client community derives most of the benefit and risk of changing energy prices. At seven of its waste-to-energy projects, Covanta sells its energy output under contracts of varying lengths or directly into the regional electricity grid, retaining 100% of the energy revenues. At these projects Covanta derives the benefit, and retains the risk, of changing energy prices.

At some of Covanta's domestic and international independent power projects, Covanta's operating subsidiary purchases fuel in the open markets. Covanta is exposed to fuel price risk at these projects. At other plants, fuel costs are contractually included in Covanta's electricity revenues, or fuel is provided by Covanta's customers. In some of Covanta's international projects, the project entity (which in some cases is not a subsidiary of Covanta) 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.

Covanta's service agreements for domestic waste-to-energy projects begin to expire as early as 2007, and energy sales contracts at Covanta-owned waste-to-energy projects generally expire at or after the date on which that project's service agreement expires. Expiration of these contracts will subject Covanta to greater market risk in maintaining and enhancing its revenues. As its service agreements at municipally-owned projects expire, Covanta will seek to enter into renewal or replacement contracts to continue operating such projects. For example, Covanta recently negotiated an extension of its service agreement to operate the Hillsborough County, Florida facility (which would have otherwise expired in 2007), which will become effective when various conditions are satisfied. As its service agreements at facilities it owns begin to expire, Covanta intends to seek replacement or additional contracts for waste supplies. Furthermore, because project debt on these facilities will be paid off at such time, Covanta believes it will be able to offer disposal services at rates that will attract sufficient quantities of waste and provide acceptable revenues. Covanta will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. At Covanta's domestic facilities, the expiration of existing energy sales contracts will require Covanta to sell project energy output either into the electricity grid or pursuant to new contracts. There can be

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no assurance that Covanta will be able to enter into such renewals, replacement or additional contracts, or that the terms available in the market at the time will be favorable to Covanta.

Because Covanta's business is based upon building and operating municipal solid waste processing and energy generating projects, which are capital intensive businesses, in order to provide meaningful growth Covanta must be able to invest its own funds, obtain debt financing, and provide support to its operating subsidiaries. Covanta intends to pursue opportunities to expand the processing capacity of its existing projects where market conditions are favorable, or where its municipal clients, referred to in this prospectus as client communities, have encountered significantly increased waste volumes without correspondent competitively-priced landfill availability. Covanta's ability to make investments in new projects or expansions of projects it owns, and/or borrow additional funds for the construction of such new or expanded projects, is limited by covenants in its new financing arrangements.

Covanta's new financing arrangements limit its ability to engage in material development activity which will require significant equity investment. There can be no assurance that Covanta will be able to implement new projects or expansions at existing facilities it owns. There can be no assurance that Covanta will be able to implement expansions at existing facilities.

Waste-To-Energy Project Ownership Structures

Covanta's waste-to-energy business originally was developed in response to competitive procurements conducted by municipalities for waste disposal services. One of the threshold decisions made by each municipality early in the procurement process was whether it, or the winning vendor, would own the facility to be constructed; there were advantages and disadvantages to the municipality with both ownership structures. As a result, Covanta today operates nine publicly owned facilities and owns and operates 18 others. In addition, as a result of acquisitions of additional projects originally owned or operated by other vendors, Covanta operates four projects under a lease structure where a third party lessor owns the project. In all cases, Covanta operates each facility pursuant to a long-term contract and provides the same service in consideration of a monthly service fee or receipt of waste disposal fees and payments for energy generated.

Under all of these ownership structures, the municipalities typically borrowed funds to pay for the facility construction by issuing bonds. In a private ownership structure, the municipal entity loans the bond proceeds to Covanta's 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 pay for construction without loaning the bond proceeds to Covanta.

Regardless of whether a project was owned by Covanta or its municipal client, in most projects the municipality is generally responsible for repaying the project debt after construction is complete. Where it owns the facility, the municipality pays periodic debt service directly to a trustee under an indenture. For twelve projects where Covanta owns the facility and a Service Fee Structure exists, the municipal client pays debt service as a component of its monthly service fee payment to Covanta. As of September 30, 2005, the principal amount of project debt outstanding with respect to these projects was approximately \$781 million. As with a public ownership structure, this debt service payment is retained by a trustee and is not held or available to Covanta for general use. In these private ownership structures, we record on our consolidated financial statements revenue with respect to debt service (both principal and interest) on project debt, and expense for depreciation and interest on project debt.

Covanta also owns seven waste-to-energy projects where a Tip Fee Structure exists, and so debt service is not expressly included in the fee it is paid. Rather, Covanta receives a fee for each ton of waste processed at these projects. As of September 30, 2005, the principal amount of project debt outstanding with respect to these projects was approximately \$694 million. Accordingly, Covanta does not record revenue reflecting principal on this project debt. Its 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 when due.

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For all Covanta-owned projects, all cash held by trustees is recorded as restricted funds held in trust. For facilities not owned by Covanta, Covanta does not incur, nor does it record project debt service obligations, project debt service revenue or project debt service expense.

Covanta generates electricity and/or steam for sale at all of its waste-to-energy projects, regardless of ownership structure. During the term of its operating contracts at projects owned by its municipal clients, most of the revenue from electricity and steam sales (typically 90%) benefits the municipal client as a reduction to its monthly service fee obligation to Covanta.

Generally, the term of Covanta's operating contracts with its municipal clients coincides with the term of the bonds issued to pay for the project construction. Therefore, another important difference between public and private ownership of Covanta's waste-to-energy projects is project ownership after these contracts expire. 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, Covanta's role, and its revenue, with respect to that project would cease. If a contract is not extended on a Covanta-owned project, it 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. Covanta 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 and waste disposal revenue. Covanta would in such circumstances also be responsible for paying all project-related expenses, including those related to the transportation and disposal of ash from its operations.

Other Services Segment

For the nine months ended September 30, 2005, we, on a parent-only basis, held cash and investments of approximately \$47.4 million, of which \$25.3 million was available to pay general corporate expenses and general working capital purposes. We are required to maintain a separate cash fund of approximately \$6.5 million to provide potential liquidity to our insurance business. Cash deposited for this purpose is restricted and is not available for general corporate expenses or for working capital requirements. Covanta, through its subsidiaries, had an investment in ACL warrants that were given by certain of the former creditors of ACL. The fair market value of the warrants as of September 30, 2005 was \$15.6 million. In October 2005, we converted the ACL warrants into shares of ACL common stock and subsequently sold the shares for net proceeds of approximately \$18.0 million. See Note 19 to the Notes to the Unaudited Interim Financial Statements for further information.

We received net proceeds from the Ref-Fuel rights offering of \$395.9 million and contributed approximately \$385 million to Covanta to fund a portion of the \$740 million cash purchase price for the outstanding shares in Ref-Fuel.

Cash used in operations from insurance business was \$10.0 million and \$14.9 million for the nine months ended September 30, 2005 and September 30, 2004, respectively. The ongoing use of cash in operations was due to the insurance business continuing to make payments related to discontinued lines and territories in excess of premium receipts from existing lines. This negative cash flow restricted the insurance business from fully re-investing bond maturity proceeds and in some circumstances required the sale of bonds in order to meet obligations as they arose. Cash provided from investing activities was \$10.0 million for the nine months ended September 30, 2005 compared with \$9.4 million for the comparable period in 2004. The \$0.6 million increase in cash provided by investing activities in 2005 was due to a reduction in reinvestment activity in conjunction with reduced premium production. There were no financing activities in either nine-month period ended September 30, 2005 and 2004.

Our insurance business, which comprises a portion of our Other Services segment, requires both readily liquid assets and adequate capital to meet ongoing obligations to policyholders and claimants, as well as to pay ordinary operating expenses. The 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. Its investment policy guidelines require that all loss and LAE liabilities be

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matched by a comparable amount of investment grade assets. Covanta believes that the insurance business has both adequate capital resources and sufficient reinsurance to meet its current operating requirements.

The National Association of Insurance Commissioners provides minimum solvency standards in the form of risk based capital requirements, referred to as RBC in this prospectus. The RBC model for property and casualty insurance companies requires that carriers report their RBC ratios based on their statutory annual statements as filed with the regulatory authorities. We believe our insurance business has projected its RBC requirement as of September 30, 2005 under the RBC model and believes that it is above the level which would trigger increase oversight by regulators.

Two other common measures of capital adequacy for insurance companies are premium-to-surplus ratios (which measure current operating risk) and reserves-to-surplus ratios (which measure financial risk related to possible changes in the level of loss and LAE reserves). A commonly accepted standard for net written premium-to-surplus ratio is 3.0 to 1, although this varies with different lines of business. Our insurance business's annualized premium-to-year-end statutory surplus ratio of 0.7 to 1 remains well under current industry standards of 3.0 to 1. Its ratio of loss and LAE reserves to statutory surplus of 2.0 to 1 as of September 30, 2005 is within industry guidelines.

Management continues to examine its insurance business expense structure. However, a core amount of fixed governance costs are required. Consequently, given the decreases in premium production and its obligation to run-off several lines of business, we expect that our expense ratio will run higher than industry averages until it can increase premium production.

We estimate our insurance business's reserves for unpaid losses and LAE based on reported losses and historical experience, including losses reported by other insurance companies for reinsurance assumed, and estimates of expenses for investigating and adjusting all incurred and unadjusted claims. Key assumptions used in the estimation process could have significant effects on the reserve balances. Our insurance business regularly evaluates its estimates and assumptions based on historical experience adjusted for current economic conditions and trends. Changes in the unpaid losses and LAE can materially effect the statement of operations. Different estimates could have been used in the current period, and changes in the accounting estimates are reasonably likely to occur from period to period based on the economic conditions. Since the loss reserving process is complex and subjective, the ultimate liability may vary significantly from estimates.

NAICC S Investments

California and Montana insurance laws and regulations regulate the amount and type of NAICC's investments. NAICC's investment portfolio is comprised primarily of fixed maturities and is weighted heavily toward investment grade short and medium term securities. See Note 4 to the Notes to the Audited Annual Financial Statements for information regarding significant accounting policies affecting these investments.

The following table sets forth a summary of NAICC's investment portfolio at September 30, 2005 (in thousands of dollars):

	Amortized Cost	Fair Value
Investments by investment by grade:		
Fixed maturities:		
U.S. Government/ Agency	\$ 20,755	\$ 20,385
Mortgage-backed	10,994	10,662
Corporate (AAA to A)	14,184	13,927
Corporate (BBB)	1,071	1,060
Total fixed maturities	47,004	46,084
Equity securities	1,326	1,518
Total	\$ 48,330	\$ 47,602

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NAICC pledges assets and posts letters of credit for the benefit of other insurance companies in connection with risks assumed by predecessor companies or as ordered by courts and arbitration panels, in the event that NAICC is not able to pay such creditors. NAICC had pledged assets of \$6.5 million and had letters of credit outstanding of \$2.7 million at September 30, 2005.

Contractual Obligations and Commitment Summary

Our insurance business contractual commitments under operating lease agreements total approximately \$2.2 million at September 30, 2005 and are due as follows: \$0.2 million in 2005, \$0.8 million in 2006, \$0.3 million in each year 2007 through 2009 and \$0.1 million thereafter.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles, we are required to use our judgment in making estimates and assumptions that affect the amounts reported in our financial statements and related notes. Management bases its estimates on historical experience and on various other assumptions that were believed to be reasonable under the circumstances, the results of which 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 those 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.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* referred to in this prospectus as *SFAS 123R*, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*. The mandatory adoption period for implementing this standard was revised in April 2005. For further discussion see Note 2 to the Notes to the Unaudited Interim Financial Statements.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 referred to in this prospectus as *SAB 107* regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. We are evaluating the requirements of SFAS 123R and SAB 107 and expect that the adoption of SFAS 123R on January 1, 2005 will have a material impact on our consolidated results of operations and earnings per share. We have not yet determined the method of adoption or the effect of adopting SFAS 123R, and we have not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143 referred to in this prospectus as *FIN 47*, which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. We are currently evaluating the effect that the adoption of FIN 47 will have on our consolidated results of operations and financial condition but do not expect it to have a material impact.

Purchase Accounting

We applied purchase accounting in accordance with SFAS No. 141 *Business Combinations*, for our acquisition of Covanta and Ref-Fuel. As described in Note 3 to the Notes to the Unaudited Interim Financial Statements, we valued the acquired assets and liabilities assumed at fair value. The estimates of fair value used by us reflect our best estimate based on our work and independent valuation consultants and, where such work has not been completed, such estimates have been based on our experience and relevant information available to management. 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

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discounted cash flow method to estimate the value of many of our assets. This entails 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 therefore have substantial effect on our balance sheet. In addition, because the valuations impact depreciation and amortization, changes in such assumptions and estimates may effect earnings in the future.

Long-lived Assets

We have estimated the useful lives over which we depreciate our long-lived assets. Such estimates are based on our experience and management's expectations as to the useful lives of the various categories of assets it owns, as well as practices in industries we believe are comparable. Estimates of useful lives determine the rate at which we depreciate such assets and utilizing other estimates could impact both our balance sheet and earnings statements.

We review our long-lived assets for impairment when events or circumstances indicate that the carrying value of such assets may not be recoverable over the estimated useful life. Determining whether an impairment has occurred typically requires various estimates and assumptions, including which cash flows are directly attributable to the potentially impaired asset, the useful life over which the cash flows will occur, their amount and the assets residual value, if any. Also, impairment losses require an estimate of fair value, which is based on the best information available. 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.

Accordingly, inaccuracies in the assumptions used by management in establishing these estimates, and in the assumptions used in establishing the extent to which a particular asset may be impaired, could potentially have a material effect on our consolidated financial statements.

NOLs Deferred Tax Assets

As described in Note 25 to the Notes to the Audited Annual Financial Statements and Note 12 to the Notes to the Unaudited Interim Financial Statements, we have recorded a deferred tax asset related to the 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 Covanta's domestic business, to the extent it is reasonably predictable.

We cannot be certain that the NOLs will be available to offset our tax liability.

We estimated that we have NOLs of approximately \$516 million for federal income tax purposes as of the end of 2004. The NOLs will expire in various amounts beginning on December 31, 2005 through December 31, 2023, if not used. The amount of NOLs available to us will be reduced by any taxable income, with certain exceptions, generated by current members of our tax consolidated group including certain grantor trust relating to the Mission Insurance entities.

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

Under applicable tax law, the use and availability of our NOLs could be limited if there is a more than 50% increase in stock ownership during a 3-year testing period by stockholders owning 5% or more of our stock. Our certificate of incorporation contains stock transfer restrictions that were designed to help preserve our NOLs by avoiding such an ownership change. We expect that the restrictions will remain in-force as long as we have NOLs. There can be no assurance, however, that these restrictions will prevent such an ownership change. See *Risk Factors Covanta Holding Corporation-Specific Risks* *We cannot be certain that our NOLs will continue to be available to offset our tax liability,* for more information on our NOLs.

Table of Contents**Loss Contingencies**

As described in Note 34 in the Notes to the Audited Annual Financial Statements and Note 17 to the Notes to the Unaudited Interim Financial Statements, 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 effect on our Consolidated Financial Statements.

Revenue Recognition

Covanta's revenues are generally earned under contractual arrangements and fall into three categories: service revenues, electricity and steam revenues, and construction revenues.

Waste and Service Revenues

Waste and service revenues consist of the following:

(1) Fees earned under contracts to operate and maintain waste-to-energy, independent power and water facilities are recognized as revenue when earned, 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 of the service fee paid by the client community pursuant to applicable waste-to-energy service agreements. Regardless of the timing of amounts paid by client communities relating to project debt principal, Covanta records service revenue with respect to this principal component on a levelized basis over the term of the service agreement. Unbilled service receivables related to waste-to-energy operations are discounted in recognizing the present value for services performed currently in order to service the principal component of the project debt. Such unbilled receivables amounted to \$146 million at September 30, 2005;

(3) Fees earned for processing waste in excess of service agreement requirements are recognized as revenue beginning in the period Covanta processes waste in excess of the contractually stated requirements;

(4) Tipping fees earned under waste disposal agreements are recognized as revenue in the period waste is received; and

(5) Other miscellaneous fees such as revenue for scrap metal recovered and sold are generally recognized as revenue when scrap metal is sold.

Electricity and Steam Sales

Revenue from the sale of electricity and steam are earned at energy facilities and are 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.

Construction Revenues

Revenues under fixed-price construction contracts, including construction, are recognized on the basis of the estimated percentage of completion of services rendered. Construction revenues also include design, engineering and construction management fees. In 2004, Covanta incurred some preliminary construction costs for which it has not billed the municipality or received reimbursement. Covanta anticipates upon finalization of the contracts to be fully reimbursed for some of such costs.

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Our insurance business establishes loss and 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 reserves or IBNR reserves in this prospectus, 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.

Ultimate loss and LAE are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate loss and LAE with respect to any line of business, past experience with respect to that line of business is the primary resource, but cannot be relied upon in isolation. Insurance Service's own experience, particularly claims development experience, such as trends in case reserves, payments on and closings of claims, as well as changes in business mix and coverage limits, are the most important information for estimating its reserves.

Uncertainties in estimating ultimate loss and LAE are magnified by the time lag between when a claim actually occurs and when it is reported and settled. This time lag is sometimes referred to as the claim-tail. The claim-tail for most property coverages is typically short (usually a few days up to a few months). The claim-tail for automobile liability is relatively short (usually one to two years) and liability/casualty coverages, such as general liability, multiple peril coverage, and workers compensation, can be especially long as claims are often reported and ultimately paid or settled years, even decades, after the related loss events occur. During the long claims reporting and settlement period, additional facts regarding coverages written in prior accident years, as well as about actual claims and trends may become known and, as a result, our insurance business may adjust its reserves. If management determines that an adjustment is appropriate, the adjustment is recorded in the accounting period in which such determination is made in accordance with GAAP. Accordingly, should reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted, respectively.

Our insurance business uses independent actuaries which it significantly relies on to form a conclusion on reserve estimates. Those independent actuaries use several generally accepted actuarial methods to evaluate our 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 the management or our insurance business.

Our insurance business reserves include provisions made for claims that assert damages from asbestos and environmental, referred to as A&E in this prospectus, related exposures against policies issued prior to 1985. Asbestos claims relate primarily to injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up cost obligations, particularly as mandated by federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, our insurance business estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits, existence of other underlying primary coverage and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims. Due to the inherent difficulties in estimating ultimate

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A& E exposures, our insurance business and its contracted independent actuaries do not estimate a range for A&E incurred losses.

Due to the factors discussed above and others, the process used in estimating unpaid losses on LAE cannot provide an exact result. Our results of operation for each of the past three years have been adversely affected by insurance loss development related to prior years of \$2.5 million, \$13.5 million and \$10.4 million for 2004, 2003 and 2002, respectively. The prior year development recognized in 2004, 2003 and 2002, expressed as a percentage of the previous years reported loss and LAE reserves, net of reinsurance recoveries, was 3.9%, 17.0% and 11.8%, respectively. The lines of business significantly contributing to the adverse development include workers compensation, commercial automobile and property and casualty. Workers compensation was most affected by changes in California legislation that occurred in 1995 and took several years to develop, with such development being different than the experience prior to 1995. California legislative reforms in 2003 and 2004 have taken hold that appear to be reversing some of the prior recognized adverse development. Commercial automobile was most significantly impacted by case strengthening related to a change in claims administration in 2002, coupled with the recognition that development factors of prior years were not as indicative of the business written for those respective years due to changes in risk profile and limits. Due to the stabilization of claims staff and recognition of the profile change that occurred in 1999, the adjustments recorded to commercial automobile in 2003 and 2004 are likely to hold. Given the nature of the casualty line of business, most notably the A&E liabilities, it is difficult to assess whether the extent of adverse adjustments recognized in the past will be required in future periods.

The table below shows our insurance business recorded loss and LAE reserves, net of reinsurance recoveries, as of December 31, 2004 by line of business compared to the high and low ends of the reserve range that our contracted actuaries have determined to be acceptable for issuing their opinions. Given the nature and extent of long-tail liabilities versus total net reserves and the fact that net reserves have historically shown adverse development, our insurance business cannot provide assurances that its estimate of loss and LAE reserves will not adversely develop outside of the individual line of business ranges and in such instances could materially effect the statement of operations. However as our insurance business is limited in its current policy writing to the non-standard personal automobile program, the extent of adverse development recognized in the past will likely not re-occur (in thousands of dollars).

Range of Reserves by Line of Business		Low	Reported	High
On-going lines of business:				
Private passenger automobile	SCJ programs	\$ 5,706	\$ 6,006	\$ 6,452
Discontinued lines of business:				
Private passenger automobile	Non-SCJ programs	644	678	728
Commercial automobile		9,238	9,724	10,454
Workers compensation		18,021	18,970	20,867
Property and casualty	Non A&E	2,506	2,638	2,836
Property and casualty	A&E		\$ 8,212	
Net unpaid losses and LAE at end of year			\$ 46,228	

The probability that ultimate losses will fall outside of the ranges of estimates by line of business is higher for each line of business individually than it is for the sum of the estimates for all lines taken together due to the effects of diversification. Moreover, it would not be appropriate to add the ranges for each line of business to obtain a range around the total net reserves as each line of business is not completely correlated. Although management believes the reserves are reasonably stated, ultimate losses may deviate, perhaps materially, from the recorded reserve amounts and could be above the high end of the range of actuarial projections.

MATERIAL WEAKNESS IN INTERNAL CONTROLS AND PROCEDURES

As of December 31, 2004, we reported that management had identified a material weakness in our internal controls and procedures over financial reporting. Specifically, during the course of its audit of our

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2004 financial statements, Ernst & Young, our independent auditors, identified errors, principally related to complex manual fresh-start accounting calculations, predominantly affecting Covanta's investments in its international businesses. Fresh-start accounting was required following Covanta's emergence from bankruptcy on March 10, 2004, pursuant to SOP 90-7. These errors, the net effect of which was immaterial (less than \$2.0 million in pretax income) were corrected in our 2004 Consolidated Financial Statements prior to their issuance. However, management determined that errors in complex fresh-start and other technical accounting areas originally went undetected due to insufficient technical in-house expertise necessary to provide sufficiently rigorous review.

Although the material weakness reported related primarily to complicated fresh-start accounting calculations, which are no longer applicable after March 10, 2005, similarly complicated accounting calculations may be required in connection with CPIH's international operations and the acquisition of Ref-Fuel. As a result, prior to and during the first nine months of 2005 and subsequent thereto, our management has identified and undertaken several actions to remediate the reported material weakness in internal controls over financial reporting.

In addition, management is evaluating the impact of the acquisition of Ref-Fuel on our system of internal controls over financial reporting. Prior to the acquisition, Ref-Fuel was not required to comply with Section 404 of the Sarbanes Oxley Act until December 31, 2006. As a result, its internal controls over financial reporting had neither been tested as extensively as had ours, nor had such controls been reviewed by its independent auditors in the context of the required attestation by such auditors. In addition, we operate different software systems than Ref-Fuel which will require integration. Also, changes in, and integration of, accounting and financial staff resulting from the acquisition may create challenges in implementing a combined and effective system of internal controls. Management expects that it will take a period of time to integrate the financial reporting systems and related software of the combined businesses sufficiently to conclude that our overall internal controls are working effectively, and to appropriately apply purchase accounting adjustments with respect to Re-Fuel.

Management believes that the actions taken to address the control deficiency underlying the reported material weakness, and to address the overall integration of controls with respect to the combined businesses, will improve our internal controls over financial reporting. Although we have devoted, and will continue to devote, significant time and resources toward remediating our reported material weakness, and to such overall integration, and made progress in improving our internal controls over financial reporting, our management is unable, as of the date of this prospectus and registration statement, to conclude that its actions have effectively corrected the reported material weakness. Until we are able to assert that our internal control over financial reporting is effective, our management believes the existence of the reported material weakness represents a known uncertainty with respect to the accuracy of its financial statements. See also *Risk Factors - Covanta Holding Corporation-Specific Risks - Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on our stock price* for continuing risks of the failure to maintain an effective system of financial reporting controls and procedures, including risks of exposing us to regulatory sanctions and a loss of investor confidence.

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 in this prospectus are based on pertinent

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information available to management as of December 31, 2004. Further information is included in Note 30 to the Notes to the Audited Annual Financial Statements.

Covanta's Business**Interest Rate Risk**

Covanta and/or its subsidiaries have project debt outstanding bearing interest at floating rates that could subject it 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 on fixed rate debt. Of Covanta's project debt, approximately \$218.9 million was floating rate at December 31, 2004. However, of that floating rate project debt, \$126.7 million related to waste-to-energy projects where, because of their contractual structure, interest rate risk is borne by client communities because debt service is passed through to those clients. Covanta had only one interest rate swap outstanding at December 31, 2004 in the notional amount of \$80.2 million related to floating rate project debt. Gains and losses on this swap are for the account of the client community.

For floating rate debt, a 20% hypothetical increase in the underlying December 31, 2004 market interest rates would result in a potential loss to twelve month future earnings of \$5.5 million. For fixed rate debt, the potential reduction in fair value from a 20% hypothetical increase in the underlying December 31, 2004 market interest rates would be approximately \$32.5 million. The fair value of Covanta's fixed rate debt (including \$677 million in fixed rate debt related to revenue bonds in which debt service is an explicit component of the service fees billed to the client communities) was \$750.2 million at December 31, 2004, and was determined using average market quotations of price and yields provided by investment banks.

Covanta entered into interest rate swap derivative agreements to hedge its interest rate exposure arising from \$300 million of variable interest rate borrowings under the senior secured credit arrangements Covanta entered into on June 24, 2005. As described in Notes 11 and 16 to the Notes to the Unaudited Interim Financial Statements, Covanta is required to enter into hedging arrangements with respect to a portion of its exposure to interest rate changes with respect to its borrowing under the Credit Facilities. On July 8, 2005, Covanta entered into two pay fixed, receive floating interest rate swap agreements with a total notional amount of \$300 million. Under the terms of our financing arrangements, we are also obligated to enter into interest rate swap arrangements for up to an additional notional amount of approximately \$37.5 million. Interest rate swaps allow Covanta to raise long-term borrowings at floating rates and effectively swap them into fixed rates that are lower than those available if it entered into fixed rate borrowings directly. Interest rate swaps are used for the purpose of controlling interest expense by managing the mix of fixed and floating rate debt. Covanta does not seek to make a profit from changes in interest rates. Covanta manages interest rate sensitivity by measuring potential increases in interest expense that would result from a probable change in interest rates. When the potential increase in interest expense exceeds an acceptable amount, Covanta reduces risk by entering into interest rate swap agreements.

Under the interest rate swaps, Covanta agreed with other parties to exchange, at specified intervals, the difference between an agreed fixed rate and the variable floating rate interest payments required under its recourse term loan obligations, calculated by reference to an agreed notional principal amount. Covanta will pay the fixed rate and will receive the floating rate under the swap agreements. The impact of the swaps was to increase interest expense for the three months ended September 30, 2005 by \$0.5 million. As of September 30, 2005, the net after-tax deferred gain in other comprehensive income was \$1.0 million (\$1.5 million before income taxes, which is recorded in other assets).

Market Risk of Acquired Business of Ref-Fuel

All of Ref-Fuel's operating facilities are located in the northeastern United States. Thus, with the acquisition of Ref-Fuel our operations are more concentrated in this region than prior to the acquisition. The entrance of new competitors into this region or the expansion of existing facilities operations that compete with Covanta could have a material adverse effect on cash distributions that can be made available to us, and, ultimately, our financial condition.

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In addition, these Ref-Fuel operating facilities currently rely, to a greater extent than Covanta's other operating facilities, on obtaining supplies of solid waste in the market at prices and in quantities that are sufficient to operate such facilities at their expected levels. Covanta's inability to obtain solid waste at such prices or in such amounts could have a material adverse effect on the cash flow it is able to generate from Ref-Fuel, and potentially on our financial condition. For a discussion of factors that could impact the price and supply of solid waste which Covanta may be able to obtain, see the discussion in this prospectus under the heading *Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Business Segments Waste and Energy Services-Overview*.

Foreign Currency Exchange Rate Risk

Covanta has investments in energy projects in various foreign countries, including the Philippines, China, India and Bangladesh, and to a much lesser degree, Italy and Costa Rica. Neither we nor Covanta enter into currency transactions to hedge Covanta's exposure to fluctuations in currency exchange rates. Instead, Covanta attempts to mitigate its currency risks by structuring its project contracts so that its revenues and fuel costs are denominated in the same currency. As a result, the U.S. dollar is the functional currency at most of Covanta's international projects. Therefore, only local operating expenses and project debt denominated in other than a project entity's functional currency are exposed to currency risks.

At December 31, 2004, Covanta had \$102 million of project debt related to two diesel engine projects in India. For \$87.7 million of the debt (related to project entities whose functional currency is the Indian rupee), exchange rate fluctuations are recorded as translation adjustments to the cumulative translation adjustment account within stockholders' deficit in our Consolidated Balance Sheets. The remaining \$14.3 million of debt is denominated in U.S. dollars.

The potential loss in fair value for such financial instruments from a 10% adverse change in December 31, 2004 quoted foreign currency exchange rates would be approximately \$8.8 million.

At December 31, 2004, Covanta also had net investments in foreign subsidiaries and projects. See Note 5 to the Notes to the Audited Annual Financial Statements for further discussion.

Commodity Price Risk and Contract Revenue Risk

Neither we nor Covanta have entered into futures, forward contracts, swaps or options to hedge purchase and sale commitments, fuel requirements, inventories or other commodities. Alternatively, Covanta attempts to mitigate the risk of energy and fuel market fluctuations by structuring contracts related to its energy projects in the manner described in this prospectus under the heading *Management's Discussion and Analysis of Financial Condition and Results of Operations Management's Discussion and Analysis of Liquidity and Capital Resources Cash Flow and Liquidity Waste and Energy Services Segment Contract Structures and Duration*.

Generally, Covanta is protected against fluctuations in the waste disposal market, and thus its ability to charge acceptable fees for its services, through service agreements and existing long-term disposal contracts at its waste-to-energy facilities. At eight of its waste-to-energy facilities, differing amounts of waste disposal capacity are not subject to long-term contracts and, therefore, Covanta is partially exposed to the risk of market fluctuations in the waste disposal fees it may charge. Assuming the extension of the agreement to operate the Hillsborough County facility, Covanta's service agreements will begin to expire in 2008, and energy sales contracts at Covanta-owned projects generally expire at or after the date on which that project's service agreement expires. Expiration of these contracts will subject Covanta to greater market risk in maintaining and enhancing its revenues. As its service agreements at municipally-owned projects expire, Covanta will seek to enter into renewal or replacement contracts to continue operating such projects. As Covanta's service agreements at facilities it owns begin to expire, Covanta intends to seek replacement or additional contracts for waste supplies, and because project debt on these facilities will be paid off at such time, Covanta expects to be able to offer disposal services at rates that will attract sufficient quantities of waste and provide acceptable revenues. Covanta will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. At Covanta-owned facilities, the

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expiration of existing energy sales contracts will require Covanta to sell its output either into the local electricity grid or pursuant to new contracts. There can be no assurance that Covanta will be able to enter into such renewals, replacement or additional contracts, or that the terms available in the market at the time will be favorable to Covanta. See *Risk Factors Waste and Energy Services Business-Specific Risks Covanta may face increased risk of market influences on its domestic revenues after its contracts expire* for more information regarding the possible effects of the expiration of Covanta's existing contracts.

Because Covanta's business is based upon building and operating municipal solid waste processing and energy generating projects, which are capital intensive businesses, in order to provide meaningful growth Covanta must be able to invest its own funds, obtain debt financing, and provide support to its operating subsidiaries. Covanta intends to pursue opportunities to expand the processing capacity of its existing projects where market conditions are favorable, or where its municipal clients, referred to in this prospectus as client communities, have encountered significantly increased waste volumes without correspondent competitively-priced landfill availability. Covanta's ability to make investments in new or projects or expansions of projects it owns, and/or borrow additional funds for the construction of such new or expanded projects, is limited by covenants in its new financing arrangements.

Insurance Business**Risk Related to the Investment Portfolio**

NAICC's objectives in managing its investment portfolio are to 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 its 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 NAICC's fixed maturity portfolio are primarily credit risk, interest rate risk, reinvestment risk and prepayment risk. The market risk related to NAICC's equity portfolio is price risk.

Fixed Maturities

Interest rate risk is the price sensitivity of fixed maturities to changes in interest rate. Management views these potential changes in price within the overall context of asset and liability matching. Management estimates the payout patterns of NAICC's liabilities, primarily loss reserves, to determine their duration. Management sets duration targets for the fixed income portfolio after consideration of the duration of NAICC's liabilities that it believes mitigates the overall interest rate risk. NAICC's exposure to interest rate risk is mitigated by the relative short-term nature of its insurance and other liabilities. The effective duration of the portfolio at December 31, 2004 and 2003 was 2.3 years and 2.3 years, respectively. Management believes its 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 2.7% decrease in the fair value of the portfolio while a hypothetical 100 basis point decrease would cause an approximate 2.1% increase in fair value. Credit risk is the price sensitivity of fixed maturities to changes in the credit quality of such investment. NAICC's exposure to credit risk is mitigated by its investment in high quality fixed income alternatives.

Fixed maturities of NAICC include mortgage-backed securities and collateralized mortgage obligations, referred to as MBS in this prospectus, collectively representing 24.3% and 22.0% of total fixed maturities at December 31, 2004 and December 31, 2003, respectively. All MBS held by NAICC are issued by the Federal National Mortgage Association, referred to as FNMA in this prospectus, or the Federal Home Loan Mortgage Corporation, referred to as FHLMC in this prospectus, which are both rated AAA by Moody's Investors Services. Both FNMA and FHLMC are corporations that were created by Acts of Congress. FNMA and FHLMC guarantee the principal balance of their securities. FNMA guarantees timely payment of principal and interest.

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One of the risks associated with MBS is the timing of principal payments on the mortgages underlying the securities. The principal an investor receives depends upon amortization schedules and the termination pattern (resulting from prepayments or defaults) of the individual mortgages included in the underlying pool of mortgages. The principal is guaranteed but the yield and cash flow can vary depending on the timing of the repayment of the principal balance. The degree to which a security is susceptible to changes in yield is influenced by the difference between its amortized cost and par, the relative sensitivity to repayment of the underlying mortgages backing the securities in a changing interest rate environment, and the repayment priority of the securities in its overall securitization structure. NAICC attempts 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 and targeted amortization classes. The structures of the attempts of planned amortization classes and targeted amortization classes to increase the certainty of the timing of prepayment and thereby minimize the prepayment and interest rate risk. In 2004, NAICC recognized \$0.2 million in gain on sales of fixed maturities.

MBS, as well as callable bonds, have a greater sensitivity to market value declines in a rising interest rate environment than to market value increases in a declining interest rate environment. This is primarily due to the ability and the incentive of the payor to prepay the principal or the issuer to call the bond in a declining interest rate scenario. NAICC realized significant increases in its prepayments of principal during 2004 and 2003. The prepayments mitigated the need to sell securities to meet operating cash requirements as noted previously. Generally, this trend will lower the portfolio yield in future years in a declining interest environment.

As interest rates at December 31, 2004 were at relatively historical lows, NAICC is subject to reinvestment risk as approximately 24% of its fixed maturity portfolio will be received in the following year. Absent changing its credit risk and extension profile, it is unlikely that NAICC could reinvest proceeds at yields similar to those recognized in 2004.

Equity Securities

In the fourth quarter of 2003, NAICC sold nearly all of its equity investments capitalizing on the general stock market recovery and specifically the technology sector. In 2003, NAICC recognized \$0.4 million as net realized gains from equity investments. In the third and fourth quarter of 2004, NAICC began reinvesting in equity securities, generally limited to Fortune 500 companies with strong balance sheets, history of dividend growth and price appreciation. As of December 31, 2004 equity securities represented 2.6% of the total NAICC investment portfolio.

Economic Conditions

The operating results of a property and casualty insurer are influenced by a variety of factors including general economic conditions, competition, regulation of insurance rates, weather, frequency and severity of losses. The California non-standard personal auto market in which NAICC operates has experienced a recovery of rate adequacy coupled with stable competition. Frequency of claims improved from 2002 to 2003 and remained stable in 2004, while the average cost of settling claims has steadily improved from 2002 to 2004.

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NO BOARD RECOMMENDATION

Our board of directors believes the offering is in our best interests. The proceeds from the offering will be used for general corporate purposes. See *Use of Proceeds* for a discussion of how we intend to allocate and use the proceeds from the offering.

Our board of directors is not making any recommendation to you as to whether you should exercise your warrants. You must make your own decision as to whether to exercise your warrants.

No dealer, salesman or other person has been authorized by us to provide you with any information other than the information contained in this prospectus, the information included and incorporated by reference in this prospectus and the other documents delivered herewith. You should rely only on the information provided in this document or other information that we have referred you to. This prospectus and the other documents referred to do not constitute an offer to sell or a solicitation to buy securities in any jurisdiction in which an offer or a solicitation would be unlawful.

The warrant agent for the offering, Wells Fargo, National Association, has agreed to provide services to us in connection with the offering. If you require assistance, please contact the warrant agent at Wells Fargo Bank, Corporate Trust Services, Sixth & Marquette, MAC N9303-120, Minneapolis, MN 55479, Telephone (612) 667-1102.

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We are a holding company incorporated in Delaware on April 16, 1992. We changed our name as of September 20, 2005 from Danielson Holding Corporation to Covanta Holding Corporation. Substantially all of our current operations were conducted in the insurance services industry prior to our acquisition of Covanta in March 2004. We engage in insurance operations through our indirect subsidiaries, NAICC and related entities. A significant portion of our operating losses in the past three years stem from lines of insurance business, such as commercial automobile and workers' compensation insurance, which the company has ceased actively underwriting. Our insurance operations under NAICC and related subsidiaries reported segment losses of \$0.8 million, \$10.2 million and \$10.5 million, for the three fiscal years ended December 31, 2004, 2003 and 2002, respectively.

Our strategy had been to grow by making strategic acquisitions. As part of this corporate strategy, we have sought acquisition opportunities, such as the March 2004 acquisition of Covanta and the June 2005 acquisition of Ref-Fuel. Accordingly, with the recent acquisitions, our corporate strategy has evolved to focus on the waste and energy markets generally, and positioning Covanta as a leader in these sectors, specifically. Also see *Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Summary - Our Business Strategy* for a more detailed discussion of our new corporate strategy.

As a result of the consummation of the Covanta acquisition on March 10, 2004, our performance predominantly reflects the performance of Covanta's operations which are significantly larger than our other operations. The nature of our business, the risks attendant to such business and the trends that we face have been significantly altered by the acquisitions of Covanta and Ref-Fuel. Accordingly, our financial results prior to the acquisition of Covanta in March 2004 and Ref-Fuel in June 2005 are not directly comparable to our current and future financial results.

In May 2002, we acquired a 100% ownership interest in ACL, thereby entering into the marine transportation, construction and related service provider businesses. On January 31, 2003, ACL and many of its subsidiaries and its immediate direct parent entity, ACL Holdings, filed a petition with the U.S. Bankruptcy Court to reorganize under Chapter 11. We wrote off our remaining investment in ACL at the end of the first quarter of 2003 as an other than temporary asset impairment.

As a result of ACL's bankruptcy filing, beginning in the year ended December 31, 2003, we accounted for our investment in ACL under the equity method, reflecting our significant influence, but not control, over ACL. On December 30, 2004, a plan of reorganization for ACL was confirmed by the U.S. Bankruptcy Court for the Southern District of Indiana, referred to in this prospectus as the ACL Plan of Reorganization. At the time of confirmation, there were no material conditions that needed to be fulfilled for emergence and, as a result of the confirmation of the ACL Plan of Reorganization, for purposes of generally accepted accounting principles, all of our equity interests in ACL were cancelled. On January 10, 2005, ACL emerged from Chapter 11 proceedings, and upon emergence, a warrant was issued to us under the ACL Plan of Reorganization to purchase up to 168,230 shares of common stock of ACL at a price of \$12.00 per share. The number of shares and exercise price subject to the warrants were subsequently adjusted to 672,920 shares at an exercise price of \$3.00 per share, as a result of a four for one stock split effective as of August 2005.

During 2004, we owned a direct 5.4% interest in GMS, and a direct 50% interest in Vessel Leasing. GMS was a joint venture among ACL, us and a third party, which owned and operated marine terminals and warehouse operations. Vessel Leasing was a joint venture between ACL and us which leases barges to ACL's barge transportation operations. Neither GMS nor Vessel Leasing filed for Chapter 11 protection. Neither we, GMS nor Vessel Leasing were guarantors of ACL's debt or liable for any of ACL's liabilities. On October 6, 2004, we and ACL sold our interests in GMS to the third party joint venture member and on January 13, 2005, we sold our interest in Vessel Leasing to ACL. Prior to the date of such sales, we accounted for our interest in GMS and Vessel Leasing, beginning with the year ended December 31, 2003, using the equity method of accounting.

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On October 7, 2005, ACL issued 7.5 million shares in an initial public offering. We proceeded to exercise the warrants we owned and received shares of ACL common stock in order to begin monetizing these shares. During October 2005, we monetized our investment in all 672,920 ACL shares we owned. As a result, we no longer hold any interest in ACL or in the marine transportation business.

As of the end of 2004, we had estimated aggregate consolidated NOLs for federal income tax purposes of approximately \$516 million. These losses will expire over the course of the next 18 years unless utilized prior thereto. These NOLs are primarily from the taxable results of certain grantor trusts established in 1990 as part of a reorganization in which Mission Insurance Group, Inc. emerged from bankruptcy as Danielson Holding Corporation. These trusts were created for the purpose of assuming various liabilities of their grantors, consisting of certain present and former subsidiaries of ours, allowing state regulators to administer the run-off of the Mission Insurance Group business while releasing us and certain of its present and former subsidiaries from the proceedings free of claims and liabilities, including any obligation to provide for the funding to the trusts.

As described in *Risk Factors Covanta Holding Corporation-Specific Risks* *We cannot be certain that our NOLs will continue to be available to offset our tax liability,* and *Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary,* possible changes in the status of certain liabilities and the manner of distributions to holders of certain claims in the Mission Insurance insolvency proceedings may require us to recognize significant taxable income, which may substantially reduce our available NOLs and cause us to adjust our deferred tax asset. While we have entered into agreements with the California insurance regulatory authorities, these agreements remain subject to Court approval and the determination of claim amounts, and we cannot predict with certainty what amounts, if any, may be includable in our taxable income. We are in the process of obtaining additional information regarding the potential amount of includible taxable income in accordance with the terms of the agreements.

We also are considering a number of potential permissible actions and approaches intended to reduce the amount of taxable income we may be required to recognize. These include agreements with the California Commissioner of Insurance to clarify the treatment of certain liabilities and the manner of distributions to claimholders in such insolvency proceedings, as well as the application of the tax rules consistent with the original Mission Insurance restructuring, and the terms of our agreement with the grantor trusts established in connection with that restructuring. Given the lack of definitive information available as of the date of this prospectus, we cannot assure you of the amount, if any, of additional income or losses that could possibly be recognized.

See Note 25 to the Notes to the Audited Annual Financial Statements and Note 12 in the Notes to the Unaudited Interim Financial Statements for more detailed information on our NOLs.

Our principal executive offices are located at 40 Lane Road, Fairfield, New Jersey 07004 and our telephone number is (973) 882-9000.

Acquisition of Covanta Energy Corporation

On December 2, 2003, we executed a definitive investment and purchase agreement to acquire Covanta in connection with Covanta's emergence from Chapter 11 proceedings. The primary components of the transaction were: (1) the purchase by us of 100% of the equity of Covanta in consideration for a cash purchase price of \$30 million, and (2) an agreement as to new letter of credit and revolving credit facilities for Covanta's domestic and international operations, provided by some of the existing Covanta lenders and three additional lenders arranged by us. We amended this agreement with Covanta as of February 23, 2004 to reduce the purchase price and release from an escrow account \$175,000 so that a limited liability company formed by us and one of our subsidiaries could acquire an equity interest in Covanta Lake, Inc., a wholly-owned indirect subsidiary of Covanta, in a transaction separate and distinct from the acquisition of Covanta out of bankruptcy.

As required by the investment and purchase agreement, Covanta filed a proposed plan of reorganization, a proposed plan of liquidation for specified non-core businesses, and the related draft disclosure statement, each reflecting the transactions contemplated under the investment and purchase agreement, with the

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Bankruptcy Court. On March 5, 2004, the Bankruptcy Court confirmed the proposed plans. As part of the Covanta Plan of Reorganization, we agreed to offer to sell up to 3.0 million shares of our common stock, at a price of \$1.53 per share, to holders, as of January 12, 2004, of the \$100 million of principal amount of 9.25% Debentures issued by Covanta who voted in favor of the Covanta Plan of Reorganization.

Under the terms of the investment and purchase agreement, on March 10, 2004, we acquired 100% of Covanta's equity in consideration for \$30 million (net of \$175,000 discussed above). As part of the investment and purchase agreement, we arranged for a new \$118 million replacement letter of credit facility for Covanta, secured by a second lien on Covanta's domestic assets. This financing was provided by each of SZ Investments, a stockholder of ours, Third Avenue, a stockholder of ours, and Laminar, a creditor of Covanta and a stockholder of ours. In addition, in connection with a note purchase agreement, Laminar arranged for a \$10 million revolving loan facility for Covanta's international assets that we acquired, secured by these assets.

Based upon information provided to us by Laminar, Laminar was a holder of \$10.4 million in principal amount of the 9.25% debentures issued by Covanta as of January 12, 2004. As of the date of this prospectus, other than confirmation of the restructuring of the offering to incorporate the Contingent Offering, we have not had any discussions with Laminar regarding Laminar's participation in the offering.

On May 18, 2004, we commenced a pro rata rights offering to our stockholders to purchase 0.75 shares of our common stock, at a price of \$1.53 per share, for each share of our common stock held by our stockholders. The rights offering was completed on June 11, 2004. We issued a total of 27,438,118 additional shares of our common stock in the rights offering, constituting all of the shares offered for sale, with net proceeds to us of approximately \$42 million. We repaid \$40 million of bridge financing notes obtained in connection with the Covanta acquisition with the proceeds from the rights offering and through the conversion of a portion of the notes held by Laminar.

As part of our negotiations with Laminar and its becoming a 5% stockholder, pursuant to a letter agreement dated December 2, 2003, Laminar agreed to additional restrictions on the transferability of the shares of our common stock that Laminar holds or will acquire. Further, in accordance with the transfer restrictions contained in Article Fifth of our certificate of incorporation restricting the resale of our common stock by 5% stockholders, we have agreed with Laminar to provide it with limited rights to resell the common stock that it holds. Finally, pursuant to our agreement with the bridge financing lenders on July 28, 2004, we have filed a registration statement with the SEC to register the shares of our common stock issued to or acquired by them under the note purchase agreement. The registration statement was declared effective on August 24, 2004. In addition, we also agreed to amend an existing registration rights agreement to provide these stockholders with the right to demand that we undertake an underwritten offering within twelve months of the closing of the Ref-Fuel acquisition in order to provide such stockholders with liquidity.

Acquisition of Ref-Fuel

We acquired Ref-Fuel as of June 24, 2005, pursuant to the terms of a stock purchase agreement with Ref-Fuel, an owner and operator of waste-to-energy facilities in the northeast United States, and Ref-Fuel's stockholders to purchase 100% of the issued and outstanding shares of Ref-Fuel capital stock. Under the terms of the agreement, we paid \$740 million in cash for the stock of Ref-Fuel and assumed the consolidated net debt of Ref-Fuel, which was net debt of approximately \$1.3 billion (\$1.5 billion of consolidated indebtedness and \$0.2 billion of cash and restricted cash). See *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Management's Discussion and Analysis of Liquidity and Capital Resources*, *Waste and Energy Services Segment* and Note 11 to the Notes to the Unaudited Interim Financial Statements for a more detailed description of the indebtedness that was assumed in connection with the transaction.

We financed this transaction through a combination of debt and equity financing. The equity component of the financing was the Ref-Fuel rights offering that was completed as of June 21, 2005. SZ Investments, Third Avenue and Laminar, representing ownership of approximately 40.4% of our outstanding common stock prior to such offering, had each separately committed to acquire their respective pro rata portion of the shares offered in the Ref-Fuel rights offering. As consideration for their commitments, we paid each of these stockholders an amount equal to 1.75% of their respective equity commitments. We also agreed to amend an

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existing registration rights agreement to provide these stockholders with the right to demand that we undertake an underwritten offering within twelve months of the closing of the acquisition of Ref-Fuel in order to provide such stockholders with liquidity.

Goldman Sachs Credit Partners, L.P. and Credit Suisse First Boston arranged a debt financing package to finance the acquisition, as well as to refinance the existing recourse debt of Covanta and provide additional liquidity for us. This financing consisted of two tranches, each of which is secured by pledges of the stock of Covanta's subsidiaries that has not otherwise been pledged, guarantees from certain of Covanta's subsidiaries and all other available assets of Covanta's subsidiaries. The first tranche, a first priority senior secured bank facility, is made up of a \$275 million term loan facility due 2012, a \$100 million revolving credit facility due 2011 and a \$340 million letter of credit facility due 2012. The second tranche is a \$400 million second priority senior secured term loan facility due 2013. See

Management's Discussion and Analysis of Financial Condition and Results of Operations, *Management's Discussion and Analysis of Liquidity and Capital Resources*, *Waste and Energy Services Segment* and Note 11 to the Notes to the Unaudited Interim Financial Statements for a more detailed description of this debt financing. See *Quantitative and Qualitative Disclosures about Market Risk*, *Covanta's Business*, *Interest Rate Risk* for information on Covanta's interest rate swap derivative agreements.

Ref-Fuel is now a wholly-owned subsidiary of Covanta, and Covanta controls the management and operations of the Ref-Fuel facilities. The current project and other debt of Ref-Fuel subsidiaries were not refinanced in connection with the acquisition, except to the extent certain subsidiaries of Ref-Fuel were required to repurchase outstanding notes, at a premium of 101% of par value, from existing holders. The principal amount of notes repurchased was \$5.1 million and was financed through cash on hand.

Our Business Strategy

With the acquisition of Covanta and Ref-Fuel, we have a materially different business profile. Accordingly, our previous strategy has changed from seeking opportunistic acquisitions to focusing on Covanta taking a leadership role in the waste and energy services business. Our mission statement is to be a world-class waste disposal and energy generation company by providing our clients safe, reliable, environmentally sound and cost-effective service. See

Management's Discussion and Analysis of Financial Condition and Results of Operations, *Executive Summary*, *Our Business Strategy* for our plans to accomplish this mission.

Business Segments

Set forth below is a description of our business operations as of September 30, 2005, as presented in the Consolidated Financial Statements included in this prospectus. We are engaged in two primary business segments: the Waste and Energy Services business of Covanta and Other Services, which includes our parent company operations and insurance business. Each of these segments are described below.

Additional information about our business segments is contained in this prospectus under the heading

Management's Discussion and Analysis of Financial Condition and Results of Operations, *Executive Summary*, *Business Segments* and in Note 32 to the Notes to the Audited Annual Financial Statements and Note 14 to the Notes to the Unaudited Interim Financial Statements.

WASTE AND ENERGY SERVICES BUSINESS

Covanta develops, constructs, owns and operates for itself and others infrastructure for the conversion of waste-to-energy, independent power production and the treatment of water and wastewater in the United States and abroad. Covanta owns or operates 56 power generation facilities, 44 of which are in the United States and twelve of which are located outside of the United States. Covanta's facilities use a variety of fuels, including municipal solid waste, water (hydroelectric), natural gas, coal, wood waste, landfill gas and heavy fuel oil. Covanta operates water or wastewater treatment facilities, all of which are located in the United States.

Table of Contents**Waste-to-Energy Projects**

The essential purpose of Covanta's waste-to-energy projects is to provide waste disposal services, typically to municipal clients who sponsor the projects. Generally, Covanta provides these services pursuant to long-term service contracts. The electricity or steam generally is sold pursuant to long-term power purchase agreements with local utilities or industrial customers, and most of the resulting revenues reduce the overall cost of waste disposal services to the municipal clients. The original terms of the service contracts are each 20 or more years, with the majority now in the second half of the applicable term. Most of Covanta's service contracts may be renewed for varying periods of time, at the option of the municipal client. Covanta receives its revenue in the form of fees pursuant to the service or waste contracts, and in some cases, energy purchase agreements, at facilities it owns. In the case of Covanta's indirect, wholly-owned subsidiary, TransRiver Marketing Company, L.P., this subsidiary markets to third parties the portion of the waste disposal capacity of its projects which is not utilized by the clients under such long-term service contracts.

Domestic Waste and Energy Services Business

Covanta currently operates the waste-to-energy projects identified below under *Domestic Project Summaries*. Most of Covanta's operating waste-to-energy projects were developed and structured contractually as part of competitive procurement conducted by municipal entities. As a result, these projects have many common features, which are described in *Structurally Similar Waste-to-Energy Projects* below. Certain projects which do not follow this model, or have been restructured, are described in *Other Waste-to-Energy Project Structures* below.

Covanta receives its revenue in the form of fees pursuant to service agreements, and in some cases energy contracts, at facilities it owns. Assuming the effectiveness of the extension of agreements relating to the Hillsborough County, Florida facility, Covanta's service agreements begin to expire in 2008, and energy contracts at Covanta-owned projects generally expire at or after the date on which that project's service agreement expires. As Covanta's contracts expire it will become subject to greater market risk in maintaining and enhancing its revenues. As its service agreements at municipally-owned facilities expire, Covanta intends to seek to enter into renewal or replacement contracts to operate several such facilities. Covanta also will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. As Covanta's service agreements at facilities it owns begin to expire, it intends to seek replacement or additional contracts, and because project debt on these facilities will be paid off at such time Covanta expects to be able to offer rates that will attract sufficient quantities of waste while providing acceptable revenues to Covanta. At Covanta-owned facilities, the expiration of existing energy contracts will require Covanta to sell its output either into the local electricity grid at prevailing rates or pursuant to new contracts. There can be no assurance that Covanta will be able to enter into such renewals, replacement or additional contracts, or that the terms available in the market at the time will be favorable to Covanta. See *Risk Factors - Waste and Energy Services Business-Specific Risks - Covanta may face increased risk of market influences on its domestic revenues after its contracts expire*.

Covanta's opportunities for growth by investing in new projects will be limited by existing non-project debt covenants, as well as by competition from other companies in the waste disposal business. (For a discussion of such debt covenants see Note 19 to the Notes to the Audited Annual Financial Statements and Note 11 to the Notes to the Unaudited Interim Financial Statements.) See *Risk Factors - Waste and Energy Services Business-Specific Risks - Our ability to grow our Waste and Energy Services business may be limited*.

Structurally Similar Waste-to-Energy Projects

Each service agreement is different to reflect the specific needs and concerns of a client community, applicable regulatory requirements and other factors. However, the following description sets forth terms that are generally common to these agreements:

Covanta designs the facility, helps to arrange for financing and then constructs and equips the facility on a fixed price and schedule basis.

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Covanta operates the facility and generally guarantees it will meet minimum waste processing capacity and efficiency standards, energy production levels and environmental standards. Covanta's failure to meet these guarantees or to otherwise observe the material terms of the service agreement (unless caused by the client community or by events beyond its control, referred to in this prospectus as "Unforeseen Circumstances") may result in liquidated damages charged to Covanta or, if the breach is substantial, continuing and unremedied, the termination of the service agreement. In the case of such service agreement termination, Covanta may be obligated to pay material damages, including payments to discharge project indebtedness.

The client community is generally required to deliver minimum quantities of municipal solid waste to the facility on a put-or-pay basis and is obligated to pay a service 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. This payment is due even if the counterparty delivers less than the full amount of waste promised. Portions of the service fee escalate to reflect indices of inflation. In many cases the client community must also pay for other costs, such as insurance, taxes and transportation and disposal of the residue to the disposal site. If the facility is owned by Covanta, the client community also pays as part of the service fee an amount equal to the debt service due to be paid on the bonds issued to finance the facility. 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 that the client community pay increased expenses and capital costs resulting from Unforeseen Circumstances, subject to limits which may be specified in the service agreement.

The client community usually retains a portion of the energy revenues (generally 90%) generated by the facility, and pays the balance to Covanta.

Financing for Covanta's domestic waste-to-energy projects is generally accomplished through tax-exempt and taxable revenue bonds issued by or on behalf of the client community. If the facility is owned by a Covanta subsidiary, the client community loans the bond proceeds to the subsidiary to pay for facility construction and pays to the subsidiary amounts necessary to pay debt service. For such facilities, project-related debt is included as project debt (short-and long-term) in our consolidated financial statements. Generally, such debt is secured by the revenues pledged under the respective indentures and is collateralized by the assets of Covanta's subsidiary with the only recourse to Covanta being related to construction and operating performance defaults.

Covanta and certain of its subsidiaries have issued instruments to their client communities and other parties which guarantee that Covanta's operating subsidiaries will perform in accordance with contractual terms including, where required, the payment of damages. Such contractual damages 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. For facilities owned by client communities and operated by Covanta subsidiaries, Covanta's potential maximum liability as of December 31, 2004 associated with the repayment of project debt on such facilities was in excess of \$1.0 billion. If Covanta is asked to perform under one or more of such guarantees, its 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 which is presently not estimable. To date, Covanta has not incurred material liabilities under such guarantees.

Other Waste-to-Energy Project Structures**Haverhill, Massachusetts**

Covanta's Haverhill, Massachusetts waste-to-energy facility is not operated pursuant to a service agreement with a client community. In this project, Covanta assumed the project debt and risks relating to waste availability and pricing, risks relating to the continued performance of the electricity purchaser, as well as risks associated with unforeseen circumstances. Covanta retains all of the energy revenues from sales of power and disposal fees for waste accepted at this facility. Accordingly, Covanta believes that this project carries both greater risks and greater potential rewards than projects in which there is a client community. The Haverhill facility receives approximately 80% of its waste under long-term agreements with over 18 communi-

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ties in northeastern Massachusetts (generally through 2011) or other multi-year agreements. The balance of its waste is delivered pursuant to short-term arrangements.

Union, New Jersey

In Union County, New Jersey, a municipally-owned facility has been leased to Covanta, and the client community has agreed to deliver approximately 50% of the facility's capacity on a put-or-pay basis. The balance of facility capacity is marketed by Covanta at its risk. Covanta guarantees its subsidiary's contractual obligations to operate and maintain the facility, and on one series of subordinated bonds, its obligations to make lease payments which are the sole source for payment of principal and interest on that series of bonds. As of December 31, 2004, the current outstanding principal amount of the subordinated bonds, sold to refinance a portion of the original bonds used to finance the facility, was \$17.7 million. As a part of restructuring of this project, the client community assigned to Covanta the long-term power contract with the local utility. As part of this assignment, the power contract was amended to give Covanta the right to sell all or a portion of the plant's output to other purchasers. Since April 2002, Covanta has sold the majority of its output directly into the regional electricity grid at market pricing with the remainder of the electricity sold under short-term contract when Covanta believes doing so would enhance this project's revenues.

Alexandria, Virginia

Covanta's Alexandria, Virginia waste-to-energy facility is operated pursuant to a service agreement with the City of Alexandria, Virginia and Arlington County, Virginia and authorities established by those communities, referred to as the Virginia Communities in this prospectus. The Virginia Communities pay a fixed tip fee, subject to certain adjustments, for each ton of waste they are required to deliver on a put-or-pay basis (about 65% of the facility's capacity). The balance of the waste is obtained by Covanta from private haulers pursuant to short-term contracts or on a spot basis. Covanta's operating subsidiary receives all of the electricity revenues received under the facility's power sales agreement and pays the debt service on the bonds issued to finance the facility. The service agreement provides that if income available for debt service, as calculated in accordance with the service agreement, does not cover debt service, the Virginia Communities will loan Covanta's operating subsidiary the amount of the shortfall. Any such loan is required to be repaid from the project's positive cash flow in succeeding years and would have an ultimate maturity in 2023. The interest rate on any such loan is six percent. Since the Alexandria facility began operating in 1988, the Virginia Communities have been required to extend such loans on four occasions, the last of which was with respect to the operating year ending June 1, 2001. All such loans have been fully repaid within six months, and, as of December 31, 2004, there were no outstanding loans to Covanta's operating subsidiary.

Rochester, Massachusetts (SEMASS Project)

The SEMASS facility is not operated pursuant to a service agreement with a client community. A subsidiary of Covanta owns 90% of the SEMASS Partnership, which owns the SEMASS facility. A separate operating subsidiary, the Semass Operator, operates the SEMASS facility. The SEMASS operator has also contracted with the SEMASS Partnership to operate a landfill owned by a third party (which is used primarily for disposal of residue from the SEMASS facility), a transfer station and a citizen drop off center, which together with the SEMASS facility constitute a coordinated waste disposal system. This system is a principal disposal location in southeastern Massachusetts and its transfer station is located near Boston. The SEMASS facility receives approximately one-third of its waste under long-term service agreements with over 40 communities in southeastern Massachusetts (generally through 2016) or other multi-year agreements. The balance of its waste is delivered pursuant to short term arrangements. Electricity from the SEMASS facility is sold to Commonwealth Electric Company (ComElec) under two power sales agreement, which we refer to as PSA I and PSA II. The term of PSA I and the term of PSA II both end on December 31, 2015. PSA I covers output from the SEMASS facility up to 47.7 megawatts. PSA II covers the remaining output of the SEMASS facility above 47.7 megawatts.

Table of Contents**Niagara, New York**

Covanta's operating subsidiary that is referred to as the Niagara Partnership acquired the rights and responsibilities relating to the Niagara, New York facility from Occidental Chemical Corporation, referred to as Occidental in this prospectus. The Niagara facility originally was comprised of refuse-derived fuel, referred to as RDF in this prospectus, boilers, but now includes both RDF and mass-burn boilers. In addition, the Niagara Partnership leases coal and oil-fired boilers from Occidental in order to maintain back-up steam capacity. The Niagara facility's permits allow it to burn wood waste and municipal solid waste. The Niagara Partnership receives its waste supply under contracts of varying lengths. Electricity from the Niagara facility may be sold to a local utility under a power sales agreement expiring in 2014, which permits the Niagara Partnership to sell the electrical output to any third party chosen by the Niagara Partnership. The Niagara Partnership currently sells all the electricity produced by the Niagara facility and not used for internal use to Constellation Power Source at a fixed price, pursuant to contracts which expire in 2007. The Niagara Partnership also sells steam to Occidental pursuant to a contract which expires in 2013, but which may be terminated beginning in 2007 in the event Occidental decides to shut down its facilities. Additional steam sale agreements have been entered into with other third parties. The Niagara facility was financed with tax-exempt bonds which have mandatory tender dates ranging from 2012 through 2015. ARC provides a guaranty of the due and punctual payment of debt service on the Niagara bonds. ARC has also provided a guaranty to Occidental of certain of the Niagara Partnership's obligations under the Occidental steam agreement.

Delaware County, Pennsylvania

The Delaware Valley facility was previously owned by Westinghouse Electric Corporation, which sold the facility to and leased back from an owner trustee indirectly controlled by General Electric Capital Corporation pursuant to a leveraged lease. Covanta's operating subsidiary that is referred to as the Delaware Partnership became a successor lessee and acquired rights and contracts relating to the Delaware Valley facility through an assignment from Westinghouse entities. The Delaware Valley facility receives waste under a service agreement with the Delaware County Solid Waste Authority, known as DCSWA. The obligations of the DCSWA under the Delaware Valley service agreement are guaranteed by Delaware County, Pennsylvania. The Delaware Valley facility also obtains waste from private companies under spot and short term contracts. Under the service agreement, Delaware County is obligated to deliver and pay for disposal of approximately 303,000 tons per year of municipal solid waste and provide a landfill for the disposal of certain waste and residue delivered to or resulting from waste processing at the facility. Under the service agreement, service fee payable to the Delaware Partnership for disposal of waste consists of:

\$0 per ton for the first 267,000 tons per year;

\$84 (subject to escalation) for the next 36,000 tons per year;

certain costs of insurance and, other fees; and

approximately 56% of any costs arising out of uncontrollable circumstances.

The Delaware Partnership leases the Delaware Valley facility through 2019. The Delaware Partnership is 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 this prospectus, 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 Westinghouse in connection with the disposition of its interest in the Delaware Valley facility. Pursuant to the terms of various guarantee agreements, ARC has guaranteed the payments of Basic Rent B and Stipulated Loss to the extent such payments are not made by 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 period of the lease.

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Warren County, New Jersey

The Covanta subsidiaries, referred to as Covanta Warren in this prospectus, which operate Covanta's waste-to-energy facility in Warren County, New Jersey, referred to as the Warren Facility in this prospectus, and the Pollution Control Financing Authority of Warren County, referred to as Warren Authority in this prospectus, have been engaged in negotiations for an extended time concerning a potential restructuring of the parties' rights and obligations under various agreements related to Covanta Warren's operation of the Warren Facility. Those negotiations were in part precipitated by a 1997 federal court of appeals decision invalidating certain of the State of New Jersey's waste-flow laws, which resulted in significantly reduced revenues for the Warren Facility. Since 1999, the State of New Jersey has been voluntarily making all debt service payments with respect to the project bonds issued to finance construction of the Warren Facility, and Covanta Warren has been operating the Warren Facility pursuant to an agreement with the Warren Authority which modifies the existing Service Agreement for the Warren Facility.

Covanta Warren, the Warren Authority, and certain third parties have reached a settlement of the various disputed matters among them, and in September 2005 Covanta Warren filed a plan of reorganization with the bankruptcy court based upon that settlement. The material features of the settlement include the following:

Covanta Warren and Warren Authority will execute a global mutual release of all their obligations under the previous agreements between the two entities.

The parties will enter into an amended agreement which will provide that Covanta Warren will deliver ash residue from the Warren Facility to the Warren Authority's landfill, which is adjacent to the Warren Facility. Covanta Warren will be solely responsible for contracting for waste deliveries to the Warren facility. The Warren Authority will have no waste delivery obligations.

The parties will cooperate in seeking permit modifications to expand the processing capacity of the Warren Facility.

Covanta Warren and the municipality will enter into an amended host community agreement.

Covanta Warren will pay the remaining project debt plus transaction and emergence costs, totaling approximately \$15 million. Covanta will not be required to provide credit support or performance guarantees relating to the operation and maintenance of the Warren Facility.

Covanta Warren will own the waste-to-energy facility and will make annual lease payment to the Warren Authority for the Warren Facility site. This lease for the site will have a 20-year term and will include an option to purchase the site. The annual lease payments of \$250,000, subject to increase based on changes in the consumer price index, are also subject to reduction based on any fees, assessments or taxes payable by Covanta Warren to the Warren Authority or Warren County.

On December 1, 2005, the bankruptcy court confirmed Covanta Warren's reorganization plan and Covanta Warren emerged from bankruptcy on December 15, 2005.

Projects under Development

Hillsborough County, Florida

Covanta designed, constructed and now operates and maintains this 1,200 ton per day mass-burn waste-to-energy facility located in and owned by Hillsborough County. Due to the growth in the amount of solid waste generated in Hillsborough County, Hillsborough County informed Covanta of its desire to expand the facility's waste processing and electricity generation capacities, a possibility contemplated by the existing contract between Covanta and Hillsborough County. On August 24, 2005, Covanta and Hillsborough County entered into agreements to implement this expansion, and to extend the agreement under which Covanta operates the facility through 2027. Environmental and other project related permits will need to be secured and financing completed, and certain other conditions satisfied, prior to commencement of construction. At this time, there can be no assurance that such conditions will be satisfied.

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Lee County, Florida