COVANTA HOLDING CORP
Form S-1/A
December 19, 2005

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As filed with the Securities and Exchange Commission on December 19, 2005
Registration No. 333-120755

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

Amendment No. 3
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	**4991**	**95-6021257**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(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: þ

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. o

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. o

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. o

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 is paid by Covanta Holding Corporation simultaneously with the filing of this Amendment No. 3 to the Registration Statement.

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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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any states where the offer or sale is not permitted.

PROSPECTUS (SUBJECT TO COMPLETION)

PROSPECTUS DATED , 2005

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 , 2005.

Our common stock is listed on the New York Stock Exchange under the symbol CVA. On November 30, 2005, the last reported sale price for the common stock was $13.04 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 , 2005.

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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, including arrangements 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 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 November 25, 2005, 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

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

	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 , 2005.
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 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 146,876,122. 5% of 146,876,122 is 7,343,806. 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 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 November 30, 2005, the closing price of our common stock on the NYSE was $13.04 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 $750,000, 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 $5.40 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 401,023 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 November 25, 2005, 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

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

(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.

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.

Performance reductions could materially and adversely affect us and our projects may operate at lower levels than expected.

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.

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

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

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.

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 Covanta Holding	Jan. 1 to Mar. 10, 2004 Covanta Energy	Jan. 1 to Mar. 10, 2004 Deconsolidation of Covanta Energy Entities(A)	Jan. 1 to Dec. 31, 2004 Ref-Fuel	Jan. 1 to Apr. 30, 2004 Ref-Fuel Ownership Changes(G)	Pro Forma Adjustments	ADJ	Pro Forma 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

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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.

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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

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 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	$ 340,000	3%	$ 5,100	$ 10,200
Letter of credit availability under First Lien Facility				
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.

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.

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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. (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)	2002(4)	2001	2000
			Years Ended				
	(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 investments	20,003	13,196	17,024	(54,877)			

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

	Nine Months Ended September 30, 2005(1)	Nine Months Ended September 30, 2004	Years Ended 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 30, 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	$ 174,553	$ 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

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.

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

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. Covanta expects such subsidiaries will emerge from bankruptcy prior to December 31, 2005 and that after such emergence they will be 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 of 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 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

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 arrangements with representatives of the grantor trusts and the state 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. 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.

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.

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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 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;
- 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.

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
- 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.

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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 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 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 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

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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.

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 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.

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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 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;

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.

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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).

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).

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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)

	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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Waste And Energy Services Pro Forma Reconciliations International

	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.

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

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

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

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.

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.

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):

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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

(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

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.

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 September 30, 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.

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.

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.

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

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 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;
- 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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Capital Requirements

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.

Other Commitments

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 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 May of 2005 the project lenders agreed to release $10.1 million of the $20.5 million special reserve. In November 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.

Off Balance Sheet Arrangements

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

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

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.

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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Letters of Credit

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

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 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.

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 the contracts will be finalized in 2005 at which time it expects to be fully reimbursed for such costs.

Unpaid Losses and Loss Adjustment Expenses

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

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

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

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

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.

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.

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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THE BUSINESS

General Overview

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.

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 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.

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 arrangements with representatives of the Mission Insurance entities and 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 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

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.

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 contacts 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.

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-

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.

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.

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

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 Lee County. Due to the growth in the amount of solid waste generated in Lee County, Lee County has informed Covanta of its desire to enlist Covanta to manage the expansion of the facility s waste processing and electricity generation capacities, a possibility contemplated by the existing contract between Covanta and Lee County. As part of the proposed agreement to implement this expansion Covanta would receive a long-term operating contract extension. Negotiations are ongoing and contracts for construction of the expansion and operation and maintenance of the expanded facility are still to be finalized and approved by the parties. In addition, financing for the expansion project must be completed. Lee County has received the principal environmental permit for the expansion. At this time, there can be no assurance that any definitive agreements will be finalized or approved by the parties or that Lee County will, in fact, expand the facility.

Honolulu, Hawaii

This 2,160 ton per day refuse derived fuel facility was designed and constructed by an entity not related to Covanta. Subsequently, Covanta purchased the rights to operate and maintain the facility on behalf of the City and County of Honolulu. Previously, the City and County of Honolulu had informed Covanta of their desire to expand the facility s waste processing capacity, a possibility contemplated by the existing contract between Covanta and the City and the County of Honolulu. However, more recently the City and County of Honolulu may be reconsidering their desire to expand their facility and are evaluating alternatives to accommodate their waste disposal needs. At this time, there can be no assurance that any definitive agreements will be finalized or approved by the parties or that the City and the County of Honolulu will, in fact, expand the facility.

Independent Power Projects

As mentioned in the overview of Covanta s independent power projects earlier in this prospectus, Covanta is also engaged domestically in developing, owning and/or operating independent power production facilities utilizing a variety of energy sources including water (hydroelectric), waste wood (biomass) and landfill gas. The electrical output from each facility, with one exception, is sold to local utilities. Covanta s revenue from the independent power production facilities is derived primarily from the sale of energy and capacity under energy contracts.

The regulatory framework for selling power to utilities from independent power facilities (including waste-to-energy facilities) after current contracts expire is in flux, given the energy crisis in California in 2000 and 2001, the over-capacity of generation at the present time in many markets and the uncertainty as to the adoption of new federal energy legislation. Various states and Congress are considering a wide variety of changes to regulatory frameworks, but none has been established definitively at present.

Hydroelectric

Covanta owns a 50% equity interest in two run-of-river hydroelectric facilities, Koma Kulshan and Weeks Falls, which have a combined gross capacity of 17 MW. Both Koma Kulshan and Weeks Falls are located in Washington State and both sell energy and capacity to Puget Sound Power & Light Company under long-term energy contracts. A subsidiary of Covanta provides operation and maintenance services to the Koma Kulshan partnership under a cost plus fixed fee agreement.

During the first quarter of 2004, Covanta operated the New Martinsville facility in West Virginia, a 40 MW run-of-river project pursuant to a short-term Interim Operations and Maintenance Agreement which expired March 31, 2004. Covanta chose not to renew the lease on the project, the term of which expired in October 2003.

Waste Wood

Covanta owns 100% interests in Burney Mountain Power, Mt. Lassen Power, and Pacific Oroville Power, three wood-fired generation facilities in northern California. A fourth facility, Pacific Ultrapower Chinese Station, is owned by a partnership in which Covanta holds a 50% interest. Fuel for the facilities is procured from local sources primarily through short-term supply agreements. The price of the fuel varies depending on time of year, supply and price of energy. These projects have a gross generating capacity of 67 MW and sell energy and capacity to Pacific Gas & Electric under energy contracts. Until July 2001 these facilities were receiving Pacific Gas & Electric s short run avoided cost for energy delivered. However, beginning in July 2001 these facilities entered into five-year fixed-price periods pursuant to energy contract amendments.

Landfill Gas

Covanta has interests in and/or operates seven landfill gas projects which produce electricity by burning methane gas produced in landfills. The Otay, Oxnard, Salinas, Stockton, Toyon and Santa Clara projects are located in California, and the Gude project is located in Maryland. The seven projects have a total gross capacity of 19.9 MW. The Gude facility energy contract has expired and the facility is currently selling its output into the regional utility grid. The remaining six projects sell energy and contracted capacity to various California utilities. The Salinas, Stockton and Santa Clara energy contracts expire in 2007. The Otay and Oxnard energy contracts expire in 2011. Upon the expiration of the energy contracts, it is expected that these projects will enter into new power off take arrangements or the projects will be shut down. During the fourth quarter of 2004, Covanta sold its interests in the Penrose and Toyon landfill gas projects, located in California and a subsidiary of Covanta will continue to operate the Toyon project under an agreement which expires in 2007.

Water Operations

Covanta designed, built and now continues to operate and maintain a 24 million gallon per day, or as such measurement system is used in this prospectus 24 mgd, potable water treatment facility and associated transmission and pumping equipment that supplies water to residents and businesses in Bessemer, Alabama, a suburb of Birmingham. Under a long-term contract with the Governmental Services Corporation of Bessemer, Covanta received a fixed price for design and construction of the facility, and it is paid a fixed fee plus pass-through costs for delivering processed water to Bessemer s water distribution system.

Between 2000 and 2002, Covanta was awarded contracts to supply its patented DualSand™ microfiltration system to twelve municipalities in upstate New York as the primary technological improvement necessary to upgrade their existing water and wastewater treatment systems. Five of these upgrades were made in connection with the United States Environmental Protection Agency and New York City Department of Environmental Protection, a $1.4 billion program to protect and enhance the drinking water supply, or watershed, for New York City. These DualSand™ microfiltration system contracts for upgrades have been completed and non-material payment issues are currently being discussed by, and may be litigated between, Covanta and the New York City Department of Environmental Protection in order to close out these contracts. Covanta does not expect to enter into further contracts for such projects in the New York City watershed.

Domestic Project Dispositions in 2004

Tampa Bay, Florida

During 2003, Covanta Tampa Construction, Inc., referred to as CTC in this prospectus, completed construction of a 25 mgd desalination-to-drinking water facility under a contract with Tampa Bay Water, referred to as TBW in this prospectus, near Tampa, Florida. Covanta Energy Group, Inc. guaranteed CTC s performance under its construction contract with TBW. A separate subsidiary, Covanta Tampa Bay, Inc., referred to as CTB in this prospectus, entered into a contract with TBW to operate the Tampa Water Facility after construction and testing is completed by CTC. As construction of the Tampa Water Facility

neared completion, the parties had material disputes between them. These disputes led to TBW issuing a default notice to CTC and shortly thereafter CTC filed a voluntary petition for relief under Chapter 11.

In February 2004, Covanta and TBW reached a tentative compromise of their disputes which was approved by the Bankruptcy Court. On July 14, 2004, the Bankruptcy Court confirmed a plan of reorganization for CTC and CTB, which incorporated the terms of the settlement between Covanta and TBW. That plan became effective on August 6, 2004 when CTC and CTB emerged from bankruptcy. After payment of certain creditor claims under the CTC and CTB plan, Covanta realized approximately $4 million of the proceeds from the settlement with TBW. Under the terms of the plan of reorganization CTB will not operate the Tampa Water Facility, and Covanta will have no continuing obligations with respect to this project.

Transfers of Waste Water Project Contracts

Covanta formerly operated and maintained wastewater treatment facilities on behalf of seven small municipal and industrial customers in upstate New York. During 2004, Covanta disposed of these assets through assignment, transfer or contract expiration. In addition, some of these contracts are short-term agreements which were by their terms terminated by the counterparty on notice that the counterparty no longer desired to continue receiving service from Covanta.

Sales of Landfill Gas Assets

During the fourth quarter of 2004, Covanta sold its ownership interests in two small landfill gas projects, the Penrose project and the Toyon project, located in southern California. These sales occurred following a determination by Covanta that it would either cease operating these projects or sell them to third parties who would upgrade them to meet new regulatory requirements and run them to generate renewable energy. Covanta received a total of approximately $0.5 million for the two projects.

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Domestic Project Summaries

Summary information with respect to Covanta s domestic projects(1) that are currently operating, is provided in the following table:

		Location	Waste Processing Capacity (Ton/Day)	Gross Electric Output (MW)	Nature of Interest(1)	Date of Acquisition/ Commencement of Operations
A.	**MUNICIPAL SOLID WASTE**					
1.	Marion County	Oregon	550	13.1	Owner/Operator	1987
2.	Hillsborough County	Florida	1,200	29.0	Operator	1987
3.	Hartford(5)(6)	Connecticut	2,000	68.5	Operator	1987
4.	Bristol	Connecticut	650	16.3	Owner/Operator	1988
5.	Alexandria/ Arlington	Virginia	975	22.0	Owner/Operator	1988
6.	Indianapolis(2)	Indiana	2,362	6.5	Owner/Operator	1988
7.	Warren County(5)	New Jersey	400	11.8	Owner/Operator	1988
8.	Hennepin County(5)	Minnesota	1,212	38.7	Operator	1989
9.	Stanislaus County	California	800	22.4	Owner/Operator	1989
10.	Babylon	New York	750	16.8	Owner/Operator	1989
11.	Haverhill	Massachusetts	1,650	44.6	Owner/Operator	1989
12.	Wallingford(5)	Connecticut	420	11.0	Owner/Operator	1989
13.	Kent County	Michigan	625	16.8	Operator	1990
14.	Honolulu(4)(5)	Hawaii	1,851	57.0	Lessee/Operator	1990
15.	Fairfax County	Virginia	3,000	93.0	Owner/Operator	1990
16.	Huntsville(2)	Alabama	690		Operator	1990
17.	Lake County	Florida	528	14.5	Owner/Operator	1991
18.	Lancaster County	Pennsylvania	1,200	33.1	Operator	1991
19.	Pasco County	Florida	1,050	29.7	Operator	1991
20.	Huntington(3)	New York	750	24.3	Owner/Operator	1991
21.	Detroit(2)(4)(5)	Michigan	2,832	68.0	Lessee/Operator	1991
22.	Union County(7)	New Jersey	1,440	42.1	Lessee/Operator	1994
23.	Lee County	Florida	1,200	36.9	Operator	1994
24.	Onondaga County(3)	New York	990	36.8	Owner/Operator	1995
25.	Montgomery County	Maryland	1,800	63.4	Operator	1995
26.	Delaware Valley(7)	Pennsylvania	2,688	79	Lessee/Operator	2005
27.	Essex County	New Jersey	2,700	70	Owner/Operator	2005
28.	Hempstead	New York	2,671	72	Owner/Operator	2005
29.	Niagara	New York	2,250	50	Owner/Operator	2005
30.	Southeast Connecticut	Connecticut	689	18	Owner/Operator	2005
31.	Southeast Massachusetts	Massachusetts	2,700	79	Owner/Operator	2005
		SUBTOTAL		1184.3		
B.	**HYDROELECTRIC**					
32.	Koma Kulshan(8)	Washington		12.0	Part Owner/Operator	1997
33.	Weeks Falls(8)	Washington		5.0	Part Owner	1997
		SUBTOTAL		17.0		

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		Location	Waste Processing Capacity (Ton/Day)	Gross Electric Output (MW)	Nature of Interest(1)	Date of Acquisition/ Commencement of Operations
C.	**WOOD**					
34.	Burney Mountain	California		11.4	Owner/Operator	1997
35.	Pacific Ultrapower Chinese Station(8)	California		25.6	Part Owner	1997
36.	Mount Lassen	California		11.4	Owner/Operator	1997
37.	Pacific Oroville	California		18.7	Owner/Operator	1997
		SUBTOTAL		67.1		
D.	**LANDFILL GAS**					
38.	Gude	Maryland		3.0	Owner/Operator	1997
39.	Otay	California		3.7	Owner/Operator	1997
40.	Oxnard	California		5.6	Owner/Operator	1997
41.	Salinas	California		1.5	Owner/Operator	1997
42.	Santa Clara	California		1.5	Owner/Operator	1997
43.	Stockton	California		0.8	Owner/Operator	1997
44.	Toyon(9)	California		3.8	Operator	1997
		SUBTOTAL		19.9		
TOTAL DOMESTIC GROSS MW IN OPERATION				1,288.3		
E.	**WATER**					
45.	Bessemer	Alabama		24mgd	Design/Build/Operate	2000

(1) Covanta s ownership and/or operation interest in each facility listed in this table extends at least into calendar year 2007.

(2) Facility has been designed to export steam for sale.

(3) Owned by a limited partnership in which the limited partners are not affiliated with Covanta.

(4) Operating contracts were acquired after completion. Facility uses a refuse-derived fuel technology and does not employ the Martin technology described below.

(5) Covanta subsidiaries were purchased after construction completion.

(6) Under contracts with the Connecticut Resource Recovery Authority, Covanta operates only the boilers and turbines for this facility.

(7) The facility is leased to a Covanta subsidiary.

(8) Covanta has a 50% ownership interest in the project.

(9)

Covanta owned this project from 1997 until its sale in the fourth quarter of 2004. Covanta continues to operate the project under a contract expiring in 2006.

International Waste and Energy Services Business

Covanta conducts its international energy businesses through CPIH and its subsidiaries. Internationally, the largest element of Covanta s energy business is its 26.2% ownership in and operation of the 460 MW (net) pulverized coal-fired electrical generating facility in Quezon Province, the Philippines. Covanta has interests in other fossil-fuel generating projects in Asia, a waste-to-energy project in Italy and two small hydroelectric projects in Costa Rica. In general, these projects provide returns primarily from equity distributions and, to a lesser extent, operating fees. The projects sell the electricity and steam they generate under long-term contracts or market concessions to utilities, governmental agencies providing power distribution, creditworthy industrial users, or local governmental units. In select cases, such sales of electricity and steam may be

provided under short-term arrangements as well. Similarly, Covanta seeks to obtain long-term contracts for fuel supply from reliable sources.

Covanta presently has interests in international power projects with an aggregate generating capacity of approximately 1061 MW (gross). Covanta s ownership in these facilities is approximately 461 MW. In addition to its headquarters in Fairfield, New Jersey, Covanta s business is facilitated through field offices in Shanghai, China; Chennai, India; Manila, the Philippines; and Bangkok, Thailand.

In August 2004, Covanta sold its 50% equity interest in a 15 MW natural gas-fired cogeneration project in the province of Murcia, Spain and terminated its operations and maintenance agreement for the facility.

General Approach to International Projects

In developing its international businesses, Covanta has employed the same general approach to projects as is described above with respect to domestic projects. While Covanta intends to focus its business primarily in domestic markets, it may seek to develop or participate in additional international projects, particularly waste to energy projects. Covanta s new financing arrangements place limitations on investments and borrowings Covanta may make in connection with such projects.

The ownership and operation of facilities in foreign countries in connection with Covanta s international business entails significant political and financial uncertainties that typically are not encountered in such activities in the United States. Key international risk factors include governmentally-sponsored efforts to renegotiate long-term contracts, non-payment of fees and other monies owed to Covanta, unexpected changes in electricity tariffs, conditions in financial markets, changes in the markets for fuel, currency exchange rates, currency repatriation restrictions, currency convertibility, changes in laws and regulations and political, economic or military instability, civil unrest and expropriation. Such risks have the potential to cause material impairment to the value of Covanta s international businesses.

Many of the countries in which Covanta operates are lesser developed countries or developing countries. The political, social and economic conditions in some of these countries are typically less stable than those in the United States. The financial condition and creditworthiness of the potential purchasers of power and services provided by Covanta (which may be a governmental or private utility or industrial consumer) or of the suppliers of fuel for projects in these countries may not be as strong as those of similar entities in developed countries. The obligations of the purchaser under the energy contract, the service recipient under the related service agreement and the supplier under the fuel supply agreement generally are not guaranteed by any host country or other creditworthy governmental agency. At the time it develops a project, Covanta undertakes a credit analysis of the proposed power purchaser or fuel supplier. It also has sought, to the extent appropriate and achievable within the commercial parameters of a project, to require such entities to provide financial instruments such as letters of credit or arrangements regarding the escrowing of the receivables of such parties in the case of power purchasers.

Covanta s power projects in particular depend on reliable and predictable delivery of fuel meeting the quantity and quality requirements of the project facilities. Covanta has typically sought to negotiate long-term contracts for the supply of fuel with creditworthy and reliable suppliers. However, the reliability of fuel deliveries may be compromised by one or more of several factors that may be more acute or may occur more frequently in developing countries than in developed countries, including a lack of sufficient infrastructure to support deliveries under all circumstances; bureaucratic delays in the import, transportation and storage of fuel in the host country; customs and tariff disputes; and local or regional unrest or political instability. In most of the foreign projects in which Covanta participates, it has sought, to the extent practicable, to shift the consequences of interruptions in the delivery of fuel (whether due to the fault of the fuel supplier or due to reasons beyond the fuel supplier s control) to the electricity purchaser or service recipient by securing a suspension of its operating responsibilities under the applicable agreements and an extension of its operating concession under such agreements. In some instances, Covanta requires the energy purchaser or service recipient to continue to make payments in respect of fixed costs if such interruptions occur. In order to mitigate the effect of short-term interruptions in the supply of fuel, Covanta has also endeavored to provide on-site storage of fuel in sufficient quantities to address such interruptions.

Payment for services that Covanta provides will often be made in whole or part in the domestic currencies of the host countries. Conversion of such currencies into U.S. dollars generally is not assured by a governmental or other creditworthy country agency and may be subject to limitations in the currency markets, as well as restrictions of the host country. In addition, fluctuations in the value of such currencies against the value of the U.S. dollar may cause Covanta s participation in such projects to yield less return than expected. Transfer of earnings and profits in any form beyond the borders of the host country may be subject to special taxes or limitations imposed by host country laws. Covanta has sought to participate 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 without risk of currency fluctuation 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, and consequently there is 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.

Covanta has sought to manage and mitigate these risks through all means that it deems appropriate, including: political and financial analysis of the host countries and the key participants in each project; guarantees of relevant agreements with creditworthy entities; political risk and other forms of insurance; participation by United States and/or international development finance institutions in the financing of projects in which Covanta participates; and joint ventures with other companies to pursue the development, financing and construction of these projects. Covanta determines which mitigation measurers to apply based on its balancing of the risk presented, the availability of such measures and their cost.

In addition, Covanta has generally participated in projects which provide services that are treated as a matter of national or key economic importance by the laws and politics of the host country. There is therefore a risk that the assets constituting the facilities of these projects could be temporarily or permanently expropriated or nationalized by a host country, made subject to local or national control or be subject to unfavorable legislative action, regulatory decisions or changes in taxation.

In certain cases, Covanta has issued guarantees of its operating subsidiaries contractual obligations to operate certain international power projects. The potential damages owed under such arrangements for international projects may be material if called. 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 any material liabilities under its guarantees on international projects.

The following is a description of Covanta s international power projects by fuel type:

Waste-to-Energy

During 2000, Covanta acquired a 13% equity interest in an 18 MW mass-burn waste-to-energy project at Trezzo sull Adda in the Lombardy Region of Italy which burns up to 500 metric tons per day of municipal solid waste. The remainder of the equity in the project is held by Actelios S.p.A., a subsidiary of Falck S.p.A. and the municipality of Trezzo sull Adda. The Trezzo project is operated by Ambiente 2000 S.r.l., referred to as A2000, an Italian special purpose limited liability company of which Covanta owns 40%. The solid waste supply for the project comes from municipalities and privately owned waste management organizations under long-term contracts. The electrical output from the Trezzo project is sold at governmentally established preferential rates under a long-term purchase contract to Italy s state-owned grid operator, Gestore della Rete di Trasmissione Nazionale S.p.A., referred to as GRTN. The project started accepting waste in September 2002, successfully passed its performance tests in early 2003 and reached full commercial operation in August 2003. The late completion of the plant by the engineering, procurement and construction contractor, Protecma, represents a non-compliance with the terms of the contract with Protecma, and arbitration proceedings are currently underway with regard to amounts withheld by the project company, Prima Srl, in

respect of penalties for late delivery of the plant. The project debt facility was refinanced in September 2004 with a new limited recourse project term loan and working capital facility from a banking consortium led by Banca Nazionale del Lavoro S.p.A.

In January 2001, A2000 also entered into a 15-year operations and maintenance agreement with E.A.L.L (Energia Ambiente Litorale Laziale S.r.l.), an Italian limited liability company owned by Ener TAD, to operate and maintain a 10 MW waste-to-energy facility capable of processing up to 300 metric tons per day of refuse-derived fuel in the Municipality of San Vittore del Lazio (Frosinone), Italy. The San Vittore project has a 15-year waste supply agreement with Reclas S.p.A. (mostly owned by regional municipalities) and a long-term power off-take contract with GRTN. The project is now in its third year of operation. There was a significant delay in starting up the plant after construction was complete due to a legal action by an environmental group that has subsequently been overturned. Operation and maintenance of the plant by A2000 was scheduled to commence in the third quarter of 2004 but has been delayed due to a dispute between the owner and operator as to the validity of the operations and maintenance agreement. Arbitration proceedings have commenced to settle the dispute.

Hydroelectric

Covanta operates the Don Pedro and the Rio Volcan facilities in Costa Rica through an operating subsidiary pursuant to long-term contracts. Covanta also has a nominal equity investment in each project. The electric output from both of these facilities is sold to Instituto Costarricense de Electricidad, a Costa Rica national electric utility.

Coal

A consortium, of which Covanta is a 26% member, owns a 510 MW (gross) coal-fired electric generating facility in the Philippines, referred to as the Quezon Project in this prospectus. The project first generated electricity in October 1999 and full commercial operation occurred during the second quarter of 2000. The other members of the consortium are an affiliate of International Generating Company, an affiliate of General Electric Capital Corporation, and PMR Limited Co., a Philippines partnership. The consortium sells electricity to Meralco, the largest electric distribution company in the Philippines, which serves the area surrounding and including metropolitan Manila.

Under an energy contract expiring in 2025, Meralco is obligated to take or pay for stated minimum annual quantities of electricity produced by the facility at an all-in tariff which consists of capacity, operating, energy, transmission and other fees adjusted to inflation, fuel cost and foreign exchange fluctuations. The consortium has entered into two coal supply contracts expiring in 2015 and 2022. Under these supply contracts, cost of coal is determined using a base energy price adjusted to fluctuations of specified international benchmark prices. Covanta is operating the project through a local subsidiary under a long-term agreement with the consortium.

The financial condition of Meralco has been recently stressed by the failure of regulators to grant tariff increases to allow Meralco to achieve rates of return permitted by law. For further discussion, see additional information 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 Waste and Energy Services Segment Other Commitments* Covanta has obtained political risk insurance for its equity investment in this project.

Covanta has majority equity interests in three coal-fired cogeneration facilities in three provinces in the People s Republic of China. Two of these projects are operated by the project entity, in which Covanta has a majority interest. The third project is operated by an affiliate of the minority equity shareholder. Parties holding minority positions in the projects include a private company, a local government enterprise and affiliates of the local municipal government. In connection with one of these projects, the local People s Congress has enacted a non-binding resolution calling for the relocation of the cogeneration facility from the city center to an industrial zone. The project company is currently reviewing its options in this matter. While the steam produced at each of the three projects is intended to be sold under long-term contracts to the

industrial hosts, in practice, steam has been sold on either a short-term basis to local industries or the industrial hosts, in each case at varying rates and quantities. For two of these projects, the electric power is sold at average grid rate to a subsidiary of the Provincial Power Bureau. At one project, the electric power is sold directly to an industrial customer at a similar rate. In 2004, Covanta discontinued political risk insurance for its equity investment in these projects.

Natural Gas

In 1998, Covanta acquired an equity interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired facility located near Haripur, Republic of Bangladesh. This project began commercial operation in June 1999 and is operated by a subsidiary of Covanta. Covanta owns approximately 45% of the project company equity. An affiliate of El Paso Energy Corporation owns 50% of such equity, and the remaining interest is held by Wartsila North America, Inc. The electrical output of the project is sold to the Bangladesh Power Development Board, referred to as BPDB in this prospectus, pursuant to an energy contract with minimum energy off-take provisions at a tariff divided into a fuel component and an other component. The fuel component reimburses the fuel cost incurred by the project up to a specified heat rate. The other component consists of a pre-determined base rate adjusted to actual load factor and foreign exchange fluctuations. The energy contract also obligates the BPDB to supply all the natural gas requirements of the project at a pre-determined base cost adjusted to fluctuations on actual landed cost of the fuel in Bangladesh. The BPDB s obligations under the agreement are guaranteed by the Government of Bangladesh. In 1999, the project received $87 million in financing and political risk insurance from the Overseas Private Investment Corporation, referred to as OPIC in this prospectus. Covanta obtained separate political risk coverage for its equity interest in this project. In 2004, the project obtained from OPIC the extension of an existing waiver permitting it to continue to forego obtaining certain project insurance coverage levels that are not presently commercially available.

Diesel/Heavy Fuel Oil

In 1999, Covanta acquired an equity interest in a 106 MW (gross) heavy fuel oil-fired generating facility located near Samalpatti, Tamil Nadu, India. This project achieved commercial operation during the first quarter of 2001. The project is operated by a subsidiary of Covanta. Covanta owns a 60% interest in the project company. Shapoorji Pallonji Infrastructure Capital Co. Ltd. and its affiliates own 29% of such equity with the remainder of 11% being held by Wartsila India Power Investment, LLC. The electrical output of the project is sold to the Tamil Nadu Electricity Board, referred to as the TNEB in this prospectus, pursuant to a long-term agreement with full pass-through tariff at a specified heat rate, operation and maintenance cost, and return on equity. The TNEB s obligations are guaranteed by the government of the State of Tamil Nadu. Bharat Petroleum Corporation, Ltd. supplies the oil requirements of the project through a 15 year fuel supply agreement based on market prices.

In 2000, Covanta acquired a controlling interest in a second project in India, the 106 MW Madurai project located at Samayanallur in the State of Tamil Nadu, India. The project began commercial operation in the fourth quarter of 2001. Covanta owns approximately 76.6% of the project equity and operates the project through a subsidiary. The balance of the project ownership interest is held by an Indian company controlled by the original project developer. The electrical output of the project is sold to the TNEB pursuant to a long-term agreement with full pass-through tariff at a specified heat rate, operation and maintenance cost, and return on equity. The TNEB s obligations are guaranteed by the government of the state of Tamil Nadu. Indian Oil Corporation, Ltd. supplies the oil requirements of the project through 15-year fuel supply agreement based on market prices.

Disputing several tariff provisions, the TNEB has failed to pay the full amount due under the energy contracts for both the Samalpatti and Madurai projects. Similar to many Indian state electricity boards, the TNEB has also failed to fund the escrow account or post the letter of credit required under the project energy contracts, which failure constitutes a default under the project finance documents. The project lenders for both projects have not declared an event of default due to this matter and have permitted continued distributions of project dividends. To date, the TNEB has paid the undisputed portion of its payment obligations (approxi-

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mately 95%) representing each project s operating costs, fuel costs, debt service and some equity return. Project lenders for both projects have either granted periodic waivers of such default or potential default and/or otherwise approved scheduled equity distributions. Neither such default nor potential default in the project financing arrangements constitutes a default under Covanta s recourse debt. Further, during 2004 CPIH was able to refinance a significant portion of the original project debt for both projects. While the tenor and the covenants remain the same, each project has been able to lower its interest costs substantially, resulting in reduced tariffs to the TNEB. The TNEB has indicated a desire to renegotiate tariffs for both project energy contracts, and it is possible that the issue of the escrow account or letter of credit requirement will be resolved as part of any such process.

Covanta owns a minority interest in the Island Power project, a 7 MW facility that has a long-term power contract.

International Project Summaries

Summary information with respect to Covanta s projects(1) that are currently operating is provided in the following table:

		Location	Gross Electric Output (MW)	Nature of Interest(1)	Date of Acquisition/ Commencement of Operations
A	**WASTE-TO-ENERGY**				
1.	Trezzo(2)	Italy	18	Part Owner/Operator	2003
2.	San Vittore(3)	Italy	10	Operator	2006(est.)
		SUBTOTAL	28		
B.	**HYDROELECTRIC**				
3.	Rio Volcan(4)	Costa Rica	17	Part Owner/Operator	1997
4.	Don Pedro(4)	Costa Rica	14	Part Owner/Operator	1996
		SUBTOTAL	31		
C.	**COAL**				
5.	Quezon(5)	the Philippines	510	Part Owner/Operator	2000
6.	Lin an(7)	China	24	Part Owner/Operator	1997
7.	Huantai(6)	China	36	Part Owner	1997
8.	Yanjiang(8)	China	24	Part Owner/Operator	1997
		SUBTOTAL	594		
D.	**NATURAL GAS**				
9.	Haripur(9)	Bangladesh	126	Part Owner/Operator	1999
E.	**DIESEL/ HEAVY FUEL OIL**				
10.	Island Power Corporation(10)	the Philippines	7	Part Owner	1996
11.	Magellan Cogeneration(11)	the Philippines	63	Owner/Operator	1999
12.	Samalpatti(6)	India	106	Part Owner/Operator	2001
13.	Madurai(12)	India	106	Part Owner/Operator	2001
		SUBTOTAL	282		
TOTAL INTERNATIONAL MW IN OPERATION			1,061		

(1) Covanta s ownership and/or operation interest in each facility listed below extends at least into calendar year 2007.

(2) Covanta has a 13% interest in this project and a 40% interest in the operator Ambiente 2000 S.r.l. A2000.

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(3) Operation by A2000 begins one year after the project begins commercial operation provided certain criteria are satisfied.

(4) Covanta has a nominal ownership interest in this project.

(5) Covanta has an approximate 26% ownership interest in this project.

(6) Covanta has a 60% ownership interest in these projects.

(7) Covanta has an approximate 64% ownership interest in this project.

(8) Covanta has an approximate 96% ownership interest in this project.

(9) Covanta has an approximate 45% ownership interest in this project. This project is capable of operating through combustion of diesel oil in addition to natural gas.

(10) Covanta has an approximate 19.6% ownership interest in this project.

(11) This project is in Corporate Rehabilitation proceedings. Under the Rehabilitation Plan approved by the Court, Covanta s ownership interest will be reduced from 100% to approximately 30%.

(12) Covanta has an approximate 77% ownership interest in this project.

OTHER SERVICES BUSINESS

Discussion of Parent-Level Business

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.

The Other Services segment is comprised of our insurance business, which writes property and casualty insurance in California, and the parent company operations. The operations of the parent 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 by Covanta under an administrative services agreement. The parent company operations also include income earned on its investments.

Prior to the Covanta acquisition, our strategy had been to grow by developing business partnerships and making strategic acquisitions. Following the Covanta acquisition, our strategy has been to concentrate on increasing value in Covanta s core waste-to-energy business.

As of December 31, 2004, we had consolidated NOLs of approximately $516 million. This estimate was based upon federal consolidated income tax losses for the periods through December 31, 2003 and an estimate of the 2004 taxable results. Some or all of the carryforward may be available to offset, for federal income tax purposes, the future taxable income, if any, of us, our wholly-owned subsidiaries and the Mission trusts described in more detail in Note 25 to the Notes to the Audited Annual Financial Statements and Note 12 to the Notes to the Unaudited Interim Financial Statements. 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 NOL carryforward were reported.

Our NOLs will expire, if not used, in the following approximate amounts in the following years (in thousands of dollars):

Year Expiring	Amount of Carryforward
2005	$ 12,405
2006	92,355
2007	89,790
2008	31,688
2009	39,689
2010	23,600
2011	19,755
2012	38,255
2019	33,635
2022	26,931
2023	108,331
	$ 516,434

Our ability to utilize our NOLs 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 an effort to reduce the risk of an ownership change, we have imposed restrictions on the ability of holders of 5% or more of our common stock, as well as the ability of others to become 5% stockholders as a result of transfers of our common stock. The transfer restrictions were implemented in 1992, and we expect that they will remain in force as long as the NOLs are available to us. Notwithstanding such transfer restrictions, there could be circumstances under which an issuance by us of a significant number of new shares of our common stock or other new class of equity security having certain characteristics (for example, the right to vote or convert into our common stock) might result in an ownership change under the Internal Revenue Code. 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.*

Discussion of Insurance Business

Following the acquisitions of Covanta and Ref-Fuel, the relative contribution of our insurance business to our cash flow and its relative percentage of our financial obligations were significantly reduced. Consequently, unlike prior years, our insurance business neither contributes materially to our cash flow nor imposes material financial obligations on us.

Our insurance business continues to represent an important element of our structure in that our NOLs were in part generated through the operations of former subsidiaries of Danielson Indemnity Company, referred to as DIND in this prospectus. Our ability to utilize that portion of the NOLs will depend upon the continued inclusion of our insurance business in our consolidated federal tax return. See Note 25 in Notes to the Audited Annual Financial Statements and Note 12 in the Notes to the Unaudited Interim Financial Statements for more information on our NOLs.

As discussed more fully below, our insurance businesses have succeeded in reducing their loss ratio by tightening underwriting criteria, exiting unprofitable lines of business and focusing on writing more profitable lines of business through its expanded arrangement with SCJ Insurance Services, referred to as SCJ in this prospectus.

Our insurance operations are conducted through wholly-owned subsidiaries. NAICC an indirect, wholly-owned subsidiary of ours through DIND, is our principal operating insurance subsidiary. NAICC, in turn, is the sole stockholder of Valor, a Montana domiciled specialty insurance company, Danielson Insurance

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Company, referred to as DICO in this prospectus, and Danielson National Insurance Company, referred to as DNIC in this prospectus. References to NAICC in this prospectus include NAICC and its subsidiaries unless otherwise indicated.

NAICC has historically managed its business across four principal lines of business:

(1) non-standard private passenger automobile;

(2) commercial automobile;

(3) workers compensation; and

(4) property and casualty.

However, as of December 31, 2004, NAICC was engaged in writing exclusively non-standard private passenger automobile primarily in California.

Insurers admitted in California are required to obtain approval from the California Department of Insurance, of rates and/or forms prior to being used. Many of the other states, in which NAICC does business, have similar requirements. Rates and policy forms are developed by NAICC and filed with the regulators in each of the relevant states, depending upon each state s requirements. NAICC relies upon its own as well as industry experience in establishing rates.

NAICC began writing non-standard private passenger automobile insurance in California in July 1993 through SCJ and endeavored to write additional personal automobile programs beginning in 1998 in other territories, but due to underwriting losses, ceased writing such additional policies in March 2002.

Non-standard risks are those segments of the driving public which generally are not considered preferred business, such as drivers with a record of prior accidents or driving violations, drivers involved in particular occupations or driving certain types of vehicles, or those drivers whose policies have not been renewed or declined by another insurance company. Generally, in order to address the associated higher risk or non-standard private automobile insurance, their premium rates are higher than standard premium rates while policy limits are lower than typical policy limits. Policyholder selection is governed by underwriting guidelines established by NAICC. Management believes that it is able to achieve underwriting success through refinement of various risk profiles, thereby dividing the non-standard market into more defined segments which can be adequately priced. Additionally, traditional lower policy limits lend themselves to quicker claims processing allowing management to respond more quickly to changing loss trends, by revising underlying underwriting guidelines and class and rate filings accordingly.

Private passenger automobile policy limits vary by state. In California non-standard policies primarily provide maximum coverage up to the statutory minimum of $15,000 per person, $30,000 per accident for liability and bodily injury and $10,000 per accident for property damage.

Net written premiums were $15.2 million, $18.1 million and $25.4 million in 2004, 2003 and 2002, respectively, and $9.5 million for the nine months ended September 30, 2005 for the non-standard private passenger automobile program. The primary reason for the continued decrease in private passenger automobile premiums in 2003 and 2004 were internally-imposed underwriting restrictions placed on the California non-standard automobile program in February 2002. However, in November 2004, NAICC lifted its moratorium on the non-standard personal automobile program after receiving approval from the California Department of Insurance for a new rate and class plan filing that is offered by DNIC through SCJ.

As a result of the favorable underwriting results in the non-standard personal automobile market, coupled with low premium leverage on its surplus, NAICC has retained 100% of the underlying risk of this program since 2001. Commencing in January 2005, NAICC and DNIC began to reinsure, on a quota share basis, 28% and 40%, respectively of its underlying risk with an AM Best A rated reinsurer. The new reinsurance program was sought to address premium growth ratio guidelines established by the Insurance Regulation Information System, referred to as IRIS in this prospectus, and the relative uncertainty of the underwriting results of the new program. Early in 2005 adverse trends were observed and in March 2005 certain underwriting measures were instituted on the DNIC program

that had a negative impact on premium volume.

On November 15, 2005, the California Department of Insurance approved and implemented a base rate increase of 11% for DNIC. At the same time, DNIC loosened its underwriting guidelines to attract additional production. Both the NAICC and the DNIC reinsurance programs are being re-examined for 2006 given the production levels.

NAICC does not write any business through managing general agents. SCJ is responsible for all of the marketing, underwriting and policy administration for the non-standard personal automobile policies in California. SCJ does not have rate making authority nor can it bind reinsurance on behalf of NAICC and DNIC. In return SCJ receives a flat commission on new and renewal policies written and participates in an incentive compensation arrangement dictated solely by underwriting results.

Commercial Automobile

NAICC began writing non-standard commercial automobile insurance in 1995 through independent agents and ceased writing new policies in July 2003. In September 2003, NAICC began providing 60-day statutory notification to non-renew all in-force policies. As a result, as of September 2004, there was no further loss exposure on this line. The majority of automobiles owned or used by businesses are insured under policies that provide other coverage for the business, such as commercial multi-peril insurance. The policies issued by NAICC were generally to businesses that were unable to insure a specific driver and businesses having vehicles not qualifying for commercial multi-peril insurance. The typical NAICC commercial automobile policy covered fleets of four or fewer vehicles. NAICC did not insure interstate trucking, trucks hauling logs, gasoline or similar higher hazard operations.

The maximum non-standard commercial automobile policy limit provided by NAICC was $1.0 million for bodily injury and property damage combined as a single limit of liability for each occurrence. NAICC retained the first $0.25 million of bodily injury and property damage combined as a single limit of liability for each occurrence.

Net written premiums for commercial automobile insurance were $(0.1) million, $11.9 million and $19.5 million in 2004, 2003 and 2002, respectively. The decrease in commercial automobile premiums in 2003 and 2004 was attributable to NAICC s decision to exit this line of business. The decision to exit the market was primarily driven by the unprofitable historical underwriting results, lack of surplus capacity and relatively high net retentions for this line of business.

Workers Compensation

NAICC began writing workers compensation insurance in 1987 and ceased writing policies in January 2002 in response to adverse market developments and loss experience. Through January 2002, NAICC and its subsidiary Valor wrote workers compensation insurance primarily in California and Montana. NAICC previously wrote workers compensation insurance in California and four other western states. Workers compensation insurance policies provide coverage for statutory benefits which employers are required to pay to employees who are injured in the course of employment including, among other things, temporary or permanent disability benefits, death benefits, medical and hospital expenses and expenses for vocational rehabilitation. Policies were issued having a term of no more than one year. The last California workers compensation policy was issued in July 2001 and the last policy issued outside of California was issued in January 2002. Valor began non-renewing all policies in December 2001 and was placed into run-off effective January 2002.

Prior to April 2000, NAICC retained the first $0.5 million of each workers compensation loss and purchased reinsurance for up to $49.5 million in excess of its retention, the first $9.5 million of which has been placed with three major reinsurance companies with the remaining $40 million provided by 16 other companies. In April 2000, NAICC entered into a workers compensation excess of loss reinsurance agreement with SCOR Re Insurance Company that provided coverage commencing at losses of $0.2 million. In May 2001, the $0.3 million excess of $0.2 million layer was placed with PMA Re Insurance Company on a 50% participation basis through run-off.

Prior to January 1996, NAICC retained the first $0.4 million of each workers compensation loss and retained $0.5 million up through April 2000. In April 2000, NAICC entered into a workers compensation excess of loss reinsurance agreement with SCOR Re Insurance Company that provided coverage commencing at losses of $0.2 million. In May 2001, the $0.3 million excess of $0.2 million layer was placed with PMA Re Insurance Company on a 50% participation basis through run-off. NAICC has purchased reinsurance up to a $50 million limit, net of its own retention. The first $10 million limit was placed with three major reinsurance companies with the remaining $40 million limit provided by 16 other companies.

Net written premiums for workers compensation were nil, $0.3 million and $7.6 million in 2004, 2003 and 2002, respectively. These decreases reflected NAICC s and Valor s exit from the market.

Property and Casualty

As of December 31, 1985, NAICC through a series of assumption agreements assumed the assets and liabilities of the Stuyvesant Insurance Company, referred to as Stuyvesant in this prospectus, for policies issued prior to 1978, along with then other affiliated H.F. Ahmanson insurance subsidiaries, collectively referred as H.F. Ahmanson in this prospectus. NAICC was subsequently acquired by KCP Holding Company, referred to as KCP in this prospectus, on September 19, 1986. On July 29, 1988, Mission American Insurance Company, referred to as MAIC in this prospectus, pursuant to an assumption agreement transferred all of its assets and liabilities (accident years 1985 through 1988) to NAICC in exchange for 62.76% of KCP s total common stock. MAIC was part of the Mission Insurance Group, Inc., which subsequently emerged from bankruptcy on August 16, 1990 as a predecessor of ours. On December 31, 1991, our predecessor acquired the remaining outstanding shares of KCP, not then indirectly owned by us, through its ownership of MAIC. NAICC for the years 1987 to 1995 wrote a commercial multi peril program for artisan contractors, and separately, a homeowners program from 1998 to 2001. NAICC continues to discharge claims arising under its own insurance policies and contracts and those issued by MAIC, Stuyvesant and other H.F. Ahmanson former insurance affiliates.

The property and casualty claims are categorized as follows:

(1) direct excess and primary policies;

(2) workers compensation;

(3) reinsurance assumed on an excess of loss basis; and

(4) reinsurance assumed on pool business primarily from the London marketplace.

Substantially all remaining claims on policies, issued by companies other than by NAICC, are of an A&E nature.

As of December 31, 2004, there remained 63 direct excess and primary claims, of which 17 were related to policies issued by Stuyvesant, 23 by H.F. Ahmanson entities, nine by MAIC and twelve by NAICC. These claims generally had policy limits up to $1.0 million with reinsurance generally above $50,000. NAICC issued-policies are approaching the 10-year statute of limitations baring future claims acceptance. As of December 31, 2004, there were 51 open workers compensation claims, the majority of which were issued by MAIC with no reinsurance coverage. The assumed reinsurance contracts had relatively low participation, generally less than $25,000, and estimates of unpaid losses have been based on information provided by the primary insurance companies. At December 31, 2004, there were 395 open claims related to excess of loss assumed reinsurance. As of December 31, 2004 and 2003, NAICC s net unpaid losses and loss adjustment expenses relating to A&E claims were approximately $8.2 million and $8.3 million, respectively. In the most current three years of development there has been an influx of newly reported A&E cases on an excess of loss basis related to the Stuyvesant issued policies that are beginning to pierce the limits in which NAICC participates. New cases reported in 2004, 2003 and 2002 on the assumed excess of loss of business increased 2%, 19% and 15%, respectively; however, the incurred losses, related to assumed excess of loss of business, were less than $0.4 million for the last three years. Approximately 40% of the aggregate assumed pool business has been reinsured, all with AM Best rated A or better carriers. Management has been successful in

commuting with several cedants and pools with respect to the assumed liabilities and will continue to look for such opportunities in the future.

Marketing

NAICC currently markets its non-standard private passenger automobile insurance in California through SCJ who in turn uses over 600 sub-agents or retail brokers to obtain applications for policies. SCJ processed 16,641, 16,002 and 43,013 applications in 2004, 2003 and 2002, binding 95.6%, 96.1% and 96.3% as policies, respectively.

Claims

All automobile claims are handled by employees of NAICC at its home office in Long Beach, California. Claims are reported by agents, insureds and claimants directly to NAICC. Claims involving suspected fraud are referred to an in-house special investigation unit, which manages a detailed investigation of these claims using outside investigative firms. When evidence of fraudulent activity is identified, the special investigation unit works with the various state departments of insurance, the National Insurance Crime Bureau and local law enforcement agencies in handling the claims.

Workers compensation claims have been consolidated and outsourced to a regional third party administrator, TRISTAR Risk Management, effective July 2004. NAICC transferred all of its files, to leverage Tristar s medical fee discounts, including medical provider networks, operational size, supervision, and the special investigation unit and quality assurance program on the remaining outstanding claims liability.

Property and casualty claims are received, reviewed and processed by NAICC employees located in Long Beach, California. Additionally, NAICC uses external consultants and attorneys to aid in determining the extent, obligation and accuracy of claims originating from Stuyvesant policies issued prior to 1978.

Losses and Loss Adjustment Expenses

NAICC s net unpaid losses and LAE represent the estimated indemnity cost and expense necessary to cover the ultimate net cost of investigating and settling claims.

Such estimates are based upon estimates for reported losses, historical company experience of losses reported by reinsured companies for insurance assumed and actuarial estimates based upon historical company and industry experience for development of reported and unreported claims (incurred but not reported). Any changes in estimates of ultimate liability are reflected in current operating results. Inflation is assumed, along with other factors, in estimating future claim costs and related liabilities. NAICC does not discount any of its loss reserves.

The California legislature in response to rising workers compensation costs and a lack of available market, passed Assembly Bill No. 227, Senate Bill No. 228 both signed on September 12, 2003, and Senate Bill No. 899, effective April 19, 2004, all of which were signed by the Governor. These bills contain many reforms designed to reduce the cost of workers compensation claims. Several of the provisions apply to medical services provided after the effective dates, including services on injuries that occurred prior to the effective dates. As a result, the reforms are expected to have a retroactive impact and therefore affect pre-established reserve levels. The six major provisions that could have a retroactive impact on NAICC s reserves are:

Changes to the Official Medical Fee Schedule Values for Physician Services

Changes to the Official Medical Fee Schedule for Inpatient Services

Pharmaceutical Fee Schedule

Outpatient Surgery Center Fee Schedule

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Repeal of the Primary Treating Physician Presumption for Pre-2003 Injuries

Other Medical Treatment Utilization

Soon after the legislative changes became effective, NAICC observed an increase in attempts to settle claims. The ultimate loss and ALAE estimates for NAICC, not including Valor, workers compensation was reduced by $2.6 million between 2003 and 2004 or approximately 19% of the prior year reserves. Although the actuarial estimates did not explicitly factor the effect of the reforms, NAICC believes that the favorable development was, in part, related to the new legislation.

The ultimate cost of claims is difficult to predict for several reasons. Claims may not be reported until many years after they are incurred. Changes in the rate of inflation and uncertainty in the legal environment may also create forecasting complications. Court decisions may dramatically increase liability in the time between the dates on which a claim is reported and its resolution. For example, punitive damages awards have grown in frequency and magnitude. Courts have imposed increasing obligations on insurance companies to defend policyholders. As a result, the frequency and severity of claims have grown rapidly and unpredictably.

The unpaid losses and LAE, related to environmental cleanup, were established considering facts then currently known and the then current state of the law and coverage litigation. Liabilities are estimated for known claims, including the cost of related litigation, when sufficient information has been developed to indicate the involvement of a specific contract of insurance or reinsurance and management can reasonably estimate its liability. Estimates for unknown claims and development on reported claims are included in NAICC s unpaid losses and LAE. The liability for development of reported claims has been based on the estimates of the range of potential losses for reported claims in the aggregate. Estimates of liabilities are reviewed and updated continually and there is the potential that NAICC s ultimate liabilities could be materially in excess of amounts that are currently recorded.

Management believes, taking into account the opinions of independent actuarial professionals, that the provisions for unpaid losses and LAE are adequate to cover the net cost of losses and loss expenses incurred to date; however, such liability is necessarily based on estimates and there can be no assurance that the ultimate liability will not exceed such estimates.

The following table provides a reconciliation of NAICC s net unpaid losses and LAE (in thousands of dollars):

	Year Ended December 31,		
	2004	**2003**	**2002**
Net unpaid losses and LAE at beginning of year	$ 65,142	$ 79,192	$ 88,012
Incurred losses, net, related to:			
Current year	10,343	23,199	49,474
Prior years	2,518	13,485	10,407
Total net incurred	12,861	36,684	59,881
Paid losses, net, related to:			
Current year	(5,427)	(10,133)	(22,871)
Prior years	(26,348)	(40,601)	(45,830)
Total net paid	(31,775)	(50,734)	(68,701)
Net unpaid losses and LAE at December 31	46,228	65,142	79,192
Plus: Reinsurance recoverable on unpaid losses, net	18,042	18,238	22,057

Gross unpaid losses and LAE at December 31	$ 64,270	$ 83,380	$ 101,249

The net losses and LAE incurred during 2004 related to prior years is attributable to recognition of unfavorable development in commercial auto of $2.4 million primarily for accident years 2001 through 2002, property and casualty of $1.6 million and unallocated LAE for all lines of $1.0 million. Favorable development

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on prior periods was recognized in workers compensation and private passenger automobile of $0.7 million and $1.8 million, respectively. The net losses and LAE incurred during 2003 related to prior years and were attributable to recognition of unfavorable development in the following: commercial automobile of $5.5 million for accident years 2000 through 2002; workers compensation of $5.5 million of which $3.9 million was attributable to Valor; and property and casualty of $1.5 million, most of which was attributable to unallocated LAE reserves. All of the commercial automobile programs were placed in run-off during 2003. The net losses and LAE incurred during 2002 related to prior years and were attributable to adverse development on both the California workers compensation line totaling $3.5 million, certain private passenger automobile programs totaling $4.7 million, and commercial automobile totaling $2.0 million.

The following table indicates the manner in which unpaid losses and LAE at the end of a particular year change as time passes. The first line reflects the liability as originally reported, net of reinsurance, at the end of the stated year. Each calendar year-end liability includes the estimated liability for that accident year and all prior accident years comprising that liability. The second section shows the original recorded net liability as of the end of successive years adjusted to reflect facts and circumstance that are later discovered. The next line, cumulative (deficiency) or redundancy, compares the adjusted net liability amount to the net liability amount as originally established and reflects whether the net liability as originally recorded was adequate to cover the estimated cost of claims or redundant. The third section reflects the cumulative amounts related to that liability that was paid, net of reinsurance, as of the end of successive years.

Analysis of Net Losses and LAE Development (in thousands of dollars):

	Year Ended December 31,										
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Originally reported gross											
Unpaid Losses and LAE	$ 146,330	$ 137,406	$ 120,651	$ 105,947	$ 95,653	$ 94,934	$ 100,030	$ 105,745	$ 101,249	$ 83,381	$ 64,270
Originally reported ceded recoverable	17,705	21,112	23,546	20,185	18,187	15,628	20,641	17,733	22,057	18,239	18,042
Originally reported net unpaid Losses and LAE	128,625	116,294	97,105	85,762	77,466	79,306	79,389	88,012	79,192	65,142	46,228
Net Unpaid Losses and LAE re-estimated as of:											

One Year Later	131,748	126,413	98,045	85,762	79,957	84,560	87,035	98,419	92,677	67,660
Two Years Later	141,602	126,796	97,683	85,684	82,778	88,001	94,570	109,795	97,331	
Three Years Later	141,787	127,621	98,545	87,613	83,778	92,213	100,640	112,770		
Four Years Later	144,491	129,792	102,053	88,238	87,160	94,895	101,486			
Five Years Later	146,827	133,985	102,949	89,802	89,476	95,803				
Six Years Later	151,784	134,992	103,645	91,892	90,345					
Seven Years Later	152,764	135,629	105,767	92,301						
Eight Years Later	153,459	137,886	106,108							
Nine Years Later	155,591	138,245								
Ten Years Later	156,044									
Cumulative (deficiency) redundancy	(27,419)	(21,951)	(9,003)	(6,539)	(12,879)	(16,497)	(22,097)	(24,758)	(18,139)	(2,518)

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	Year Ended December 31,										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cumulative net paid Losses and LAE as of:											
Inception Year	$ 15,849	$ 14,464	$ 10,559	$ 13,801	$ 16,170	$ 16,527	$ 25,360	$ 28,631	$ 22,870	$ 10,263	$ 5,427
One Year Later	46,582	46,132	35,696	31,317	43,09	51,608	64,599	74,460	63,343	36,611	
Two Years Later	80,515	74,543	54,815	43,855	62,577	71,151	86,722	98,827	83,710		
Three Years Later	101,726	90,818	63,290	56,968	74,267	83,225	97,694	111,535			
Four Years Later	114,424	97,900	74,306	66,015	82,524	88,524	103,944				
Five Years Later	119,310	108,061	82,568	72,531	86,278	92,795					
Six Years Later	128,117	115,721	88,424	75,231	89,696						
Seven Years Later	135,013	121,344	90,776	91,574							
Eight Years Later	140,146	123,477	103,563								
Nine Years Later	141,899	125,575									
Ten Years Later	143,828										
Reconciliation to gross re-estimated reserves:											
Net reserves re-estimated	156,044	138,245	106,108	92,301	90,345	95,803	101,486	112,770	97,331	67,560	46,228
Re-estimated ceded	27,473	29,463	28,441	28,838	23,659	18,506	25,232	33,750	29,798	21,323	8,042

recoverable											
Total gross re-estimated reserves	$ 183,517	$ 167,708	$ 134,549	$ 121,139	$ 114,004	$ 114,309	$ 126,718	$ 146,520	$ 127,129	$ 88,983	$ 64,270

A discussion regarding adverse development by line recorded in 2004, 2003 and 2002 is set forth above in the prior table and narrative. The adverse development for the years ended 1996 through 2001 was related to both commercial auto and workers compensation. The commercial auto was most significantly impacted by case strengthening related to a change in claims administration, 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. Workers compensation was most affected by changes in legislation that occurred in 1995 that took several years to develop, with such development being different than the experience prior to 1995.

The development for the years ended 1994 and 1995 was due in part to the strengthening of the unpaid losses and LAE of property and casualty businesses assumed by NAICC in 1985 and workers compensation written prior to 1991. NAICC has continued to post additional IBNR despite negotiations on several commutations of assumed excess of loss reinsurance contracts that indicated previous estimates of IBNR.

Conditions and trends that have affected the development of these liabilities in the past may not necessarily recur in the future especially considering that those ongoing lines that have experienced the greatest adverse development have been placed in run-off in 2001 and 2003. Reliance on this cumulative history may not be indicative of future performance.

Reinsurance

In its normal course of business, NAICC reinsures a portion of its exposure with other insurance companies so as to effectively limit its maximum loss arising out of any one occurrence. Contracts of reinsurance do not legally discharge the original insurer from its primary liability. Estimated reinsurance receivables arising from these contracts of reinsurance are reported separately as assets in accordance with generally accepted accounting principles in the United States.

As of December 31, 2004, General Reinsurance Corporation was the only reinsurer that comprised more than 10% of NAICC s reinsurance recoverable on paid and unpaid balances. NAICC monitors all reinsurers, by reviewing A.M. Best reports and ratings, information obtained from reinsurance intermediaries and analyzing financial statements. At December 31, 2004, NAICC had reinsurance recover-able on paid and unpaid balances from General Reinsurance Corporation of $12.4 million. General Reinsurance Corporation has an A.M. Best rating of A++. See Note 10 to the Notes to the Audited Annual Financial Statements for further information on reinsurance.

NAICC and two of its subsidiaries participate in an inter-company pooling and reinsurance agreement. Under this agreement DICO and DNIC cede 100% of their net liability, defined to include premiums, losses and LAE, to NAICC to be combined with the net liability for policies of NAICC in formation of the pool. NAICC simultaneously cedes to DICO and DNIC 10% of the net liability of the pool. DNIC commenced participation in July 1993 and DICO commenced in January 1994. Additionally, DICO, DNIC and Valor reimburse NAICC for executive services, professional services, and administrative expenses based primarily on designated percentages of net written premiums and other cost determiners for each line of business.

MARKETS, COMPETITION AND BUSINESS CONDITIONS

General Business Conditions

Covanta s business can be adversely affected by general economic conditions, war, inflation, adverse competitive conditions, governmental restrictions and controls, change in law, natural disasters, energy shortages, fuel cost and availability, weather, the adverse financial condition of customers and suppliers, various technological changes and other factors over which Covanta has no control.

Covanta expects in the foreseeable future that competition for new contracts and projects will be intense in all domestic markets in which Covanta conducts or intends to conduct its businesses, and its businesses will be subject to a variety of competitive and market influences.

With respect to its waste-to-energy business, Covanta competes in the waste disposal markets, which is highly competitive. While Covanta currently processes for disposal over 5% of the municipal solid waste in the United States, the market for waste disposal is almost entirely price-driven and is greatly influenced by economic factors within regional waste sheds. These factors include:

- regional population and overall waste production rates;
- the number of other waste disposal sites (including principally landfills and transfer stations) in existence or in the planning or permitting process;
- the available disposal capacity (in terms of tons of waste per day) that can be offered by other regional disposal sites; and
- the availability and cost of transportation options (rail, intermodal, trucking) to provide access to more distant disposal sites, thereby affecting the size of the waste shed itself.

In this market, Covanta competes on disposal price (usually on a per-ton basis) with other disposal service providers seeking to obtain waste supplies to their facilities. At most of its facilities, Covanta is unable to compete in this market because it does not have the contractual right to solicit waste; at these facilities it is the client community which is responsible for obtaining the waste, if necessary by competing on price to obtain the tons of waste it has contractually promised to deliver to Covanta s facility. At all but eight of its facilities, Covanta is unable to offer material levels of disposal capacity to the market because of existing long-term contractual commitments. At these projects plant capacity is contractually committed and therefore unable to be offered to the market. At eight of its facilities Covanta is responsible for obtaining material amounts of waste supply and so is actively competing in these markets to enter into spot medium- and long-term contracts. All of these projects are in densely populated areas, with high waste generation rates and numerous large and small participants in the regional market.

Covanta s waste operations are largely concentrated in the northeastern United States. See *Risk Factors Waste and Energy Services Business-Specific Risks Covanta s waste operations are concentrated in one region, and expose us to regional economic or market declines* for additional information concerning this geographic concentration.

If a long-term contract expires and is not renewed or extended by a client community, Covanta s percentage of contracted disposal capacity will decrease, and it will need to compete in the regional market for waste disposal. At that point, it will compete on price with landfills, transfer stations, other waste-to-energy

facilities and other waste disposal technologies that are then offering disposal service in the region. See discussion under *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* for additional information concerning the expiration of existing contracts.

Since before its bankruptcy filing in 2002, Covanta has not engaged in material development activity with respect to its independent power business. Covanta may consider developing additional renewable energy projects in the future, and if it were to do so would face competition from a large number of independent energy companies.

With respect to its sales of electricity from its waste-to-energy projects and independent power projects Covanta primarily sells its output pursuant to long-term contracts. Accordingly, it generally does not sell its output into markets where it must compete on price. As these contracts expire, Covanta will participate in such markets if it is unable to enter into new or renewed long-term contracts. See discussion under *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 additional information concerning the expiration of existing contracts.

Once a contract is awarded or a project is financed and constructed, Covanta s business can be impacted by a variety of risk factors which can affect profitability over the life of a project. Some of these risks are at least partially within Covanta s control, such as successful operation in compliance with law and the presence or absence of labor difficulties or disturbances. Other risk factors are largely out of Covanta s control and may have an adverse impact on a project over a long-term operation. See *Risk Factors Waste and Energy Services Business-Specific Risks* for more information on the these types of risks.

Technology

Covanta has the exclusive right to market in the United States the proprietary mass-burn technology of Martin GmbH fur Umwelt und Energietechnik, referred to in this prospectus as Martin. All of the waste-to-energy projects that Covanta has constructed use the Martin technology. The principal feature of the Martin technology is the reverse-reciprocating stoker grate upon which the waste is burned. The patent for the basic stoker grate technology used in the Martin technology expired in 1989, and there are various other expired and unexpired patents relating to the Martin technology. Covanta believes that it is Martin s know-how and worldwide reputation in the waste-to-energy field, and Covanta s know-how in designing, constructing and operating waste-to-energy facilities, rather than the use of patented technology, that is important to Covanta s competitive position in the waste-to-energy industry in the United States. Covanta does not believe that the expiration of the patent covering the basic stoker grate technology or patents on other portions of the Martin technology will have a material adverse effect on Covanta s financial condition or competitive position.

Covanta believes that mass-burn technology is now the predominant technology used for the combustion of solid waste. Covanta believes that the Martin technology is a proven and reliable mass-burn technology, and that its association with Martin has created significant name recognition and value for Covanta s domestic waste-to-energy business.

Since 1984, Covanta s rights to the Martin technology have been provided pursuant to a cooperation agreement with Martin which gives Covanta exclusive rights to market, and distribute parts and equipment for the Martin technology in the United States, Canada, Mexico, Bermuda and certain Caribbean countries. Martin is obligated to assist Covanta in installing, operating and maintaining facilities incorporating the Martin technology. The cooperation agreement renews automatically each year unless notice of termination is given, in which case the cooperation agreement would terminate ten years after such notice. Any termination would not affect the rights of Covanta to design, construct, operate, maintain or repair waste-to-energy facilities for which contracts have been entered into or proposals made prior to the date of termination.

Through facility acquisitions, Covanta owns and/or operates some waste-to-energy facilities which utilize additional technologies, including non-Martin mass-burn technologies, and refuse-derived fuel technologies which include pre-combustion waste processing not required with a mass burn design.

Insurance Business

The property and casualty insurance industry is highly competitive. The insurance industry consists of a large number of companies, many of which operate in more than one state, offering automobile, homeowners and commercial property insurance, as well as insurance coverage in other lines. Many of NAICC s competitors have larger volumes of business, greater financial resources and higher financial strength ratings. NAICC s competitors having greater shares of the California market sell automobile insurance either directly to consumers, through independent agents and brokers or through exclusive agency arrangements similar to SCJ.

The principal means by which our insurance business competes with other automobile insurers is by its focus on meeting the needs of the non-standard private passenger automobile market in California where it believes it has competitive pricing, underwriting and service capabilities. Our insurance business also competes by using niche marketing efforts of its products through SCJ.

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.

REGULATION OF BUSINESS

Our Waste and Energy Services business and our insurance business are both highly regulated.

Environmental Regulatory Laws Affecting Covanta s Waste and Energy Services Business

Domestic

Covanta s business activities in the United States are pervasively regulated pursuant to federal, state and local environmental laws. Federal laws, such as the Clean Air Act and Clean Water Act, and their state counterparts, govern discharges of pollutants to air and water. Other federal, state and local laws comprehensively govern the generation, transportation, storage, treatment and disposal of solid and hazardous waste and also regulate the storage and handling of chemicals and petroleum products. Such laws and the related regulations are referred to collectively as the Environmental Regulatory Laws in this prospectus.

Other federal, state and local laws, such as the Comprehensive Environmental Response Compensation and Liability Act, commonly known as CERCLA and collectively referred to with such other laws as the Environmental Remediation Laws in this prospectus, make Covanta potentially liable on a joint and several basis for any onsite or offsite environmental contamination which may be associated with Covanta s activities and the activities at sites. These include landfills that Covanta s subsidiaries have owned, operated or leased or, at which there has been disposal of residue or other waste generated, handled or processed by such subsidiaries. Some state and local laws also impose liabilities for injury to persons or property caused by site contamination. Some service agreements provide for indemnification of operating subsidiaries from certain liabilities. In addition, other subsidiaries involved in landfill gas projects have access rights to landfill sites pursuant to certain leases that permit the installation, operation and maintenance of landfill gas collection systems. A portion of these landfill sites have been federally-designated Superfund sites. Each of these leases provide for indemnification of the Covanta subsidiary from some liabilities associated with these sites.

The Environmental Regulatory Laws require that many permits be obtained before the commencement of construction and operation of any waste-to-energy, independent power project or water facility, and further require that permits be maintained throughout the operating life of the facility. There can be no assurance that

all required permits will be issued or re-issued, and the process of obtaining such permits can often cause lengthy delays, including delays caused by third-party appeals challenging permit issuance. Failure to meet conditions of these permits or of the Environmental Regulatory Laws can subject an operating subsidiary to regulatory enforcement actions by the appropriate governmental unit, which could include fines, penalties, damages or other sanctions, such as orders requiring certain remedial actions or limiting or prohibiting operation. See *Risk Factors Waste and Energy Services Business-Specific Risks Compliance with environmental laws could adversely affect our results of operations.* To date, Covanta has not incurred material penalties, been required to incur material capital costs or additional expenses, nor been subjected to material restrictions on its operations as a result of violations of Environmental Regulatory Laws or permit requirements.

Although Covanta s operations are occasionally subject to proceedings and orders pertaining to emissions into the environment and other environmental violations, which may result in fines, penalties, damages or other sanctions, Covanta believes that it is in substantial compliance with existing environmental laws and regulations. Covanta may be identified, along with other entities, as being among parties potentially responsible for contribution to costs associated with the correction and remediation of environmental conditions at disposal sites subject to CERCLA and/or analogous state laws. In certain instances Covanta may be exposed to joint and several liabilities for remedial action or damages. Covanta s ultimate liability in connection with such environmental claims will depend on many factors, including its volumetric share of waste, the total cost of remediation, the financial viability of other companies that also sent waste to a given site and, in the case of divested operations, its contractual arrangement with the purchaser of such operations.

The Environmental Regulatory Laws are subject to revision. New technology may be required or stricter standards may be established for the control of discharges of air or water pollutants, for storage and handling of petroleum products or chemicals or for solid or hazardous waste or ash handling and disposal. Thus, as new technology is developed and proven, it may be required to be incorporated into new facilities or may require major modifications to existing facilities. This new technology may often be more expensive than that used previously.

The Environmental Remediation Laws prohibit disposal of regulated hazardous waste at Covanta s municipal solid waste facilities. The service agreements recognize the potential for improper deliveries of hazardous wastes and specify procedures for dealing with hazardous waste that is delivered to a facility. Although some service agreements require Covanta s subsidiary to be responsible for some costs related to hazardous waste deliveries, to date no operating subsidiary has incurred material hazardous waste disposal costs.

Domestic drinking water facilities are subject to regulation of water quality by the state and federal agencies under the federal Safe Drinking Water Act and by similar state laws. These laws provide for the establishment of uniform minimum national water quality standards, as well as governmental authority to specify the type of treatment processes to be used for public drinking water. Under the federal Clean Water Act, Covanta may be required to obtain and comply with National Pollutant Discharge Elimination System permits for discharges from its treatment stations. Generally, under its current contracts, Covanta is not responsible for fines and penalties resulting from the delivery to Covanta s treatment facility of water not meeting standards set forth in those contracts.

International

Covanta aims to provide energy generating and other infrastructure through environmentally protective project designs, regardless of the location of a particular project. This approach is consistent with the stringent environmental requirements of multilateral financing institutions, such as the World Bank, and also with Covanta s experience in domestic waste-to-energy projects, where environmentally protective facility design and performance is required. Compliance with environmental standards comparable to those of the United States may be conditions to the provision of credit by multilateral banking agencies as well as other lenders or credit providers. The laws of other countries also may require regulation of emissions into the environment, and provide governmental entities with the authority to impose sanctions for violations, although these

requirements are generally not as rigorous as those applicable in the United States. See *Risk Factors Waste and Energy Services Business-Specific Risks Exposure to international economic and political factors may materially and adversely affect our Waste and Energy Services business* and *Risk Factors Waste and Energy Services Business-Specific Risks Compliance with environmental laws could adversely affect our resources of operations.* As with domestic project development, there can be no assurance that all required permits will be issued, and the process can often cause lengthy delays.

Energy and Water Regulations Affecting Covanta s Businesses

Covanta s businesses are subject to the provisions of federal, state and local energy laws applicable to the development, ownership and operation of their domestic facilities and to similar laws applicable to their foreign operations. Federal laws and regulations applicable to many of Covanta s domestic energy businesses impose limitations on the types of fuel used and prescribe the degree to which these businesses are subject to federal and state utility-type regulation. State regulatory regimes govern rate approval and the other terms and conditions pursuant to which utilities purchase electricity from independent power producers, except to the extent such regulation is governed by federal law.

Pursuant to PURPA, the FERC has promulgated regulations that exempt qualifying facilities (facilities meeting certain size, fuel and ownership requirements, referred to as QFs in this prospectus) from compliance with certain provisions of the FPA, the Public Utility Holding Company Act of 1935, referred to as PUHCA in this prospectus, and certain state laws regulating the rates charged by, or the financial and organizational activities of, electric utilities. PURPA was enacted in 1978 to encourage the development of cogeneration facilities and other facilities making use of non-fossil fuel power sources, including waste-to-energy facilities. The exemptions afforded by PURPA to QFs from regulation under the FPA and most aspects of state electric utility regulation are of great importance to Covanta and its competitors in the waste-to-energy and independent power industries. Except with respect to waste-to-energy facilities with a net power production capacity in excess of 30 MW (where rates are set by the FERC), state public utility commissions must approve the rates, and in some instances other contract terms, by which public utilities purchase electric power from QFs.

The Energy Policy Act of 2005, passed in August 2005, makes certain changes to the federal energy laws applicable to Covanta s businesses, the most significant of which are described below:

The Energy Policy Act repeals PUHCA, effective February 2006, which eliminates any remote risk Covanta might have faced by being subject to extensive, utility-type regulation and reporting if it were considered a holding company under PUHCA. The repeal of PUHCA has been balanced with increased FERC authority to cause record keeping and conduct investigations under appropriate circumstances. FERC s increased authority is not expected to have a material adverse effect on Covanta.

The Energy Policy Act amends certain provisions of PURPA. It terminates PURPA s mandatory purchase (and sale) obligation imposed on utilities or the benefits of QFs where the QF has nondiscriminatory access to competitive power markets. Existing contracts are grandfathered, but expansions, renewals and new development projects must rely on competitive power markets, rather than PURPA protections, in establishing and maintaining their viability in most geographic regions in which the Covanta businesses operate. The Energy Policy Act also eliminates the utility ownership limitation for QFs. This change might have the effect of making some transactions and development projects more likely to be consummated. This could result in greater utility ownership of QFs than previously was the case due to PURPA and PUHCA restrictions and considerations. If these transactions and development projects occur in the areas of waste-to-energy, other renewable energy and independent power, it could serve to increase competition with Covanta s businesses by bringing greater utility participation to these markets.

The Energy Policy Act extends or establishes certain renewable energy incentives and tax credits which might be helpful to expansions of Covanta s businesses or to new development.

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Covanta presently has ownership and operating interests in electric generating projects outside the United States. Most countries have expansive systems for the regulation of the power business. These generally include provisions relating to ownership, licensing, rate setting and financing of generating and transmission facilities.

Regulatory Laws Affecting Our Insurance Business

Insurance companies are subject to insurance laws and regulations established by the states in which they transact business. The agencies established pursuant to these state laws have broad administrative and supervisory powers relating to the granting and revocation of licenses to transact business, regulation of trade practices, establishment of guaranty associations, licensing of agents, approval of policy forms, premium rate filing requirements, reserve requirements, the form and content of required regulatory financial statements, capital and surplus requirements and the maximum concentrations of certain classes of investments. Most states also have enacted legislation regulating insurance holding company systems, including acquisitions, extraordinary dividends, the terms of affiliate transactions and other related matters. We and our insurance subsidiaries have registered as holding company systems pursuant to such legislation in California and Montana and routinely report to other jurisdictions. The National Association of Insurance Commissioners has formed committees and appointed advisory groups to study and formulate regulatory proposals on such diverse issues as the use of surplus debentures, accounting for reinsurance transactions and the adoption of risk based capital requirements. It is not possible to predict the impact of future state and federal regulation on the operations of us or our insurance business.

Effective January 1, 2001, the National Association of Insurance Commissioners codified statutory accounting principles, referred to as SAP in this prospectus, had been adopted by all U.S. insurance companies. The purpose of such codification is to provide a comprehensive basis of accounting and reporting to insurance departments. Although codification is expected to be the foundation of a state s statutory accounting practice, it may be subject to modification by practices prescribed or permitted by a state s insurance commissioner. Therefore, statutory financial statements will continue to be prepared on the basis of accounting practice prescribed or permitted by the insurance department of the state of domicile.

Dividends

NAICC is an insurance company domiciled in the State of California and is regulated by the California Department of Insurance for the benefit of policyholders. The California Insurance Code does not permit the payment of an extraordinary shareholder dividend without prior approval from the California Insurance Commissioner. Dividends are considered extraordinary if they exceed the greater of net income or 10% of statutory surplus as of the preceding December 31st. As of the date of this prospectus, and into the foreseeable future, NAICC does not have sufficient accumulated earned surplus to pay further ordinary dividends.

Capital Adequacy and Risk-Based Capital

A model for determining the risk-based capital requirements, referred to as RBC requirements in this prospectus, for property and casualty insurance companies was adopted in December 1993. The model generally assesses our assets at risk and underwriting operations and determines policyholders surplus levels necessary to support such activity. NAICC has calculated its RBC requirements under the most recent RBC model and, as of December 31, 2004, it had capital in excess of any regulatory action level.

The RBC model sets forth four levels of increasing regulatory intervention:

(1) Company Action Level (200% of an insurer s Authorized Control Level), at which the insurer must submit to the regulator a plan for increasing such insurer s capital;

(2) Regulatory Action Level (150% of an insurer s Authorized Control Level), at which the insurer must submit a plan for increasing its capital to the regulator and the regulator may issue corrective orders;

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(3) Authorized Control Level, a multi-step calculation based upon information derived from an insurer s most recent filed statutory annual statement, at which the regulator may take action to rehabilitate or liquidate the insurer; and

(4) Mandatory Control Level (70% of an insurer s Authorized Control Level), at which the regulator must rehabilitate or liquidate the insurer.

At December 31, 2004, the RBC of NAICC improved to 361% compared to 252% in 2003.

As discussed in the section entitled *The Business General Overview* of this prospectus, ACL filed for protection under Chapter 11 in 2002. As a result, it was determined that NAICC s investment in ACL was fully impaired for statutory accounting purposes. At December 31, 2002, NAICC recognized a statutory charge to its surplus of $7.4 million. This charge, when combined with NAICC s underwriting results and investment losses, reduced its statutory surplus level below the Company Action Level of NAICC s RBC calculation. In response, we repaid a $4.0 million note due May 2004 to NAICC, and further contributed $4.0 million to NAICC to increase its statutory capital during February 2003. With permission from the California Department of Insurance, these amounts were recorded as admitted assets for statutory accounting purposes at December 31, 2002. After consideration for the $8.0 million noted above, NAICC s reported capital and surplus as of December 31, 2002 was above the Company Action Level of NAICC s RBC calculation.

In December 2003, we contributed $2.0 million to NAICC to increase its statutory capital. No contributions were made by us to its insurance operations in 2004.

EMPLOYEES

As of September 30, 2005, we employed 2,395 full-time employees worldwide, of which a majority are employed in the United States.

Of our employees in the United States, approximately 16% are unionized. Currently, Covanta is party to seven collective bargaining agreements: one of these agreements is scheduled to expire in 2005, two in 2006, and one in 2008. With respect to the remaining three agreements which have recently expired, Covanta is in negotiations with the applicable collective bargaining representatives and Covanta currently expects to reach agreements with such representatives to extend such agreements on their current or similar terms.

We consider relations with our employees to be good and do not anticipate any significant labor disputes in 2005.

PROPERTIES

During 2004, we moved our executive offices from Chicago, Illinois to Fairfield, New Jersey. Our executive offices are now located at 40 Lane Road, Fairfield, New Jersey, in an office building located on a 5.4 acre site owned by a subsidiary. In 2004, we closed our office in Fairfax, Virginia, and relocated an office in Redding, California to Anderson, California. Additionally, Covanta sold its interests in two landfill gas projects situated on leased sites in Sun Valley and Los Angeles, California.

The following table summarizes certain information relating to the locations of the properties we or our subsidiaries own or lease:

	Location	Approximate Site Size (In Acres)(1)	Site Use	Nature of Interest(2)
OTHER SERVICES				
1.	Fairfield, New Jersey	5.4	Office space	Own
2.	Long Beach, California(3)	14,632 sq. ft.	Office space	Lease
WASTE AND ENERGY SERVICES				
3.	Anderson, California	2,000 sq. ft	Office space	Lease

	Location	Approximate Site Size (In Acres)(1)	Site Use	Nature of Interest(2)
4.	City of Industry, California	953 sq. ft.	Office space	Lease
5.	Marion County, Oregon	15.2	Waste-to-energy facility	Own
6.	Alexandria/ Arlington, Virginia	3.3	Waste-to-energy facility	Lease
7.	Bristol, Connecticut	18.2	Waste-to-energy facility	Own
8.	Indianapolis, Indiana	23.5	Waste-to-energy facility	Lease
9.	Stanislaus County, California	16.5	Waste-to-energy facility	Lease
10.	Babylon, New York	9.5	Waste-to-energy facility	Lease
11.	Haverhill, Massachusetts	12.7	Waste-to-energy facility	Lease
12.	Haverhill, Massachusetts	16.8	Landfill Expansion	Lease
13.	Haverhill, Massachusetts	20.2	Landfill	Lease
14.	Lawrence, Massachusetts	11.8	RDF power plant(closed)	Own
15.	Lake County, Florida	15.0	Waste-to-energy facility	Own
16.	Wallingford, Connecticut	10.3	Waste-to-energy facility	Lease
17.	Fairfax County, Virginia	22.9	Waste-to-energy facility	Lease
18.	Union County, New Jersey	20.0	Waste-to-energy facility	Lease
19.	Huntington, New York	13.0	Waste-to-energy facility	Lease
20.	Warren County, New Jersey	19.8	Waste-to-energy facility	Lease
21.	Hennepin County, Minnesota	14.6	Waste-to-energy facility	Lease
22.	Onondaga County, New York	12.0	Waste-to-energy facility	Lease
23.	Bataan, the Philippines	30,049 sq. m.	Diesel power plant	Lease
24.	Zhejiang Province, People s Republic of China	33,303 sq. m.	Coal-fired cogeneration facility	Land Use Right reverts to China Joint Venture Partner upon termination of Joint Venture Agreement
25.	Shandong Province, People s Republic of China	33,303 sq. m.	Coal-fired cogeneration facility	Land Use Right reverts to China Joint Venture Partner upon termination of Joint China Venture

				Agreement
26.	Jiangsu Province, People s Republic of China	65,043 sq. m.	Coal-fired cogeneration facility	Land Use Right reverts to China Joint Venture Partner upon termination of Joint Venture Agreement
27.	Rockville, Maryland	N/A	Landfill gas project	Lease
28.	San Diego, California	N/A	Landfill gas project	Lease
29.	Oxnard, California	N/A	Landfill gas project	Lease
30.	Salinas, California	N/A	Landfill gas project	Lease
31.	Santa Clara, California	N/A	Landfill gas project	Lease
32.	Stockton, California	N/A	Landfill gas project	Lease
33.	Burney, California	40.0	Wood waste project	Lease
34.	Jamestown, California	26.0	Wood waste project	Own(50%)
35.	Westwood, California	60.0	Wood waste project	Own

	Location	Approximate Site Size (In Acres)(1)	Site Use	Nature of Interest(2)
36.	Oroville, California	43.0	Wood waste project	Own
37.	Whatcom County, Washington	N/A	Hydroelectric project	Own(50%)
38.	Weeks Falls, Washington	N/A	Hydroelectric project	Lease
39.	Cavite, the Philippines	13,122 sq. m.	Heavy fuel oil project	Lease
40.	Cavite, the Philippines	10,200 sq. m.	Heavy fuel oil project	Lease
41.	Manila, the Philippines	468 sq. m.	Office space	Lease
42.	Bangkok, Thailand	676 sq. m.	Office space	Lease
43.	Chennai, India	1797 sq. ft.	Office space	Lease
44.	Samalpatti, India	2,546 sq. ft.	Office space	Lease
45.	Samayanallur, India	1,300 sq. ft.	Office space	Lease
46.	Samayanallur, India	17.1	Heavy fuel oil project	Lease
47.	Samayanallur, India	2.3	Heavy fuel oil project	Lease
48.	Samalpatti, India	30.3	Heavy fuel oil project	Lease
49.	Shanghai, China	145 sq. m.	Office space	Lease
50.	Imperial County, California	83.0	Undeveloped Desert Land	Own
51.	Montvale, New Jersey	34,000 sq. ft.	Office space	Lease
52.	Hempstead, New York	14.9	Waste-to-energy facility	Own
53.	Newark, New Jersey	15.4	Waste-to-energy facility	Own
54.	Preston, Connecticut	11.9	Waste-to-energy facility	Own(4)
55.	Niagara Falls, New York	12.5	Waste-to-energy facility	Own
56.	Rochester, Massachusetts	123.2	Waste-to-energy facility	Own(90%)
57.	Braintree, Massachusetts	6.7	Transfer station	Own(5)
58.	Chester, Pennsylvania	51.2	Resource Recovery facility	Lease
59.	Lynn, Massachusetts	1.4	Transfer station	Own

(1) All sizes are in acres unless otherwise indicated.

(2) All ownership or leasehold interests relating to projects are subject to material liens in connection with the financing of the related project, except those listed above under items 10, 23-25, 27-32. In addition, all leasehold interests existed at least as long as the term of applicable project contracts, and several of the leasehold interests are subject to renewal and/or purchase options.

(3) NAICC entered into a five year lease in July 2004 and lease payments began in February 2005.

(4) Building is owned, the land the building is on is leased.

(5) Transfer station is owned, the land the station is on is leased.

LEGAL PROCEEDINGS

We and/or 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 its business. We assess the likelihood of potential losses on an ongoing basis, and when losses are considered probable and reasonably estimable, 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. The final consequences of these proceedings are not presently determinable with certainty.

Covanta Energy Corporation

Generally, claims and lawsuits against Covanta and its subsidiaries that had filed bankruptcy petitions and subsequently emerged from bankruptcy arising from events occurring prior to their respective petition dates, have been resolved pursuant to the Covanta Plan of Reorganization, and have been discharged pursuant

to the March 5, 2004 order of the Bankruptcy Court which confirmed the Covanta Plan of Reorganization. However, to the extent that claims are not dischargeable in bankruptcy, such claims may not be discharged. For example, the claims of certain persons who were personally injured prior to the petition date, but whose injury only became manifest thereafter, may not be discharged pursuant to the Covanta Plan of Reorganization.

Environmental Matters

Covanta s operations are subject to environmental regulatory laws and environmental remediation laws. Although Covanta s operations are occasionally subject to proceedings and orders pertaining to emissions into the environment and other environmental violations, which may result in fines, penalties, damages or other sanctions, Covanta believes that it is in substantial compliance with existing environmental laws and regulations.

Covanta may be identified, along with other entities, as being among parties potentially responsible for contribution to costs associated with the correction and remediation of environmental conditions at disposal sites subject to CERCLA and/or analogous state laws. In certain instances, Covanta may be exposed to joint and several liabilities for remedial action or damages. Covanta s ultimate liability in connection with such environmental claims will depend on many factors, including its volumetric share of waste, the total cost of remediation, and the financial viability of other companies that also sent waste to a given site and, in the case of divested operations, its contractual arrangement with the purchaser of such operations. Generally such claims arising prior to the first petition date were resolved in and discharged by Covanta s Chapter 11 cases.

The potential costs related to the matters described below and the possible impact on future operations are uncertain due in part to the complexity of governmental laws and regulations and their interpretations, the varying costs and effectiveness of cleanup technologies, the uncertain level of insurance or other types of recovery and the questionable level of Covanta s responsibility. Although the ultimate outcome and expense of any litigation, including environmental remediation, is uncertain, Covanta believes that the following proceedings will not have a material adverse effect on Covanta s consolidated financial position or results of operations.

In June 2001, the EPA named Covanta s wholly-owned subsidiary, Ogden Martin Systems of Haverhill, Inc., now known as Covanta Haverhill, Inc., as one of 2,000 potentially responsible parties, referred to as PRPs in this prospectus, at the Beede Waste Oil Superfund Site, Plaistow, New Hampshire, a former waste oil recycling facility. The total quantity of waste oil alleged by the EPA to have been disposed of by PRPs at the Beede site is approximately 14.3 million gallons, of which Covanta Haverhill, Inc. s contribution is alleged to be approximately 44,000 gallons. On January 9, 2004, the EPA signed its Record of Decision with respect to the cleanup of the site. The estimated cost to implement the remedial alternative selected in the Record of Decision is $48 million. By letter dated September 28, 2005, the EPA invited Covanta Haverhill, Inc. and 94 other PRPs including, among others, those PRPs that are alleged to have contributed more than 20,000 gallons of waste oil to the Beede site, to negotiate the voluntary performance and/or financing of the site cleanup, including reimbursement of past costs incurred to date by the EPA and the State of New Hampshire Department of Environmental Services, referred to as DES in this prospectus. Covanta Haverhill, Inc. is a member of a PRP group at the Beede site and expects to participate in settlement negotiations with the EPA and DES as part of that PRP group. Covanta Haverhill, Inc. s share of liability, if any, cannot be determined at this time as a result of uncertainties regarding the source and scope of contamination, the large number of PRPs and the varying degrees of responsibility among various classes of PRPs. Covanta believes that based on the amount of waste oil materials Covanta Haverhill, Inc. is alleged to have sent to the site, its liability will not be material to Covanta s results of operation and financial position.

By letters dated August 13, 2004 and May 3, 2005, the EPA notified Covanta Essex Company, referred to as Essex in this prospectus and formerly named American Ref-Fuel Company of Essex County, that it was potentially liable under CERCLA Section 107(a) for response actions in the Lower Passaic River Study Area, referred to as LPRSA in this prospectus, a 17 mile stretch of river in northern New Jersey. Essex is one of at least 52 PRPs named thus far. The EPA alleges that hazardous substances found in the LPRSA

were being released from the Essex site, which abuts the river. The EPA s notice letters state that Essex may be liable for costs related to a proposed $10 million study of the Lower Passaic River, for certain past costs incurred by the EPA totaling approximately $2.8 million, and for unspecified natural resource damages. Considering the history of industrial and other discharges into the LPRSA from other sources, including named PRPs, Essex believes any releases from its site to be de minimis in comparison; however, it is not possible at this time to predict that outcome with certainty or to estimate Essex s ultimate liability in the matter, including for natural resource damage. Given the uncertainty, Essex has entered into an arrangement with the EPA and the cooperating PRP group to settle the potential liability Essex might have for the $2.8 million in past costs incurred by the EPA, by contributing $0.25 million to the cost of the study and by sharing in certain past and ongoing legal fees and other costs of the cooperating PRP group.

Other Matters

Covanta Warren and the Warren Authority 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. Principal on the Warren Facility project debt is due annually in December of each year, while interest is due semi-annually in June and December of each year. The State of New Jersey has provided sufficient funds to the project bond trustee to pay principal and interest to bondholders when due during 2004 and 2005.

Also as part of Covanta s emergence from bankruptcy, Covanta and Covanta Warren entered into several agreements approved by the Bankruptcy Court that permit Covanta Warren to reimburse Covanta for employees and employee-related expenses, provide for payment of a monthly allocated overhead expense reimbursement in a fixed amount, and permit Covanta to advance up to $2.0 million in super-priority debtor in possession loans to Covanta Warren in order to meet any liquidity needs. As of September 30, 2005, Covanta Warren owed Covanta $1.4 million.

In September 2005, Covanta Warren facility filed a reorganization plan after they reached agreements with the Warren Authority and various contract counterparties. On December 1, 2005, the bankruptcy court confirmed Covanta Warren s reorganization plan. Covanta Warren emerged from bankruptcy on December 15, 2005 and will now be consolidated in our financial statements. As a condition to the consummation of the reorganization plan, Covanta Warren expects to pay approximately $15 million to satisfy all amounts then due with respect to the outstanding project debt, and to pay certain amounts to project creditors and the Warren Authority. The reorganization plan also contemplates that Covanta Warren and the Warren Authority will enter into certain agreements pursuant to which Covanta Warren will own and operate the Warren Facility for its own account, without a committed supply of waste from the Warren Authority or other municipal entities, and that the Warren Authority will provide ash disposal services to Covanta Warren at its landfill adjacent to the Warren facility. Under the reorganization plan, Covanta Warren s creditors filed claims are expected to be paid in full, in cash. See *Waste and Energy Services Business Domestic Waste and Energy Services Business Other Waste-to-Energy Project Structures Warren County, New Jersey,* for additional information.

DIRECTOR AND EXECUTIVE OFFICER BIOGRAPHIES

David M. Barse has served as a director since 1996 and is a member of the Compensation Committee. Mr. Barse s current one year term as a director will expire at our 2006 annual meeting of stockholders. Mr. Barse served as our President and Chief Operating Officer from July 1996 until July 24, 2002. Since February 1998, Mr. Barse has served as President and, since June 2003, Chief Executive Officer of Third Avenue Management LLC, an investment adviser to mutual funds and separate accounts. From April 1995

until February 1998, he served as the Executive Vice President and Chief Operating Officer of Third Avenue Trust and its predecessor, Third Avenue Value Fund, Inc. (together with its predecessor, referred to as Third Avenue Trust in this prospectus), before assuming the position of President in May 1998 and Chief Executive Officer in September 2003. In 2001, Mr. Barse became Trustee of both the Third Avenue Trust and Third Avenue Variable Series Trust. Since June 1995, Mr. Barse has been the President and, since July 1999, Chief Executive Officer of M.J. Whitman, LLC and its predecessor, a full service broker-dealer. Mr. Barse joined the predecessor of M.J. Whitman LLC and Third Avenue in December 1991 as General Counsel. Mr. Barse also presently serves as a director of American Capital Access Holdings, a privately held financial insurance company. Mr. Barse is 43 years old.

Ronald J. Broglio has been a director since October 2004 and is a member of the Public Policy Committee. Mr. Broglio s current one year term as a director will expire at our 2006 annual meeting of stockholders. Mr. Broglio has been the President of RJB Associates, a consulting firm specializing in energy and environmental solutions, since 1996. Mr. Broglio was Managing Director of Waste to Energy for Waste Management International Ltd. from 1991 to 1996. Prior to joining Waste Management, Mr. Broglio held a number of positions with Wheelabrator Environmental Systems Inc. from 1980 through 1990, including Managing Director, Senior Vice President Engineering, Construction & Operations and Vice President of Engineering & Construction. Mr. Broglio served as Manager of Staff Engineering and as a staff engineer for Rust Engineering Company from 1970 through 1980. Mr. Broglio is 65 years old.

Peter C. B. Bynoe has been a director since July 2004. Mr. Bynoe s current one year term as a director will expire at our 2006 annual meeting of stockholders. Mr. Bynoe is a member of the Compensation Committee and is Chairman of the Public Policy Committee. Mr. Bynoe joined the law firm of DLA Piper Rudnick Gray Cary US, LLP as a partner in 1995 and currently serves on the firm s executive committee. Mr. Bynoe has been a principal of Telemat Ltd., a consulting and project management firm, since 1982. He is a director of Rewards Network Inc. and he also serves as Chairman of the Illinois Sports Facilities Authority, a joint venture of the State of Illinois and City of Chicago, which owns U.S. Cellular Field in Chicago. Mr. Bynoe is 54 years old.

Richard L. Huber has been a director since July 2002. Mr. Huber s current one year term as a director will expire at our 2006 annual meeting of stockholders. Mr. Huber is the Chairman of the Audit Committee. Mr. Huber served as Chairman and the Interim Chief Executive Officer of ACL from April 2004 until January 2005 and continues as a director of ACL and various subsidiaries and affiliates of ACL. Mr. Huber has been Managing Director, Chief Executive Officer and Principal of the American direct investment group Norte-Sur Partners, a direct private equity investment firm focused on Latin America, since January 2001. Mr. Huber held various positions with Aetna, Inc. since 1995, most recently as the Chief Executive Officer, until February 2000. Mr. Huber has approximately forty years of prior investment and merchant banking, international business and management experience, including executive positions with Chase Manhattan Bank, Citibank, Bank of Boston and Continental Bank. Mr. Huber is also a director of Opticare Health Systems, Inc., an integrated eye care services company. Mr. Huber is 69 years old.

Anthony J. Orlando was named our President and Chief Executive Officer in October 2004 and was elected as a director in September 2005 and is a member of the Public Policy Committee. Mr. Orlando s current one year term as a director will expire at our 2006 annual meeting of stockholders. Previously, he had been President and Chief Executive Officer of Covanta since November 2003. From March 2003 to November 2003 he served as Senior Vice President, Business and Financial Management of Covanta. From January 2001 until March 2003, Mr. Orlando served as Covanta s Senior Vice President, Waste-to-Energy. Previously, he served as executive Vice President of Covanta Energy Group, Inc. Mr. Orlando joined Covanta in 1987. Mr. Orlando is 46 years old.

William C. Pate has been a director since 1999 and was our Chairman of the Board from October 2004 through September 2005. Mr. Pate s current one year term as a director will expire at our 2006 annual meeting of stockholders. Mr. Pate is a member of the Audit Committee. Mr. Pate is Managing Director of EGI, a privately-held investment firm. Mr. Pate has been employed by EGI or its predecessor in various capacities since 1994. Mr. Pate also serves as a director of Adams Respiratory Therapeutic, Inc. Mr. Pate is 42 years old.

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Robert S. Silberman has been a director since December 2004 and is a member of the Nominating and Governance Committee and Public Policy Committee. Mr. Silberman s current one year term as a director will expire at our 2006 annual meeting of stockholders. Mr. Silberman has been Chairman of the Board of Directors of Strayer Education, Inc. since February 2003 and its Chief Executive Officer since March 2001. Mr. Silberman was Executive in Residence at New Mountain Capital, LLC from August 2000 to March 2001. From 1995 to 2000, Mr. Silberman served in a variety of senior management positions, including President and Chief Operating Officer of CalEnergy Company, Inc. From 1993 to 1995, Mr. Silberman was Assistant to the Chairman and Chief Executive Officer of International Paper Company. From 1989 to 1993, Mr. Silberman served in several senior positions in the U.S. Department of Defense, including as Assistant Secretary of the Army. In addition to Strayer Education, Inc., Mr. Silberman serves on the Board of Directors of Surgis, Inc., and on the Management Advisory Board of New Mountain Capital, LLC. He also serves on the Board of Visitors of The Johns Hopkins University School of Advanced International Studies. Mr. Silberman is a member of the Council on Foreign Relations. Mr. Silberman is 48 years old.

Jean Smith has been a director since December 2003. Ms. Smith s current one year term as a director will expire at our 2006 annual meeting of stockholders. She is a member of the Audit Committee and the Nominating and Governance Committee. Ms. Smith has been a private investor and consultant since 2001. From 1998 to 2001, Ms. Smith was a Managing Director of Corporate Finance for U.S. Bancorp Libra, a unit of U.S. Bancorp Investments, Inc., a subsidiary of U.S. Bancorp. Ms. Smith has approximately 25 years of investment and international banking experience, having held positions with Banker Trust Company, Citicorp Investment Bank, Security Pacific Merchant Bank and UBS Securities. Ms. Smith is 50 years old.

Clayton Yeutter has served as a director since July 2002. Mr. Yeutter s current one year term as a director will expire at our 2006 annual meeting of stockholders. Mr. Yeutter is the Chairman of the Nominating and Governance Committee and a member of the Compensation Committee. Mr. Yeutter has been Of Counsel to Hogan & Hartson LLP, a law firm in Washington, D.C., since 1993 where he has an international trade and agricultural law practice. From 1985 through 1991, he served in the Reagan Administration as U.S. Trade Representative and in the first Bush Administration as Secretary of Agriculture. During 1991-92, he was Chairman of the Republican National Committee and then returned to the Bush Administration as a Counselor to the President for most of 1992. He was President and Chief Executive Officer of the Chicago Mercantile Exchange from 1978 through 1985. In the 1970s, Mr. Yeutter held several positions in the Nixon and Ford Administrations as Assistant Secretary of Agriculture for Marketing and Consumer Services, Assistant Secretary of Agriculture for International Affairs and Commodity Programs and Deputy Special Trade Representative. Mr. Yeutter is the Chairman of the Board of Oppenheimer Funds, an institutional investment manager, Chairman of the Board of Crop Solutions, Inc., a privately-owned agricultural chemical company, Chairman of the Board of ACL and a director of America First, a privately-owned investment management company. Mr. Yeutter is 75 years old.

Samuel Zell, elected as our Chairman of the Board in September 2005, also previously served as a director from 1999 to 2004, and as our President, Chief Executive Officer and Chairman of the Board from July 2002 to October 2004. Mr. Zell s current one year term as our Chairman and as a director will expire at our 2006 annual meeting of stockholders. Mr. Zell has served as Chairman of the Board of Directors of EGI since 1999, and had been Chairman of the Board of its predecessor, Equity Group Investments, Inc., for more than five years. Mr. Zell has been a trustee and Chairman of the Board of Trustees of Equity Office Properties Trust, an equity real estate investment trust, commonly known as a REIT, primarily focused on office buildings, since October 1996, and was its President and Chief Executive Officer from April 2002 until November 2002. For more than the past five years, Mr. Zell has served as Chairman of the Board of Anixter International, Inc., a global distributor of electrical and cable systems; as Chairman of the Board of Equity Lifestyle Properties, Inc. (previously known as of Manufactured Home Communities, Inc.), an equity REIT primarily engaged in the ownership and operation of manufactured home resort communities; as Chairman of the Board of Trustees of Equity Residential Properties Trust, an equity REIT that owns and operates multi-family residential properties and as Chairman of the Board of Capital Trust, Inc., a specialized finance company. Mr. Zell is 64 years old.

In addition to Mr. Orlando, who is also a director, the following individuals serve as our current executive officers:

Craig D. Abolt has served as our Senior Vice President and Chief Financial Officer since October 2004. He has served as a director and Senior Vice President and Chief Financial Officer of Covanta since June 2004. Prior to joining Covanta, Mr. Abolt served as chief financial officer of DIRECTV Latin America, LLC, a majority-owned subsidiary of Hughes Electronics Corporation and referred to as DLA in this prospectus, from June 2001 until May 2004. From December 1991 until June 2001, he was employed by Walt Disney Company in several executive finance positions. Mr. Abolt is 45 years old.

Timothy J. Simpson has served as our Senior Vice President, General Counsel and Secretary since October 2004. Since March 2004 he has served as Senior Vice President, General Counsel and Secretary of Covanta. From June 2001 to March 2004, Mr. Simpson served as Vice President, Associate General Counsel and Assistant Secretary of Covanta. Previously, he served as Senior Vice President, Associate General Counsel and Assistant Secretary of Covanta Energy Group, Inc. Mr. Simpson joined Covanta in 1992. Mr. Simpson is 47 years old.

Thomas Bucks has served as our Vice President and Chief Accounting Officer since April 12, 2005. Mr. Bucks served as Covanta s Controller from February 24, 2005 to April 11, 2005. Prior to joining us, Mr. Bucks served as Senior Vice President Controller of Centennial Communications Corp., a leading provider of regional wireless and integrated communications services in the United States and the Caribbean, from March 1995 through February 2005, where he was the principal accounting officer and was responsible for accounting operations and external financial reporting. Mr. Bucks is 49 years old.

Messrs. Orlando and Simpson were both officers of Covanta when it filed for bankruptcy and have continued as officers of Covanta after its emergence from bankruptcy and confirmation of its plan of reorganization. Covanta s Chapter 11 proceedings commenced on April 1, 2002. Covanta and most of its domestic subsidiaries filed voluntary petitions for relief under Chapter 11 in the United States Bankruptcy Court for the Southern District of New York. All of the bankruptcy cases were jointly administered under the caption In re Ogden New York Services, Inc., et al., Case Nos. 02-40826 (CB), et al. On March 5, 2004, the Bankruptcy Court entered an order confirming the our plan of reorganization and plan for liquidation for subsidiaries involved in non-core businesses and on March 10, 2004, both plans were effected.

Mr. Abolt served as the Chief Financial Officer of DLA when it filed for bankruptcy in March 2003 and after its emergence from bankruptcy and confirmation of its plan of reorganization in February 2004. DLA filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code on March 18, 2003 in the United States Bankruptcy Court for the District of Delaware, which entered an order confirming DLA s plan of reorganization on February 13, 2004, and the plan became effective on February 24, 2004.

There is no family relationship between any of our directors and any other director or any executive officer of ours.

BOARD STRUCTURE AND COMPENSATION

Our Board of Directors is currently comprised of ten members and one vacancy. The Board has determined that each of David Barse, Ronald J. Broglio, Peter C.B. Bynoe, Richard L. Huber, William Pate, Robert S. Silberman, Jean Smith and Clayton Yeutter are independent under applicable New York Stock Exchange listing standards.

Audit Committee

The current members of the Audit Committee of our Board of Directors are Mr. Huber (Chair), Ms. Smith and Mr. Pate. Each of the members of the Audit Committee is an independent director under applicable New York Stock Exchange listing standards and applicable SEC rules and regulations. The Board has determined that Mr. Huber qualifies as an audit committee financial expert under applicable SEC rules.

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Compensation of the Board

As approved by the stockholders at the October 5, 2004 annual meeting, on an annual basis, at the annual meeting of stockholders at which directors are elected, each non-employee director received options to acquire 13,334 shares of common stock at a price equal to the fair market value of a share of our common stock on the date of grant and was awarded 1,500 shares of restricted stock, which restricted shares will vest ratably over three years from the date of grant. Mr. Barse waived his right to receive such grants of options and restricted stock for 2005. Non-employee directors will receive an annual fee of $30,000. The chairman of the Board receives an additional annual fee of $10,000. In addition, the chair of the Audit Committee will receive an additional annual fee of $7,500 for such service and the chair of each of the other committees of the Board, including without limitation, the Compensation Committee, the Nominating and Governance Committee and the Public Policy Committee, will be entitled to receive an additional annual fee of $5,000 for such service. Non-employee directors will be entitled to receive a meeting fee of $2,000 for each Audit Committee meeting and $1,500 for each other committee meeting they attend. Directors who are appointed at a date other than the annual meeting of stockholders, will be entitled to receive a pro rata portion of the annual compensation.

Equity Compensation Plans

The following table sets forth information as of December 31, 2004, regarding the number of securities which could be issued upon the exercise of outstanding options, the weighted average exercise price of those options in the 1995 Stock and Incentive Plan, the Equity Award Plan for Employees and Officers, referred to as the Employees Plan in this prospectus, and our Equity Award Plan for Directors, referred to as the Directors Plan in this prospectus, and the number of securities then remaining for future issuance under the Employees Plan and Directors Plan. Upon adoption of the Employees and Directors Plans in October 2004, we terminated any future issuances under the 1995 Stock Incentive Plan. We do not have any equity compensation plans that have not been approved by its security holders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
	(A)	(B)	(C)
Equity Compensation Plans Approved By Security Holders	1,933,460	$ 6.38	2,862,217(1)
Equity Compensation Plans Not Approved By Security Holders	N/A	N/A	N/A
Total	1,933,460	$ 6.38	2,862,217

(1) Of the 2,862,217 shares then available for future issuance, 1,462,217 were then reserved for issuance under our equity compensation plans. Subsequent to December 31, 2004, our stockholders approved the issuance of an additional 2,000,000 shares of our common stock under the Employees Plan.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth information, as of November 25, 2005, concerning:

- beneficial ownership of our common stock by (1) SZ Investments, together with Fund 05-07, and EGI, (2) Third Avenue and (3) Laminar, which are the only beneficial owners of 5% or more of our common stock; and

- beneficial ownership of our common stock by (1) all of our current directors, (2) those executive officers named in the Summary Compensation Table included in this prospectus and (3) all of the current directors and executive officers of ours together as a group.

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The number of shares beneficially owned by each entity, person, current director, director nominee or named executive officer is determined under the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has the right to acquire within 60 days after the date of this table, through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole investment and voting power, or shares such powers with his or her spouse or dependent children within his or her household, with respect to the shares set forth in the following table. Unless otherwise indicated, the address for all current executive officers and directors is c/o Covanta Holding Corporation, 40 Lane Road, Fairfield, New Jersey 07004.

Equity Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned	Approximate Percent of Class
SZ Investments LLC(2) Two North Riverside Plaza Chicago, Illinois 60606	23,176,282	16.4%
Third Avenue Management LLC(3) 622 Third Avenue, 32nd Floor New York, New York 10017	8,816,889(4)	6.2%
D. E. Shaw Laminar Portfolios, L.L.C.(5) 120 West Forty-Fifth Street Floor 39, Tower 45 New York, New York 10036	26,494,125	18.8%

(1) In accordance with provisions of our certificate of incorporation, all certificates representing shares of common stock beneficially owned by holders of 5% or more of the common stock are owned of record by us, as escrow agent, and are physically held by us in that capacity.

(2) This includes the shares owned as follows: (a) 19,500,900 shares that SZ Investments beneficially owns with shared voting and dispositive power, (b) 3,430,448 shares that Fund 05-07 beneficially owns with shared voting and dispositive power, and (c) 244,934 shares that EGI beneficially owns with shared voting and dispositive power.

SZ Investments is the managing member of Fund 05-07. SZ Investments, Fund 05-07 and EGI are each indirectly controlled by various trusts established for the benefit of Samuel Zell and members of his family, the trustee of each of which is Chai Trust Company, L.L.C., referred to as Chai Trust in this prospectus. Chai Trust has shared voting and dispositive power as to all such shares beneficially owned by SZ Investments, Fund 05-07 and EGI. Mr. Zell is not a director or officer of Chai Trust and thus disclaims beneficial ownership of all such shares, except to the extent of his pecuniary interest therein.

Each of Messrs. Zell and Pate is an executive officer of EGI, Fund 05-07 and SZ Investments. One of the executive officers of SZ Investments, Fund 05-07 and EGI is also the President of Chai Trust. Mr. Zell was elected as our Chairman of the Board in September 2005 and he also previously served as a director from 1999 to 2004 and as our Chairman of the Board from July 2002 to October 2004, when he did not stand for re-election. In addition, Mr. Zell was our President and Chief Executive Officer from July 2002 until his resignation as of April 27, 2004. William C. Pate served as our Chairman of the Board of Directors from October 2004 through September 2005 and has been a director since 1999. The addresses of each of

Fund 05-07 and EGI are as set forth in the table above for SZ Investments.

(3) Third Avenue, a registered investment advisor under Section 203 of the Investment Advisors Act of 1940, as amended, invests funds on a discretionary basis on behalf of investment companies registered under the Investment Company Act of 1940, as amended, and on behalf of individually managed separate accounts. David M. Barse has served as one of our directors since 1996 and was our President and Chief Operating Officer from July 1996 until July 2002. Since February 1998, Mr. Barse has served as President, and since June 2003, Chief Executive Officer of Third Avenue. Mr. Barse is also the Chief Executive Officer of Third Avenue.

(4) The shares beneficially owned by Third Avenue are held by Third Avenue Value Fund Series of the Third Avenue Trust. These shares do not include the following shares held by each of Martin Whitman and Mr. Barse: (a) 2,437,954 shares beneficially owned by Mr. Whitman (including 323,517 shares owned by Mr. Whitman s wife and 619,130 shares beneficially owned by a private investment company of which Mr. Whitman is the principal shareholder), and (b) 621,502 shares beneficially owned by Mr. Barse (including shares underlying currently exercisable options to purchase an aggregate of 138,425 shares of common stock at exercise prices ranging from $5.31 to $7.06 per share).

(5) Laminar shares voting and dispositive power with D. E. Shaw & Co., L.P., referred to as Shaw LP in this prospectus, D. E. Shaw & Co., L.L.C., referred to as Shaw LLC in this prospectus, and David Shaw. Each of Shaw LP, Shaw LLC and Mr. Shaw disclaims beneficial ownership of such 26,494,125 shares beneficially owned by Laminar.

This does not include the number of shares of common stock which Laminar will have the right to purchase in the offering covered by this prospectus. In this offering Laminar has the right to purchase our shares as a holder of the 9.25% Debentures due 2002 issued by Covanta that voted in favor of Covanta s second reorganization plan on January 12, 2004.

Equity Ownership of Management

Name	Number of Shares Beneficially Owned(1)	Approximate Percent of Class
Craig D. Abolt	90,615(2)	*
David M. Barse	9,438,391(3)	6.68%
Ronald J. Broglio	16,334(4)	*
Peter C. B. Bynoe	29,684	*
Richard L. Huber	177,850(5)	*
Anthony J. Orlando	211,258(2)	*
William C. Pate	360,061(6)	*
Robert Silberman	24,985	*
Timothy J. Simpson	72,472(2)	*
Jean Smith	41,369	*
Clayton Yeutter	112,682(7)	*
Samuel Zell	23,203,200(8)	16.44%
Two North Riverside Plaza Chicago, Illinois 60606		
Jeffrey Horowitz		*
Two North Riverside Plaza Chicago, Illinois 60606		
All Officers and Directors as a group (12 persons)	33,778,901(9)	23.88%

* Percentage of shares beneficially owned does not exceed 1% of the outstanding common stock.

(1) In accordance with provisions of our certificate of incorporation, all certificates representing shares of common stock beneficially owned by holders of 5% or more of the common stock are owned of record by us, as escrow agent, and are physically held by us in that capacity.

(2) Includes restricted stock awarded pursuant to the terms and conditions of the employment agreements as described under Executive Compensation Employment Arrangements of this prospectus. Messrs. Orlando, Abolt

and Simpson received 49,656, 20,690 and 17,242 shares of our restricted stock, respectively, under such employment agreements. The restricted stock vests, subject to forfeiture and meeting certain performance-based metrics of Covanta as approved by the Board, under their respective employment agreements in equal installments over three years, with the first $^{1}/3$ having vested on February 28, 2005. Also includes restricted stock awarded to Messrs. Orlando, Abolt and Simpson pursuant to the Employees Plan on July 7, 2005, in the amounts of 48,000, 22,000 and 19,200 shares of

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our restricted stock, respectively. Also includes shares underlying currently exercisable options held by Messrs. Orlando, Abolt and Simpson to purchase 53,209, 14,875 and 13,105, shares of common stock respectively, at an exercise price of $7.43 per share.

(3) Includes 8,816,889 shares beneficially owned by Third Avenue, which is affiliated with Mr. Barse. Mr. Barse disclaims beneficial ownership of these shares. Also includes shares underlying currently exercisable options to purchase 50,000 shares of common stock at an exercise price of $5.69, shares underlying currently exercisable options to purchase 50,000 shares of common stock at an exercise price of $7.06 and shares underlying currently exercisable options to purchase 38,425 shares of common stock at an exercise price of $5.31 per share.

(4) Includes shares underlying currently exercisable options to purchase 13,334 shares of common stock at an exercise price of $7.43 per share.

(5) Includes shares underlying currently exercisable options to purchase 26,667 shares of common stock at an exercise price of $4.26 per share.

(6) Includes shares underlying currently exercisable options to purchase 13,334 shares of common stock at an exercise price of $7.43 per share.

(7) Includes shares underlying currently exercisable options to purchase 13,334 shares of common stock at an exercise price of $4.26 per share.

(8) Mr. Zell disclaims beneficial ownership as to (a) 19,500,900 shares beneficially owned by SZ Investments, (b) 3,430,448 shares beneficially owned by Fund 05-07, and (c) 244,934 shares beneficially owned by EGI. SZ Investments, Fund 05-07 and EGI are each indirectly controlled by various trusts established for the benefit of Mr. Zell and members of his family, the trustee of each of which is Chai Trust. Mr. Zell is not a director or officer of Chai Trust and thus disclaims beneficial ownership of all such shares, except to the extent of his pecuniary interest therein. Also, Mr. Zell disclaims beneficial ownership as to 25,418 shares beneficially owned by the Helen Zell Revocable Trust, the trustee of which is Helen Zell, Mr. Zell s spouse, as to which shares Mr. Zell disclaims beneficial ownership, except to the extent of his pecuniary interest therein.

(9) Includes shares underlying currently exercisable options to purchase 286,283 shares of common stock that our directors and executive officers have the right to acquire within 60 days of the date of this table.

EXECUTIVE COMPENSATION

The following table sets forth information concerning the annual and long-term compensation for services in all capacities to us or our subsidiary companies or their predecessors for 2002 through 2004 of those persons who served as (a) all individuals serving as our Chief Executive Officer during 2004, and (b) the two most highly compensated executive officers, other than the Chief Executive Officer, employed by us as of December 31, 2004, whose total annual salary and bonus exceeded $100,000 collectively, referred to as the Named Executive Officers in this prospectus:

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards		
					Restricted	Securities	
Name and Principal Position	Year	Salary	Bonus(6)	Other Annual Compensation	Stock Awards(7)	Underlying Options	All Other Compensation(8)
Anthony J. Orlando President and Chief Executive Officer (October 5, 2004 Present)(1)(2)	2004	$ 380,769	$ 393,750	$ 0	$ 360,000	$ 0	$ 79,837
Jeffery R. Horowitz President and Chief Executive Officer (April 27, 2004 October 5, 2004)(3)	2004	$ 245,708	$ 372,720	$ 0	$ 0	$ 0	$ 1,467,409
Samuel Zell President and Chief	2004	$ 65,000	$ 0	$ 0	$ 0	$ 0	$ 0
Executive	2003	$ 200,000	$ 0	$ 0	$ 0	$ 0	$ 0
Officer (July 24, 2002 April 27, 2004)(3)	2002	$ 87,949	$ 0	$ 0	$ 0	$ 0	$ 0
Craig D. Abolt Senior Vice President and Chief Financial Officer(1)(4)	2004	$ 206,250	$ 75,000	$ 0	$ 150,000	$ 0	$ 199,633
Timothy J. Simpson Senior Vice President, General Counsel and Secretary(1)(5)	2004	$ 240,180	$ 150,000	$ 0	$ 125,000	$ 0	$ 38,058

(1) The compensation included in the table above for Messrs. Orlando, Abolt and Simpson includes compensation for their services to both us and Covanta as they are compensated for their services as an officer of both us and Covanta under the employment agreements they each entered into on October 5, 2004 with both us and Covanta. Under the employment agreements entered into and dated October 5, 2005, Messrs. Orlando, Abolt and Simpson

initial base annual salaries are $400,000, $325,000 and $240,180, respectively. Mr. Orlando s prior employment agreement with Covanta entitled him to a base annual salary of $375,000, which contract was rejected by Covanta in March 2004 pursuant to Covanta s emergence from Chapter 11. Messrs. Abolt and Simpson did not have prior employment agreements with Covanta.

(2) $290,000 of Mr. Orlando s salary was paid by Covanta prior to his appointment on October 5, 2004 as an officer of both us and Covanta.

(3) Mr. Horowitz served as our Interim President and Chief Executive Officer from April 2004 until October 5, 2004. Mr. Zell served as our President and Chief Executive Officer from July 2002 until March 2004.

(4) $132,500 of Mr. Abolt s salary was paid by Covanta prior to his appointment on October 5, 2004 as an officer of both us and Covanta.

(5) $185,678 of Mr. Simpson s salary was paid by Covanta prior to his appointment on October 5, 2004 as an officer of both us and Covanta.

(6) The amounts shown represent the full amount of the annual bonuses attributable to each year, which were generally paid in the first fiscal quarter of the following year.

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(7) Reflects the value of the restricted stock awarded pursuant to the terms and conditions of the employment agreements described below under Employment Arrangements on the date of grant.

Messrs. Orlando, Abolt and Simpson received 49,656, 20,690 and 17,242 shares of restricted common stock of us, respectively, under such employment agreements. The restricted stock vests, subject to forfeiture and meeting certain performance-based metrics of Covanta as approved by the Board of Directors, under their respective employment agreements in equal installments over three years, with the first 1/3 having vested on February 28, 2005.

(8) Includes for the fiscal year ending December 31, 2004: (a) contributions in the amount of $8,200 credited to the account balances of each of Messrs. Orlando, Horowitz and Simpson under our 401(k) Savings Plan; (b) a cash payment to Messrs. Orlando, Horowitz and Simpson in the amount of $16,971, $14,117 and $6,858, respectively, representing the excess of the contribution that could have been made to each such individual s Covanta 401(k) Savings Plan account pursuant to the formula applicable to all employees over the maximum contribution to such plan permitted by the Internal Revenue Code of 1976, as amended; (c) a cash payment to Messrs. Orlando, Horowitz and Simpson in the amount of $54,667, $58,116 and $23,000, respectively, representing retention bonuses paid by Covanta during 2004; (d) payments and reimbursements for relocation expenses of Mr. Abolt; and (e) special pay of $66,923, severance of $1,317,746, and sellback of current vacation of $2,307 paid to Mr. Horowitz.

Option/ SAR Grants in Last Fiscal Year

The stock options granted to our Named Executive Officers in 2004 are as follows:

Name	Number of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Exercise Employees in 2004	Price per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation or Option Term 5%	10%
Anthony J. Orlando	200,000	19.6%	$ 7.43	10/05/2014	$ 934,537	$ 2,368,301
Jeffrey Horowitz						
Samuel Zell						
Craig D. Abolt	85,000	8.3%	$ 7.43	10/05/2014	$ 397,178	$ 1,006,528
Timothy J. Simpson	75,000	7.4%	$ 7.43	10/05/2014	$ 350,452	$ 888,113

Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth the number of securities underlying unexercised options held by each of the Named Executive Officers and the value of such options at the end of fiscal 2004:

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year End Exercisable/Unexercisable

Anthony J. Orlando	$	0	0/200,000	0/$ 204,000
Jeffrey Horowitz				
Samuel Zell				
Craig D. Abolt	$	0	0/85,000	0/$ 86,700
Timothy J. Simpson	$	0	0/75,000	0/$ 76,500

Employment Arrangements

Anthony J. Orlando was named our President and Chief Executive Officer effective October 5, 2004. Other than the employment agreement and compensation matters described below, Mr. Orlando has not engaged in any reportable transactions with us or any of our subsidiaries during our last fiscal year, and he is not a party to any currently proposed transactions with us. Mr. Orlando does not have any family relationship with any other executive officer or director of ours.

Mr. Orlando continues to serve as the President and Chief Executive Officer of Covanta, a position he has held since November 2003.

We and Covanta entered into a five-year employment agreement with Mr. Orlando, commencing October 5, 2004. Pursuant to his employment agreement, Mr. Orlando is entitled to an initial base salary of $400,000 per year and an annual target bonus of 80% of his base salary, depending upon Covanta s achievement of certain financial targets and other criteria approved by our Board of Directors. Mr. Orlando also received a grant of 49,656 shares of restricted stock, valued at $360,000 at the date of grant, and options to purchase 200,000 shares of our common stock at a price of $7.43 per share pursuant to the Employees Plan. The restricted stock vests in equal installments over three years, with 50% of such shares vesting in three equal annual installments commencing February 28, 2005, so long as Mr. Orlando is employed us, and 50% vesting in accordance with Covanta s achievement of certain operating cash flow or other performance-based metrics of Covanta as approved by the Board of Directors, commencing February 28, 2005. The options vest over three years in equal installments, commencing February 28, 2006, and were subsequently accelerated to begin vesting on March 21, 2005 with the remaining tranches continuing to vest on February 28, 2007 and February 28, 2008. Mr. Orlando s employment is subject to non-compete, non-solicitation and confidentiality provisions as set forth in the employment agreement. In the event that Mr. Orlando is terminated for any reason other than for cause, he shall be entitled to payment of his average annual compensation, consisting of his then current annual base salary plus his average annual target bonus, for (a) 36 months if such termination occurs in the first three years of his employment contract, or (b) 24 months if such termination occurs in the last two years of his employment contract. Upon termination other than for cause, Mr. Orlando shall forfeit all rights and interests to any unvested equity awards, except for those equity awards that would otherwise vest within three months of the date of his termination. The employment agreement also provides for the acceleration of the vesting of the equity awards in the event of a change in control of us or Covanta.

Craig D. Abolt was named as the Senior Vice President and Chief Financial Officer of ours effective October 5, 2004. Other than the employment agreement and compensation matters described below, Mr. Abolt has not engaged in any reportable transactions with us or any of our subsidiaries during our last fiscal year, and he is not a party to any currently proposed transactions with us. Mr. Abolt does not have any family relationship with any other executive officer or director of ours.

Mr. Abolt continues to serve as the Senior Vice President and Chief Financial Officer of Covanta, a position he has held since June 2004.

We and Covanta entered into a five-year employment agreement with Mr. Abolt, commencing October 5, 2004. Pursuant to his employment agreement, Mr. Abolt is entitled to an initial base salary of $325,000 per year and an annual target bonus of 55% of his base salary, depending upon Covanta s achievement of certain financial targets and other criteria approved by our Board of Directors. Mr. Abolt also received a grant of 20,690 shares of restricted stock, valued at $150,000 at the date of grant, and options to purchase 85,000 shares of our common stock at a price of $7.43 per share pursuant to the Employees Plan. The restricted stock vests in equal installments over three years, with 50% of such shares vesting in three equal annual installments commencing February 28, 2005, so long as Mr. Abolt is employed by us, and 50% vesting in accordance with Covanta s achievement of certain operating cash flow or other performance-based metrics of Covanta as approved by the Board of Directors, commencing February 28, 2005. The options vest over three years in equal installments, commencing February 28, 2006 and were subsequently accelerated to begin vesting on March 21, 2005 with the remaining tranches continuing to vest on February 28, 2007 and February 28, 2008. Mr. Abolt s employment is subject to non-compete, non-solicitation and confidentiality provisions as set forth in the employment agreement. In the event that Mr. Abolt is terminated for any reason other than for cause, he shall be entitled to payment of his average annual compensation, consisting of his then current annual base salary plus his average annual target bonus, for (a) 24 months if such termination occurs in the first two years of his employment contract, or (b) 18 months if such termination occurs in the last three years of his employment contract. Upon termination other than for cause, Mr. Abolt shall forfeit all rights and interests to any unvested equity awards, except for those equity awards that would otherwise vest

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within three months of the date of his termination. The employment agreement also provides for the acceleration of the vesting of the equity awards in the event of a change in control of us or Covanta.

Timothy J. Simpson has served as our Senior Vice President, General Counsel and Secretary since October 2004. Other than the employment agreement and compensation matters described below, Mr. Simpson has not engaged in any reportable transactions with us or our subsidiaries during our last fiscal year, and he is not a party to any currently proposed transactions with us. Mr. Simpson does not have any family relationship with any other executive officer or director of ours.

Mr. Simpson continues to serve as the Senior Vice President, General Counsel and Secretary of Covanta, a position he has held since March 2004.

We and Covanta entered into a five-year employment agreement with Mr. Simpson, commencing October 5, 2004. Pursuant to his employment agreement, Mr. Simpson is entitled to an initial base salary of $240,180 per year and an annual target bonus of 45% of his base salary, depending upon Covanta s achievement of certain financial targets and other criteria approved by our Board of Directors. Mr. Simpson also received a grant of 17,242 shares of restricted stock, valued at $125,000 at the date of grant, and options to purchase 75,000 shares of our common stock at a price of $7.43 per share pursuant to the Employees Plan. The restricted stock vests in equal installments over three years, with 50% of such shares vesting in equal annual installments commencing February 28, 2005, so long as Mr. Simpson is employed by us, and 50% vesting in accordance with Covanta s achievement of certain operating cash flow or other performance-based metrics of Covanta as approved by the Board of Directors, commencing February 28, 2005. The options vest over three years in equal installments, commencing on February 28, 2006 and were subsequently accelerated to begin vesting on March 21, 2005 with the remaining tranches continuing to vest on February 28, 2007 and February 28, 2008. Mr. Simpson s employment is subject to non-compete, non-solicitation and confidentiality provisions as set forth in the employment agreement. In the event that Mr. Simpson is terminated for any reason other than for cause, he shall be entitled to payment of his average annual compensation, consisting of his then current annual base salary plus his average annual target bonus, for (a) 24 months if such termination occurs in the first two years of his employment contract, or (b) 18 months if such termination occurs in the last three years of his employment contract. Upon termination other than for cause, Mr. Simpson shall forfeit all rights and interests to any unvested equity awards, except for those equity awards that would otherwise vest within three months of the date of his termination. The employment agreement also provides for the acceleration of the vesting of the equity awards in the event of a change in control of us or Covanta.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Employment Arrangements

See the descriptions of our employment agreements with Anthony J. Orlando, Craig D. Abolt and Timothy J. Simpson contained in *Executive Compensation Employment Arrangements* above.

Related Party Agreements

Following ACL s emergence from bankruptcy, we sold our entire 50% interest in Vessel Leasing to ACL on January 13, 2005 for $2.5 million. The price and other terms and conditions of the sale were negotiated on an arm s length-basis for us by a special committee of our Board of Directors.

We entered into a corporate services agreement dated as of September 2, 2003, pursuant to which EGI agreed to provide certain administrative services to us, including, among others, shareholder relations, insurance procurement and management, payroll services, cash management, tax and treasury functions, technology services, listing exchange compliance and financial and corporate record keeping. Samuel Zell is also the Chairman of EGI, and William Pate is also an executive officer of EGI. We paid EGI $20,000 per month plus specified out-of-pocket fees and expenses incurred by EGI under this corporate services

agreement. We and EGI terminated this agreement with the integration of Covanta s operations with ours as of November 2004.

As part of the investment and purchase agreement dated as of December 2, 2003, pursuant to which we agreed to acquire Covanta, we arranged for a new replacement letter of credit facility for Covanta, secured by a second priority lien on Covanta s available domestic assets, consisting of commitments for the issuance of standby letters of credit in the aggregate amount of $118 million. This financing was provided by SZ Investments, Third Avenue and Laminar, a significant creditor of Covanta. Each of SZ Investments, Third Avenue Trust and Laminar, referred to as the Bridge Lenders in this prospectus, or an affiliate own over 5% of our common stock. Samuel Zell and William Pate are affiliated with SZ Investments. David Barse, one of our current directors, is affiliated with Third Avenue. The second lien credit facility had a term of five years. The letter of credit component of the second lien credit facility required cash collateral to be posted for issued letters of credit in the event Covanta has cash in excess of specified amounts. Covanta also paid an upfront fee of $2.36 million upon entering into the second lien credit agreement, and (1) a commitment fee equal to 0.5% per annum of the daily calculation of available credit, (2) an annual agency fee of $30,000, and (3) with respect to each issued letter of credit an amount equal to 6.5% per annum of the daily amount available to be drawn under such letter of credit. Amounts paid with respect to drawn letters of credit bore interest at the rate of 4.5% over the base rate on issued letters of credit, increasing to 6.5% over the base rate in specified default situations. Subsequent to the signing of the investment and purchase agreement, each of the Bridge Lenders assigned approximately 30% of their participation in the second lien letter of credit facility to Goldman Sachs Credit Partners, L.P., Laminar assigned the remainder of its participation in the second lien letter of credit facility to TRS Elara, LLC. This debt was refinanced and paid off in connection with the Ref-Fuel acquisition in July 2005.

We obtained the financing for our acquisition of Covanta pursuant to a note purchase agreement dated December 2, 2003, from the Bridge Lenders. Pursuant to the note purchase agreement, the Bridge Lenders provided us with $40 million of bridge financing in exchange for notes we issued. We repaid these notes with the proceeds from a rights offering of our common stock which was completed in June 2004 and by conversion of a portion of the note held by Laminar into 8.75 million shares of our common stock pursuant to the note purchase agreement. In consideration for the $40 million of bridge financing, the arrangement by the Bridge Lenders of the $118 million second lien credit facility and the arrangement by Laminar of a $10 million international revolving credit facility secured by Covanta s international assets, we issued to the Bridge Lenders an aggregate of 5,120,853 shares of our common stock.

Pursuant to registration rights agreements, we filed a registration statement with the SEC to register the shares of common stock issued to the Bridge Lenders under the note purchase agreement. The registration statement was declared effective on August 24, 2004.

As part of our negotiations with Laminar and Laminar becoming a 5% stockholders of ours, pursuant to a letter agreement dated December 2, 2003, Laminar agreed to transfer restrictions on the shares of common stock that Laminar acquired pursuant to the note purchase agreement. 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.

Also in connection with the financing for the acquisition of Covanta, we agreed to pay up to $0.9 million in the aggregate to the Bridge Lenders as reimbursement for expenses incurred by them in connection with the note purchase agreement.

The note purchase agreement and other transactions involving SZ Investments, Third Avenue and Laminar were negotiated, reviewed and approved by a special committee of our Board of Directors composed solely of disinterested directors and advised by independent legal and financial advisors.

We and Covanta have also entered into Amendment No. 1 to Tax Sharing Agreement among us, Covanta and CPIH, dated as of June 24, 2005, which amended the Tax Sharing Agreement among us, Covanta and CPIH, dated as of March 10, 2004, which we refer to as the Tax Sharing Agreement in this

prospectus. The amendment to the Tax Sharing Agreement added Ref-Fuel to the group of Covanta affiliates covered by the Tax Sharing Agreement and amended certain schedules to the Tax Sharing Agreement.

On June 24, 2005, we, through Covanta, purchased 100% of the issued and outstanding capital stock of Ref-Fuel for $740 million in cash and the assumed consolidated net debt of Ref-Fuel of $1.3 billion ($1.5 billion of consolidated indebtedness and $0.2 billion of cash and restricted cash).

We financed our purchase of Ref-Fuel through a combination of debt and equity financing. The equity component of the financing consisted of the approximately $400 million Ref-Fuel rights offering. In the Ref-Fuel rights offering, our existing stockholders were issued rights to purchase our stock on a pro rata basis, with each holder entitled to purchase 0.9 shares of our common stock for each share of our common stock held as of May 27, 2005, the record date.

SZ Investments (including Fund 05-07), Third Avenue and Laminar, then representing ownership of approximately 40.4% of our outstanding common stock, each separately committed to participate in the Ref-Fuel rights offering and acquired at least their respective pro rata portion of the shares. As consideration for their commitments, we paid each of these stockholders an amount in cash equal to 1.75% of their respective equity commitments which in the aggregate was $2.8 million. We 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.

We are required to conduct the offering covered by this prospectus and registration statement in order to satisfy our obligations as the sponsor of the plan of reorganization of Covanta and to comply with terms of a letter agreement we have executed with Laminar. As of January 12, 2004, Laminar held approximately $10.4 million of the 9.25% Debentures. Other than confirmation of the restructuring of this offering to include the Contingent Offering, we have not had any discussions with Laminar regarding their participation in this offering.

SZ Investments, a company affiliated with Samuel Zell (the former Chief Executive Officer and President and current Chairman of our Board of Directors) and William Pate, one of our directors, was a holder through its affiliate, HY I Investments, L.L.C., referred to as HYI in this prospectus, of approximately 42% of the senior notes and payment-in-kind notes of ACL, a former unconsolidated subsidiary of ours. ACL s plan of reorganization was confirmed (without material conditions) on December 30, 2004 and it emerged from Chapter 11 bankruptcy proceedings in January 2005. Pursuant to the terms of ACL s plan of reorganization, the notes held by HYI were converted into equity of ACL and Fund 05-07 received equity in ACL. As disclosed in a Schedule 13D dated and filed with the SEC on October 11, 2005 by HYI, SZ Investments, Fund 05-07 and other of their related entities with respect to that filing group s ownership of ACL s common stock, on October 6, 2005, HYI made a distribution of the ACL common stock it then held to its members on a pro rata basis. Upon such distribution, SZ Investments, as a member of HYI, received its pro rata share of such ACL common stock.

Clayton Yeutter, one of our current directors, is of counsel to the law firm of Hogan & Hartson LLP. Hogan & Hartson provided Covanta with certain legal services during 2004 as it has for many years prior thereto. This relationship preceded our acquisition of Covanta and Mr. Yeutter did not direct or have any direct or indirect involvement in the procurement or the provision of such legal services and does not directly or indirectly benefit from fees for those services. Our Board has determined that such relationship does not interfere with Mr. Yeutter s exercise of independent judgment as a director.

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USE OF PROCEEDS

Assuming full participation in the Base Offering, we expect to receive gross proceeds of $4,590,000. Assuming full participation in the Contingent Offering, we expect to receive gross proceeds of $16,200,000, for total gross proceeds of this offering of $20,790,000. We have estimated that we will incur approximately $750,000 of expenses in this offering.

The proceeds from this offering will be used for general corporate purposes. We currently have no other specific plans for the proceeds of this offering. There is no minimum condition to participation in either the Base Offering or Contingent Offering. For additional information on the reasons for this offering see *Summary About the Contingent Offering* and *Summary The Offering Reason for Offering.*

We have not engaged an underwriter so no underwriting fees or commission will be payable in connection with this offering.

Assuming full participation by the eligible offerees in this offering, we would expect to have a net cash inflow as shown below:

	(In millions of dollars)
Expected proceeds from this offering	$ 20.79
Estimated offering expenses of this offering	(0.75)
Net cash	$ 20.04

Assuming full participation in this offering, information as to share issuance and resulting outstanding shares follows:

Common stock issuable under this offering	5.7 million shares
Common stock outstanding prior to this offering	141.2 million shares
Common stock outstanding following issuances in this offering	146.9 million shares

Although our common stock is currently trading at a significant premium to the exercise prices applicable to the Base Offering and the Contingent Offering, there can be no assurances as to the extent of the participation in this offering. If, for example, only 50% of the shares offered under the Base Offering and the Contingent Offering were purchased the eligible offerees (for example, 1.5 million shares under the Base Offering and 1.35 million shares under the Contingent Offering) the net cash result would be as follows:

	(In millions of dollars)
Expected proceeds from 50% of Base Offering	$ 2.30
Expected proceeds from 50% of Contingent Offering	8.10
Estimated offering expenses of this offering	(0.75)
Net cash	$ 9.65

THE OFFERING

We are conducting an offering in which we are offering to eligible offerees at no charge the right to purchase, in the form of a Base Warrant, their allocable portion of up to 3,000,000 shares of our common stock at a purchase price of $1.53 per share and, for each share so purchased, a Contingent Warrant will automatically and immediately be issued, without any additional action required on the part of the eligible offeree, with the right to purchase 0.9 shares of our common stock at an exercise price of $6.00 per share. If all of these Contingent Warrants are issued and exercised, we will issue an additional 2,700,000 shares of our common stock.

In the Covanta Plan of Reorganization, as sponsored by us, we agreed to conduct the Base Offering of up to 3,000,000 shares of our common stock at a price of $1.53 per share. Under the letter agreement that we entered into with Laminar in connection with our acquisition of Ref-Fuel, as described more fully in this prospectus under *Summary The Offering Reason for Offering,* we also agreed to amend the terms of the Base Offering in order to give eligible offerees the generally equivalent opportunity, as reflected in the Contingent Offering, to purchase shares of our common stock at $6.00 per share as if the Base Offering had been completed prior to the commencement of the Ref-Fuel rights offering.

The Base Offering is being made solely to eligible offerees who are the holders as of January 12, 2004 of the $100,000,000 of principal amount of 9.25% Debentures issued by Covanta who voted in favor of the Covanta Plan of Reorganization, as sponsored by us. Each eligible offeree is entitled to purchase its pro rata portion of the 3,000,000 shares of common stock being offered for purchase through the Base Offering at $1.53 per share. This pro rata portion 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, the principal amount of all outstanding 9.25% Debentures voted in favor of the Covanta Plan of Reorganization.

In addition, the Contingent Offering is being made solely to eligible offerees who purchase shares in the Base Offering in the form of contingently issuable, non-transferable warrants. We will issue Contingent Warrants to purchase 0.9 shares of our common stock at $6.00 per share for each share of common stock purchased by an eligible offeree through the exercise of Base Warrants in the Base Offering.

The warrants to purchase shares of our common stock under the Base Offering and the Contingent Offering will commence upon the date of this prospectus and will expire if they are not exercised by 5:00 p.m., Eastern Time, on , 2005 and have no further value. There are no oversubscription privileges being offered under the offering and warrants not exercised will not be reallocated to other eligible offerees nor may any such warrants be transferred in any way or to any person.

The offering is eligible for ASOP. Since all record holders of the 9.25% Debentures are DTC participants, we are requiring that all rights be exercised through ASOP.

Eligible offerees should note that immediately available funds must be received by the expiration date for the warrant exercise to be valid. See *ASOP Procedures* and *Exercise Prices* in this section of the prospectus. We reserve the right to limit the exercise of any warrants that would result in a risk of any stockholder becoming the owner of 5% or more of our common stock. See *Risk Factors Risks Related to the Offering We Have The Right to Limit The Purchase of our common stock* and *The Offering Certificate of Incorporation Restrictions; Escrow Protection Mechanics.* Eligible offerees who exercise their warrants offered in the offering will not be entitled to revoke their exercise. Eligible offerees who do not exercise their rights will relinquish any value inherent in the warrants.

To avoid the inconvenience of issuing fractional shares, you will not receive fractional shares of our common stock, but instead, you will receive cash in lieu of fractional shares of our common stock as a result of your warrant exercise(s), calculated as the product of the fraction of a share of common stock multiplied by the difference between the current market price of a share of common stock and the applicable exercise price.

ASOP Procedures

Eligible offerees that are exercising warrants issued in the offering must transmit their notices by electronic message through ASOP. Your notice must specify the number of Base Warrants and also specify, if applicable, the number of Contingent Warrants that you are exercising. DTC will then send an agent s message to the warrants agent for the offering, Wells Fargo Bank, National Association, for its acceptance. Delivery of the 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 be debited from your DTC account).

Expiration of the Offering

You may exercise Base Warrants and Contingent Warrants at any time before 5:00 p.m., Eastern Time, on , 2005. If you do not exercise your warrants before the expiration date, your unexercised warrants,

will be null and void. We will not be obligated to honor your exercise of warrants if the warrant agent receives the agent s message relating to your exercise after the offering expires.

Exercise Prices

The warrants issued under the Base Offering and the Contingent Offering each have a different per share exercise price. The exercise price for Base Warrants issued under the Base Offering is $1.53 per share and the exercise price for Contingent Warrants issued under the Contingent Offering is $6.00 per share.

The $1.53 per share purchase price in the Base Offering was a negotiated purchase price which was contractually agreed upon in the Covanta Plan of Reorganization. This price was established at the time of the bridge financing for the acquisition of Covanta, at a price in excess of the then current market price of $1.40 per share. In connection with establishing the purchase price, which was also the conversion price of the bridge financing obtained in connection with our acquisition of Covanta and the exercise price in a previous pro rata rights offering that we conducted in order to refinance $40 million of indebtedness that we incurred in order to finance our acquisition of Covanta, we were advised by an independent, nationally recognized financial advisor and a special committee of the Board of Directors considered the transaction. At that time, we agreed to conduct the Base Offering at the same price of $1.53 per share as the pro rata rights offering previously conducted. The number of shares to be offered, however, was not determinable at such time.

The $6.00 per share purchase price in the Contingent Offering was the same price that was offered to our stockholders in the Ref-Fuel rights offering that we conducted to finance the acquisition of Ref-Fuel. We are using the same purchase price in the Contingent Offering to provide the eligible offerees a generally economic equivalent offering as if the Base Offering had been closed on or prior to the record date of the Ref-Fuel rights offering.

The purchase price of all shares of common stock you purchase in the offering is payable by debiting your account at DTC when the agent s message is electronically sent to the warrant agent. If the conditions to the completion of the offering are not satisfied or the offering is otherwise terminated, your funds will be returned to you as soon as practicable by crediting your DTC account, without interest or deduction.

Purchase of Shares

You may purchase the shares of common stock pursuant to the exercise of warrants by delivering your electronic notice through ASOP prior to 5:00 p.m., Eastern Time, on the expiration date.

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 record or beneficial, direct or indirect, holder of 5% or more of our common stock, however acquired, including acquisition though exercise of rights to purchase shares granted by us, to sell, transfer, pledge, encumber or dispose of any shares owned by such 5% stockholder, or to purchase, acquire, or otherwise receive additional shares of our common stock without our prior consent. Our certificate of incorporation also restricts the ability of any other holder, whether direct or indirect, record or beneficial, to make an acquisition of our common stock which will result in total ownership, either direct or indirect, record or beneficial, by such stockholder of 5% or more of our common stock without our prior consent. These restrictions will apply unless and until we determine that such acquisition will not result in an unreasonable risk of an ownership change. In determining 5% ownership, the following attribution provisions apply for purposes of Section 382 of the Internal Revenue Code:

Any family group consisting of an individual, spouse, children, grandchildren and parents are treated as one person. Note that an individual can be treated as a member of several different family groups. For example, your family group would include your spouse, children, father and mother, but your mother s family group would include her spouse, all her children and her grandchildren.

Any common stock owned by any entity will generally be attributed proportionately to the ultimate owners of that entity. Such attribution will also occur through tiered entity structures.

Any persons or entities acting in concert or having a formal or informal understanding among themselves to make a coordinated purchase of common stock will be treated as one stockholder.

In determining stock ownership, any person or entity that holds an option to acquire either common stock or another option or right to acquire common stock should be treated as owning the underlying common stock.

Ownership may not be structured with an abusive principal purpose of avoiding these rules.

We have the right, in our sole and absolute discretion, to limit the exercise of warrants, including instructing the warrant agent to refuse to honor any exercise of warrants, by 5% stockholders.

The total number of our common shares expected to be outstanding upon completion of the offering, assuming all of the shares of common stock are purchased, is 146,876,122. 5% of 146,876,122 is 7,343,806.

In order to avoid an ownership change for federal income tax purposes, we have implemented the escrow protection mechanics as follows:

(1) by purchasing shares of common stock, each purchaser will represent to us that such purchaser will not be, after giving effect to the purchase of the common stock, an owner, either direct or indirect, record or beneficial, or by application of Section 382 attribution provisions summarized above, of more than approximately 6,600,000 shares, constituting approximately 4.5% of our outstanding common stock;

(2) if such exercise would result in such purchaser owning more than 6,600,00 shares of our common stock, constituting approximately 4.5% of our outstanding common stock, such purchaser must notify the warrant agent at the telephone number set forth under *The Warrants Agent;*

(3) if requested, each purchaser will be required to provide us with additional information regarding the amount of common stock that the purchaser owns; and

(4) we shall have the right to instruct the warrant agent to refuse to honor such purchaser s exercise to the extent such exercise might, in our sole and absolute discretion, result in such purchaser owning 5% or more of our common stock.

By exercising warrants in the offering, you agree that the escrow protection mechanics are valid, binding and enforceable against you.

The escrow protection mechanics are meant to be applied in conjunction with the restrictions in our certificate of incorporation and to provide us with a means to both supplement and enforce such restrictions with regard to the exercise of the warrants issued in the offering. We have received opinions of counsel that the provisions in our certificate of incorporation and the escrow protection mechanics are legal, valid, binding and enforceable under Delaware law. We intend to vigorously challenge any attempt to violate these restrictions and to pursue all available remedies in the event of any violation. Any purported exercise of warrants, in violation of either the restrictions in our certificate of incorporation or the escrow protection mechanics section, will be void and of no force and effect.

Conditions to the Offering

We may terminate the offering if at any time before completion of the offering there is any judgment, order, decree, injunction, statute, law or regulation entered, enacted, amended or held to be applicable to the offering that in the reasonable judgment of our board of directors would or could make the offering or its completion illegal or materially more burdensome to us or otherwise restrict or prohibit completion of the offering. We may waive any of these conditions and choose to proceed with the offering even if one or more of these events occurs. To the extent that any of these conditions are applicable to all stockholders, we will not waive such condition with respect to an individual stockholder unless that condition is waived for all stockholders.

In addition, if we determine that the purchase of the shares of common stock would cause an unreasonable risk of a Section 382 ownership change, we may terminate the offering. See *United States Federal Income Tax Consequences Section 382 and Limitations on our Use of Losses.*

If the conditions to completion of the offering are not satisfied or we otherwise terminate the offering, all rights will expire without value and all exercise payments received by the warrant agent will be returned promptly, without interest or deduction.

Amendments

We reserve the right to amend the terms or conditions of the offering.

We may amend the terms of the warrants only to cure an ambiguity or correct or supplement a provision which may be defective or inconsistent with other provisions. We may also add provisions relating to questions or matters which arise and additions which we and the warrant agent deem necessary or desirable and which will not adversely affect the interests of the eligible offerees. If we amend the terms or conditions of the offering, a new prospectus will be distributed to all eligible offerees who have previously exercised warrants and to eligible offerees of record of unexercised warrants on the date we amend the terms.

In addition, all eligible offerees who have previously exercised warrants, or who exercise warrants within four business days after the mailing of the new prospectus, will be asked to confirm through ASOP their exercise of warrants under the terms of the offering as amended by us. An eligible offeree who has previously exercised any warrants, or who exercises warrants within four business days after the mailing of the new prospectus, and who does not confirm through ASOP the exercise of the warrants under the amended terms within five business days after our request for confirmation will be deemed to have cancelled such eligible offeree s exercise of warrants, and the full amount of the exercise price previously paid by such eligible offeree will be promptly returned by crediting such eligible offeree s DTC account, without interest or deduction. Any agent s message received by the warrant agent five or more business days after the date of the amendment will be deemed to constitute the consent of the eligible offeree who sent such agent s message to the amended terms.

If we extend or withdraw the offering, we will notify eligible offerees of such an extension or withdrawal by sending eligible offerees a written notice via our warrant agent, Wells Fargo Bank, National Association.

The Warrant Agent

We have appointed Wells Fargo as warrant agent for the offering. Any questions regarding your status as an eligible offeree, the number of shares you are entitled to purchase or requests for additional copies of this prospectus or any ancillary documents may be directed to the warrant agent at the following address and telephone number:

Patty Adams
Wells Fargo Bank
Corporate Trust Services
Sixth & Marquette
MAC N9303-120
Minneapolis, MN 55479
Telephone: (612) 667-1102
Facsimile: (612) 667-9825

Wells Fargo, as warrant agent, will verify all exercises of warrants and will certify to us that the warrants have been properly allocated and exercised in accordance with the terms of the offering. We will pay the warrant agent customary fees and reimbursements for its expenses. We have also agreed to indemnify the warrant agent against any liabilities that it may incur in connection with the offering, subject to its failure to follow the terms of the offering or its willful misconduct or gross negligence.

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Method of Payment

Your payment of the purchase price will be made by debiting your DTC account at the time DTC sends the agent s message to the warrant agent through ASOP and will be considered received by the warrants agent at such time.

Your Funds Will Be Held by the Warrant Agent until Shares of Common Stock are Issued

The warrant agent will hold your payment of the exercise price payment in a segregated account with other payments received from other eligible offerees until we issue your shares to you or return your payment, without interest or deduction.

Issuance of Shares

Our transfer agent and registrar, American Stock Transfer & Trust Company, will make the necessary book-entry transfers, or upon your request, will deliver to you certificates, representing the shares that you purchase upon the exercise of your warrants as soon as practicable after the offering has expired.

Notice to Record Holders

If you are a bank, broker, trustee, depository or other nominee who held the 9.25% Debentures for the account of others on the record date, you should notify the respective beneficial owners of such 9.25% Debentures as of January 12, 2004 of the offering as soon as possible to find out their intentions with respect to exercising their Base Warrants, and if applicable, Contingent Warrants. You should obtain instructions from the beneficial owner with respect to each of the warrants, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial owner instructs you to exercise the Base Warrants and Contingent Warrants, you should send the appropriate electronic notice to DTC. When you exercise warrants on behalf of beneficial owners through ASOP, you will be required to certify that each beneficial owner for whom you are exercising warrants is an eligible offeree.

Beneficial Owners

If you were the beneficial owner of the 9.25% Debentures on January 12, 2004 and voted in favor of our plan of reorganization or have otherwise been authorized to participate in this offering by the Bankruptcy Court having jurisdiction over the Covanta Plan of Reorganization, we will ask your bank, broker, trustee, depository or other nominee to notify you of the offering. If you wish to exercise your Base Warrants, and if applicable, Contingent Warrants, you will need to have your bank, broker, trustee, depository or other nominee act for you. To indicate your decision with respect to exercising warrants, you should complete and return to your bank, broker, trustee, depository or other nominee the form entitled Beneficial Owner Election Form, specifying the number of Base Warrants and the number, if applicable, of Contingent Warrants being exercised. You should receive this form from your bank, broker, trustee, depository or other nominee with the other offering materials.

Determinations Regarding the Exercise of Your Warrants

We and the warrant agent will decide all questions concerning the timeliness, validity, form and eligibility of your warrant exercise(s) and these determinations will be final and binding. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine. We may reject the exercise of any of your warrants because of any defect or irregularity. We will not receive or accept any exercise until all irregularities have been waived by us or cured by you within such time as we decide, in our sole discretion.

Neither we nor the warrant agent will be under any duty to notify you of any defect or irregularity in connection with your submission of exercise notices and we will not be liable for failure to notify you of any defect or irregularity. We reserve the right to reject your exercise of warrants if your exercise is not in accordance with the terms of the offering or in proper form. We will also not accept your exercise of warrants

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if our issuance of shares of our common stock to you could be deemed to violate our certificate of incorporation, be unlawful under applicable law, is materially burdensome to us or as otherwise described under *Conditions to the Offering.*

Questions about Exercising Your Warrants

If you have any questions, require assistance regarding the method of exercising your Base Warrants, and if applicable, Contingent Warrants or have any requests for additional copies of this prospectus, you should contact the warrant agent at the address and telephone number set forth above under *The Warrant Agent.*

Shares of Common Stock Outstanding after The Offering

If all the warrants are exercised in the Base Offering and Contingent Offering, 146,876,122 shares of our common stock will be issued and outstanding, based on the number of shares outstanding on November 25, 2005. Based on the 141,176,122 shares of our common stock issued and outstanding as of November 25, 2005, our issuance of shares in the offering would result, on a pro forma basis in an approximately 4% increase in the number of outstanding shares of our common stock.

Other Matters

We are not making the offering in any state or other jurisdiction in which it is unlawful to do so, nor are we selling or accepting any offers to purchase any shares of our common stock from eligible offerees who are residents of those states or other jurisdictions. We may delay the commencement of the offering in those states or other jurisdictions, or change the terms of the offering, in order to comply with the securities law requirements of those states or other jurisdictions. We may decline to make modifications to the terms of the offering requested by those states or other jurisdictions, in which case, if you are a resident in those states or jurisdictions you will not be eligible to participate in the offering.

Determination of Terms of Offering

The terms of the Base Warrants issued in the Base Offering were determined as part of the Covanta Plan of Reorganization, as sponsored by us. Under this plan, part of the consideration to be provided to holders of the 9.25% Debentures (who are considered to be holders of approved subclass 3B claims under the terms of the Covanta Plan of Reorganization) who voted in favor the Covanta Plan of Reorganization have the right to participate in the Base Offering. Subsequently, on September 30, 2005 and October 14, 2005, the Bankruptcy Court having jurisdiction over the Covanta Plan of Reorganization authorized the participation of certain holders of the 9.25% Debentures whose votes were not properly included on January 12, 2004 to participate in the offering.

The terms of the Contingent Warrants that are contingently issuable in the Contingent Offering were determined as part of our January 31, 2005 letter agreement with Laminar in which we agreed that if the Base Offering to eligible offerees, including Laminar, was not closed 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 amount equal to the number of shares of common stock that such eligible offerees would have been entitled to purchase in the Ref-Fuel rights offering if this offering was consummated on or prior to the record date of the Ref-Fuel rights offering.

Since the record date of the Ref-Fuel rights offering has passed and that offering has been completed with each stockholder during the offering period being eligible to purchase 0.9 shares of our common stock at $6.00 per share for each share that they then owned, consistent with the January 31, 2005 letter agreement, we are offering under the Contingent Offering the right to eligible offerees to receive and exercise contingently issuable warrants to purchase 0.9 shares of our common stock at $6.00 per share for each share of our common stock that they purchase at $1.53 per share in the Base Offering. The Contingent Offering will enable eligible offerees to purchase our common stock at similar prices and amounts as if Base Offering had been completed prior to the commencement of the Ref-Fuel rights offering.

While our common stock has traded at a price in excess of the exercise price on the date of this prospectus under both the Base Offering and the Contingent Offering, there can be no assurance that the market price of our common stock will not decline during the exercise period to a level equal to or below the exercise price under the Base Offering and/or Contingent Offering or that, following the issuance of our common stock upon exercise of warrants under the Base Offering and/or Contingent Offering, an exercising holder will be able to sell shares purchased in the offering at a price equal to or greater than the applicable exercise price. See *Risk Factors* for a more complete discussion of risks associated with the offering and our businesses.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of material U.S. federal income tax consequences of the issuance of the Base Warrants in the Base Offering and the contingent issuance of the Contingent Warrants in the Contingent Offering and of the exercise of the Base Warrants and Contingent Warrants, respectively. The discussion is based upon the Internal Revenue Code, treasury regulations, judicial authorities, published positions of the IRS and other applicable authorities, all as in effect on the date hereof and all of which are subject to change or differing interpretations possibly with retroactive effect. The discussion does not address all of the tax consequences that may be relevant to a particular eligible offeree or to holders subject to special treatment under federal income tax laws such as financial institutions, insurance companies, broker-dealers, tax-exempt organizations, foreign persons, or persons holding our common stock as part of a straddle or conversion transaction. This discussion is limited to U.S. persons that hold our common stock, or would hold our common stock acquired upon the exercise of warrants issued in the offering, as capital assets. Except as otherwise stated herein, no ruling has been or will be sought from the IRS regarding any matter discussed herein. Considerable uncertainty exists as to the federal income tax consequences of the receipt of the warrants under the offering and the exercise of such warrants. Our counsel has not rendered any legal opinion regarding any tax consequences relating to us, an investment in us or the receipt or exercise of the warrants issued in the offering. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below. **Eligible offerees should consult their tax advisors as to the federal income tax consequences of the offering and any exercise of warrants received, including those that are relevant to their particular situations, as well as the effects of state, local and non-U.S. tax laws.**

For purposes of this discussion, a U.S. person means any one of the following:

- an individual citizen or resident of the United States;
- a partnership, corporation or other entity created or organized in or under the laws of the United States or any political subdivision thereof;
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source.

Issuance of Warrants, Basis and Holding Period of Warrants

We agreed to make this offering of Base Warrants under the Base Offering as an inducement to holders of the 9.25% Debentures to approve the Covanta Plan of Reorganization and we agreed to make the Contingent Offering of the Contingent Warrants pursuant to the January 31, 2005 letter agreement with Laminar. It is likely that the IRS 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, and, as discussed below under *Backup Withholding and Information Reporting,* we will take this position for purposes of reporting the tax consequences of the offering to the IRS. If an eligible offeree were required to recognize ordinary income upon receipt of the warrants, such eligible offeree would have a tax basis in the

warrants received equal to the income recognized by such offeree upon receipt of the warrants. The holding period for each warrant would commence upon receipt of each warrant.

The federal income tax treatment of the receipt of the warrants is uncertain, and alternative positions as to the appropriate federal income tax consequences of a receipt of Base Warrants in the Base Offering or a receipt of Contingent Warrants (if any) in the Contingent Offering may be supportable under applicable legal authorities. Consequently, eligible offerees should consult their tax advisors as to the federal income tax consequences to them of the offering, including those federal income tax consequences that are relevant to their particular situations.

Expiration of the Warrants

Eligible offerees whose warrants expire unexercised, and for whom our common stock would be a capital asset, will recognize a short-term capital loss equal to their basis in the expired warrants upon the expiration of the warrants.

Exercise of the Warrants, Basis and Holding Period of Acquired Shares

No gain or loss will be recognized by a holder upon the exercise of warrants received in the offering (except with respect to cash received in lieu of fractional shares) if such holder is required to recognize ordinary income for federal income tax purposes in an amount equal to the value of the warrants upon receipt. For such a holder, the basis of the common stock acquired through exercise of each warrant will be equal to the sum of the exercise price paid for such stock and the basis of the warrant exercised. The holding period for the common stock acquired through exercise of the warrants received in the offering will begin on the date of the closing of the offering (i.e., upon exercise of the warrants).

The federal income tax consequences of exercising warrants received in the offering is uncertain, and alternative positions as to the appropriate federal income tax treatment of such warrant exercises may be supportable under applicable legal authorities. Consequently, holders should consult their tax advisors as to the federal income tax consequences to them of any exercise of warrants received in the offering, including the federal income tax consequences that are relevant to their particular situations.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS and to each stockholder the amount, if any, of the dividends paid to such stockholder with respect to our stock and the amount of tax, if any, that we withheld on such distribution. In addition, pursuant to the information reporting requirements of the Internal Revenue Code of 1986, as amended, we will report to the IRS and to each eligible offeree such eligible offeree s receipt of warrants issued in the offering as its receipt of an amount of ordinary income that is equal to the value of the warrants received upon receipt. Under current U.S. Treasury Regulations, backup withholding tax will generally apply unless the stockholder or eligible offeree, as applicable, furnishes a correct taxpayer identification number and provides any other required certifications or is otherwise exempt from backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the holder s U.S. federal income tax liability if certain required information is furnished to the IRS.

Section 382 and Limitations on our Use of Losses

As of December 31, 2004 we reported that we had NOLs estimated to be approximately $516 million for federal income tax purposes, which expire in various amounts, if not used before December 31, 2023. Some or all of these NOLs may be available to offset our future taxable income, if any, but the continued availability of our NOLs is subject to the rules of Section 382 of the Internal Revenue Code. Section 382 generally restricts the use of an NOL after an ownership change, generally a more than 50% increase in stock ownership, measured by value, during a 3-year testing period by 5% stockholders. In the event of an ownership change,

the amount of our NOLs that could be utilized in any taxable year would be generally limited to the product of the value of our stock on the date of the ownership change, multiplied by the long-term tax-exempt rate, which is a measure of interest rates on long-term tax-exempt bonds.

We believe that the offering will not result in an ownership change. The offering has been structured to substantially comply with applicable treasury regulations.

In addition, our certificate of incorporation contains restrictions on the transfer and acquisition of our shares, which were designed to prevent an involuntary ownership change, although such restrictions cannot prevent an involuntary ownership change in all circumstances. The offering also contains certain other provisions which will be applied in conjunction with the restrictions in our certificate of incorporation to provide us with a means to enforce such restrictions with regard to the exercise of the warrants issued in the offering. See *The Offering Certificate of Incorporation Restrictions; Escrow Protection Mechanics* for a more complete discussion. We cannot be certain, however, that these restrictions will prevent a transaction that is outside of our control from triggering an ownership change.

PLAN OF DISTRIBUTION

The common stock covered by this prospectus will be issued directly to the purchasers by us without the use of any underwriter, selling agent, broker, dealer or finder. The expenses of the offering are being paid for by us.

DESCRIPTION OF COMMON STOCK

We are authorized to issue 260,000,000 shares of capital stock. The number of shares of common stock authorized is 250,000,000 with each share having a par value of $0.10 per share.

Voting Rights

Each holder of an outstanding share of our common stock is entitled to cast one vote for each share registered. Any consolidation or merger pursuant to which shares of our common stock would be converted into or exchanged for any securities or other consideration, would require the affirmative vote of a majority of the outstanding shares of the common stock holders.

Dividends

Subject to the rights and preferences of any outstanding preferred stock and limitations imposed by the note purchase agreement, we will award dividends on common stock payable out of our funds if and when our board of directors declares them. However, we will not pay any dividend, set aside payment for dividends, or distribute on common stock unless:

- we have paid or set apart all accrued and unpaid dividends for the preferred stock and any stock ranking on its parity; and

- we have set apart sufficient funds for the payment of the dividends for the current dividend period with respect to the preferred stock and any of the stock ranking on its parity.

Rights in Liquidation

Upon our liquidation, dissolution or winding up, all holders of our common stock are entitled to share ratably in any assets available for distribution to holders of our common stock, after payment of any preferential amounts due to the holders of any series of our preferred stock.

Preemptive Rights

Shares of our common stock do not entitle a stockholder to any preemptive rights to purchase additional shares of our common stock.

Transfer Restrictions

Our common stock is subject to the following transfer restrictions: No holder of 5% or more of our common stock, including any holder who proposes to acquire common stock which would result in that holder owning 5% or more of our common stock, may purchase or receive additional shares of our common stock, or sell or transfer any of our shares of common stock, without our determining that the transaction will not result in, or create an unreasonable risk of, an ownership change within the meaning of Section 382(g) of the Internal Revenue Code, or any similar provisions relating to preservation of our NOLs. This 5% limitation on ownership of stock may preserve effective control of us by our principal stockholders and preserve our board s and management s tenure.

In order to ensure compliance with this restriction, and to establish a procedure for processing the requests of a 5% stockholder to acquire or transfer common stock, as described in Article Fifth of our certificate of incorporation the following provisions apply to all 5% stockholders:

Delivery of Shares and Escrow Receipts. We will issue all shares of common stock of a 5% stockholder in the name of Covanta Holding Corporation, as Escrow Agent and we will hold them in escrow. In lieu of certificates reflecting ownership of the escrowed common stock, we will issue the 5% stockholders an escrow receipt reflecting their beneficial ownership of common stock and recording ownership of the escrowed stock. Escrow receipts are non-transferable. The 5% stockholders retain full voting and dividend rights for all escrowed stock.

Duration of Our Holding the Escrowed Stock. As escrow agent, we hold all shares of escrowed stock until the termination of the escrow account. If a 5% stockholder desires to transfer escrowed stock to a non-5% stockholder, we will hold all shares of escrowed stock until we receive a favorable opinion from our tax counsel that the transfer may be made without creating an unreasonable risk of resulting in an ownership change under the tax law.

Acquisitions and Transfers. We will treat all requests by 5% stockholders to acquire or transfer escrowed stock on a first to request, first to receive basis. All requests must be in writing and delivered to us at our principal executive office, attention General Counsel, by registered mail, return receipt requested, or by hand. In the event that we are unable to conclude that a requested acquisition or transfer can be made without an ownership change under the tax law, then provided the 5% stockholder has acquired our common stock in accordance with the procedures set forth in our certificate of incorporation:

- we will advise the requesting party in writing; and

- we will approve any subsequent request by other 5% stockholders of a type that we had previously denied only after we give all previously denied requests (in the order denied) the opportunity to complete the previously desired transaction. In addition, we may approve any requested transaction in any order of receipt if, in our business judgment, the transaction is in our best interests.

Termination of the Stock Escrow Account. The stock escrow will terminate upon the first to occur of the following:

- we conclude that the restrictions are no longer necessary in order to avoid a loss of the NOLs;

- the NOLs are no longer available to us; or

- our Board of Directors concludes, in its business judgment, that preservation of the NOLs are no longer in our interest.

Upon termination of the stock escrow, each 5% stockholder will receive a notice that the stock escrow has been terminated and will receive a common stock certificate evidencing ownership of the previously escrowed stock.

Our certificate of incorporation provides that we are held harmless and released from any liability to 5% stockholders arising from our actions as escrow agent, except for liabilities arising from our intentional misconduct. In performing our duties we are entitled to rely upon the written advice of our tax counsel and our

other experts. In the event that we require further advice regarding our role as escrow agent, we may deposit the escrowed stock at issue with a court of competent jurisdiction and make further transfers in a manner consistent with the rulings of the court.

Disclosure of Commission Position on Indemnification for Securities Act Liabilities

Under Section 145 of Delaware General Corporation Law, referred to as the DGCL in this prospectus, a corporation has the authority to indemnify any person who was or is a party or is threatened to be made a party to an action (other than an action by or in the right of the corporation) by reason of such person s service as a director of officer of the corporation, or such person s service, at the corporation s request, as a director, officer, employee or agent of another corporation or other enterprise, against amounts paid and expenses incurred in connection with the defense or settlement of such action, if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the corporation s best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such person s conduct was unlawful. If such person has been judged liable to the corporation in any action or proceeding brought by or in the right of the corporation, however, indemnification is only permitted to the extent that the adjudicating court (or the court in which the action was brought) determines, despite the adjudication of liability, that such indemnification is proper.

As permitted by Section 145 of the DGCL, our restated certificate of incorporation and by-laws authorize us to indemnify any officer, director and employee of Covanta against amounts paid or expenses incurred in connection with any action, suit or proceeding (other than any such action by or in the right of the corporation) to which such person is or is threatened to be made a party as a result of such positions if the Board of Directors or stockholders of or independent legal counsel to us, in a written opinion, determine that indemnification is proper.

We have agreed to indemnify and hold KPMG LLP, referred to as KPMG in this prospectus, harmless against and from any and all legal costs and expenses incurred by KPMG in successful defense of any legal action or proceeding that arises as a result of KPMG s consent to the incorporation by reference of its report on our past financial statements incorporated by reference in this registration statement.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to the directors, officers or persons controlling Covanta pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

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MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed and traded on the New York Stock Exchange (symbol: CVA). On November 25, 2005 there were approximately 1,174 holders of record of common stock. On November 30, 2005, the closing price of the common stock on the New York Stock Exchange was $13.04.

The following table sets forth the high, low and closing stock prices of our common stock for the first three quarters of this year and the last two years. These prices are as reported on the American Stock Exchange Composite Tape with respect to dates through the close of business on October 4, 2005 and these prices are as reported on the New York Stock Exchange Composite Tape with respect to dates on and after October 5, 2005. Effective as of the close of trading on October 4, 2005, we delisted from the American Stock Exchange and as of October 5, 2005, our shares have been listed for trading on the New York Stock Exchange.

	2005			2004			2003		
	High	**Low**	**Close**	**High**	**Low**	**Close**	**High**	**Low**	**Close**
First Quarter	$ 17.34	$ 7.95	$ 17.25	$ 10.03	$ 2.87	$ 9.30	$ 1.55	$ 0.64	$ 0.74
Second Quarter	17.70	10.42	12.17	10.40	5.40	6.91	1.60	0.71	1.60
Third Quarter	13.64	11.67	13.43	7.15	5.52	6.09	1.80	1.27	1.37
Fourth Quarter(1)	13.78	10.75	13.04	8.60	6.00	8.45	3.25	1.26	2.91

(1) Through close of trading on November 30, 2005.

We have not paid dividends on our common stock and do not expect to declare or pay any dividends in the foreseeable future. Under current financing arrangements there are material restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances that would likely materially limit the future payment of dividends on common stock. 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 more detailed information on our credit agreements.

On December 2, 2003, we entered into a note purchase agreement with the Bridge Lenders pursuant to which in consideration for the $40 million of bridge financing in the form of convertible notes, the agreement by the Bridge Lenders to arrange or provide for the $118 million second lien letter of credit facility and for Laminar to arrange or provide for the $10 million international revolving credit facility, we issued to the Bridge Lenders an aggregate of 5,120,853 shares of common stock. At the time that we entered into the note purchase agreement, agreed to issue the notes convertible into shares of common stock and issued the equity compensation to the Bridge Lenders, the closing price of the common stock on the American Stock Exchange on the day prior to announcement of the Covanta acquisition was $1.40 per share, which was below the $1.53 per share conversion price of the notes.

Pursuant to their terms, the notes were convertible into common stock at a price of $1.53 per share without action by the Bridge Lenders if all or any portion of the notes are not repaid pursuant to a rights offering, subject to certain agreed upon limitations necessitated by our NOLs.

In addition, under the note purchase agreement, Laminar agreed to convert an amount of convertible notes in order to acquire up to an additional 8.75 million shares of the common stock at $1.53 per share based upon the levels of public participation in the rights offering. We issued the maximum of 8.75 million shares to Laminar pursuant to the conversion of approximately $13.4 million in principal amount of notes. Consequently, the $20 million principal amount of notes held by Laminar plus accrued but unpaid interest was repaid in full on June 11, 2004 through the issuance of 8.75 million shares of our common stock to Laminar and $7.9 million of the proceeds from the rights offering.

The Bridge Lenders were all sophisticated investors that conducted due diligence on us and were either affiliated with members of, or had the opportunity to ask questions of, management in connection with the drafting and

negotiation of the note purchase agreement. The issuance of the common stock issued to the

Bridge Lenders was exempt from registration pursuant to private offering exemption of Section 4(2) of the Securities Act of 1933, as amended.

In May 2004 we commenced offering as contemplated by the note purchase agreement, and in June 2004 received proceeds of $26.6 million, which it used in part to repay the bridge lenders in full. Pursuant to a registration rights agreement, we filed a shelf registration statement which was declared effective on August 24, 2004, to register the resale of 17,711,491 shares held by the Bridge Lenders.

EXPERTS

The consolidated financial statements included for the year ended December 31, 2004 included in Appendix A to this prospectus, have been audited by Ernst & Young, independent registered public accounting firm, as set forth in its report thereon. Such financial statements have been included in the prospectus in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Quezon Power, Inc. at December 31, 2004, 2003 and 2002, and for each of the years then ended, have been audited by Sycip Gorres Velayo & Co., a member practice of Ernst & Young Global, independent registered public accounting firm, as set forth in its report thereon included in this prospectus and registration statement in reliance upon such report given on the authority of such firm as an expert in accounting and auditing.

The consolidated financial statements and the related financial statement schedules of Covanta (Debtor in Possession) and subsidiaries as of December 31, 2003, and for each of the two years in the period ended December 31, 2003, included in this prospectus and registration statement, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report (which report expresses an unqualified opinion and includes explanatory paragraphs relating to Covanta and various domestic subsidiaries having filed voluntary petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code, the Bankruptcy Court having entered an order confirming Covanta s plan of reorganization which became effective after the close of business on March 10, 2004, substantial doubt about Covanta s ability to continue as a going concern, Covanta s adoption of SFAS No. 143, Accounting for Asset Retirement Obligations in 2003, SFAS No. 142, Goodwill and Other Intangible Assets, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets in 2002, and the restatements described in Note 35 to such financial statements) in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Covanta for the periods January 1, 2004 through March 10, 2004, Covanta is referred to as Predecessor during this time period, and March 11, 2004 through December 31, 2004, Covanta is referred to as Successor during this time period (including schedules appearing therein), have been audited by Ernst & Young, independent registered public accounting firm, as set forth in its report thereon. Such financial statements have been included in this prospectus in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The audited historical financial statements of Ref-Fuel and subsidiaries for the period from January 1, 2003 to December 12, 2003 have been included in this prospectus and have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited historical financial statements of Ref-Fuel and subsidiaries at December 31, 2004 and 2003, and for the year ended December 31, 2004, and the period from December 12, 2003 to December 31, 2003, have been included in this prospectus and have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Covanta ARC Holdings, Inc. (formerly known as American Ref-Fuel Holdings Corp.) and subsidiaries for the year ended December 31, 2002, have been included in this

prospectus and registration statement in reliance upon the report of KPMG, independent registered public accounting firm, included in this prospectus, and upon the authority of said firm as experts in accounting and auditing. We have agreed to indemnify and hold KPMG harmless against and from any and all legal costs and expenses incurred by KPMG in successful defense of any legal action or proceeding that arises as a result of KPMG s consent to the inclusion of its audit report on Ref-Fuel s past consolidated financial statements included in this registration statement.

The audited historical financial statements of Ref-Fuel Holdings and subsidiaries at December 31, 2004 and 2003, for the year ended December 31, 2004, and the period from December 12, 2003 to December 31, 2003, have been included herein in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited historical financial statements of Ref-Fuel Holdings and subsidiaries at December 31, 2002 for the period from January 1, 2003 to December 12, 2003 and for the year ended December 31, 2002, have been included herein in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority as experts in auditing and accounting.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by Neal, Gerber & Eisenberg llp of Chicago, Illinois.

WHERE YOU CAN FIND MORE INFORMATION

Covanta Holding Corporation

This prospectus is part of a registration statement on Form S-1 we filed with the SEC under the Securities Act of 1933. You should rely only on the information or representations provided in this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of the document.

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, under which we file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of such material also can be obtained at the SEC s website, www.sec.gov or by mail from the public reference room of the SEC, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public on our corporate website, www.covantaholding.com. Our common stock is traded on the New York Stock Exchange. Material filed by us can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, NY 10005.

Covanta Energy Corporation

As of June 30, 2005 Covanta does not file periodic reports or other information with the SEC. Covanta s historic reports and other information filed by Covanta with the SEC can be read and copied at the public reference room of the SEC at the address set forth above. Copies of such material also can be obtained at the SEC s website, www.sec.gov or by mail from the public reference room of the SEC, at prescribed rates. Please call the SEC at the number set forth above for further information on the public reference room. Information on Covanta is also available to the public on our corporate website at www.covantaholding.com.

Covanta ARC Holdings, Inc.

Ref-Fuel is a wholly-owned subsidiary of Covanta and does not currently file periodic reports or other information with the SEC. However, both MSW I and MSW I Finance, collectively, and MSW II and

MSW II Finance, collectively, file periodic reports and other information with the SEC. Such reports and other information filed these entities with the SEC can be read and copied at the public reference room of the SEC at the address set forth above. Copies of such material also can be obtained at the SEC s website, www.sec.gov or by mail from the public reference room of the SEC, at prescribed rates. Please call the SEC at the number set forth above for further information on the public reference room. These SEC filings are also available to the public on our corporate website at www.covantaholding.com.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Danielson Holding Corporation

We have audited the accompanying consolidated balance sheets of Danielson Holding Corporation and subsidiaries (the Company) as of December 31, 2004 and 2003, and the consolidated statements of operations, stockholders equity, and cash flows for the years ended December 31, 2004 and 2003 and the year ended December 27, 2002. Our audits also included the financial statement schedules listed in the Index at Item 8. These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Danielson Holding Corporation and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for the years ended December 31, 2004 and 2003 and the year ended December 27, 2002, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Danielson Holding Corporation s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report [NOT INCLUDED HEREIN] dated March 14, 2005 expressed an unqualified opinion on management s assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP
MetroPark, New Jersey
March 14, 2005

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DANIELSON HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended		
	December 31, 2004	December 31, 2003	December 27, 2002
	(In thousands, except per share amounts)		
ENERGY SERVICES:			
OPERATING REVENUES:			
Service revenues	$ 374,622	$	$
Electricity and steam sales	181,074		
Construction revenues	1,506		
Total Energy Services operating revenues	557,202		
OPERATING EXPENSES:			
Plant operating expenses	354,542		
Depreciation and amortization	52,632		
Net interest on project debt	32,586		
Other operating costs and expenses	1,366		
Net gain on sale of business	(245)		
Selling, general and administrative expenses	38,076		
Other	(1,953)		
Total Energy Services operating expenses	477,004		
Operating income from Energy Services	80,198		
INSURANCE SERVICES:			
OPERATING REVENUES:			
Net earned premiums	17,998	35,851	62,164
Net investment income	2,405	3,999	5,603
Net realized investment gains (losses)	201	990	1,007
Other income	264	283	623
Total Insurance Services operating revenues	20,868	41,123	69,397
OPERATING EXPENSES:			
Net losses and loss adjustment expenses	12,861	36,684	59,881
Policy acquisition expenses	4,420	7,947	14,115
General and administrative	4,398	6,664	5,893
Total Insurance Services operating expenses	21,679	51,295	79,889
Operating loss from Insurance Services	(811)	(10,172)	(10,492)
MARINE SERVICES:			

OPERATING REVENUES:	
Marine revenues	455,499
Marine revenues related party	6,605
Total Marine Services operating revenues	462,104
OPERATING EXPENSES:	
Materials, supplies and other	195,794
Rent	32,847
Labor and fringe benefits	108,132
Fuel	49,954
Depreciation and amortization	41,785
Taxes, other than income	15,934
Total Marine Services operating expenses	444,446
Operating income from Marine Services	17,658

DANIELSON HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

	Years Ended		
	December 31, 2004	**December 31, 2003**	**December 27, 2002**
	(In thousands, except per share amounts)		
PARENT COMPANY:			
Net investment income	233	344	640
Net realized investment gains	252	1,090	438
Investment income related to ACL debt			8,402
Administrative expenses	(2,517)	(4,168)	(4,911)
Operating loss from Parent company	(2,032)	(2,734)	4,569
Operating income (loss)	77,355	(12,906)	11,735
OTHER (EXPENSES) INCOME:			
Interest income	1,858		
Interest expense	(43,739)	(1,424)	(38,735)
Other, net			(5,609)
Total other (expenses) income	(41,881)	(1,424)	(44,344)
Income (loss) before income tax expense, equity in net income (loss) from unconsolidated investments and minority interests	35,474	(14,330)	(32,609)
Income tax expense	(11,535)	(18)	(346)
Minority interests, energy	(6,869)		
Equity in net income (loss) of unconsolidated investments	17,024	(54,877)	
NET INCOME (LOSS)	$ 34,094	$ (69,225)	$ (32,955)
INCOME (LOSS) PER SHARE OF COMMON STOCK BASIC	$ 0.54	$ (1.46)	$ (0.82)
INCOME (LOSS) PER SHARE OF COMMON STOCK DILUTED	$ 0.52	$ (1.46)	$ (0.82)

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

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DANIELSON HOLDING CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(In thousands, except per share amounts)	
ASSETS		
ENERGY SERVICES ASSETS		
Current:		
Cash and cash equivalents	$ 78,112	$
Marketable securities available for sale	3,100	
Restricted funds for emergence costs	32,805	
Restricted funds held in trust	116,092	
Receivables, (less allowances of $434)	131,301	
Unbilled service receivables	58,206	
Deferred income taxes	8,868	
Prepaid expenses and other	60,893	
Total current assets	489,377	
Property, plant and equipment, net	819,175	
Restricted funds held in trust	123,826	
Unbilled service receivables	98,248	
Other non-current receivables (less allowances of $170)	13,798	
Service and energy contracts and other intangible assets, net	177,290	
Investments in and advances to investees and joint ventures	61,656	
Other assets	30,672	
Total Energy Services Assets	1,814,042	
PARENT COMPANY S AND INSURANCE SERVICES ASSETS:		
Cash and cash equivalents	18,036	17,952
Restricted cash, Covanta escrow		37,026
Investments:		
Fixed maturity debt, available for sale at fair value (cost: $60,564 and $69,840)	60,510	70,656
Equity securities, available for sales at fair value (cost: $1,324 and $367)	1,432	401
Accrued investment income	608	966
Premium and consulting receivables, net of allowances of $128 and $462	1,306	2,261
Reinsurance recoverable on paid losses, net of allowances of $893 and $1,898	779	1,448
Reinsurance recoverable on unpaid losses, net of allowances of $236 and $237	18,042	18,238
Ceded unearned premiums		508

Property, plant and equipment, net		225		254
Investments in unconsolidated Marine Services subsidiaries		2,500		4,425
Deferred financing costs (net amortization of $1,024 in 2003)				6,145
Deferred income taxes		18,042		
Other assets		3,559		2,368
Total Parent Company s and Insurance Services Assets		125,039		162,648
Total Assets	$	1,939,081	$	162,648

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DANIELSON HOLDING CORPORATION
CONSOLIDATED BALANCE SHEETS (Continued)

	December 31,	
	2004	**2003**
	(In thousands, except per share amounts)	
LIABILITIES AND STOCKHOLDERS EQUITY		
ENERGY SERVICES LIABILITIES:		
Current portion of recourse debt	$ 112	$
Current portion of project debt	109,701	
Accounts payable	16,199	
Accrued expenses	118,998	
Accrued emergence costs	32,805	
Deferred revenue	13,965	
Total current liabilities	291,780	
Long-term recourse debt	312,784	
Long-term project debt	835,036	
Deferred income taxes	109,465	
Other liabilities	97,848	
Total Energy Services liabilities	1,646,913	
PARENT COMPANY S AND INSURANCE SERVICES LIABILITIES:		
Unpaid losses and loss adjustment expenses	64,270	83,380
Unearned premiums	1,254	4,595
Funds withheld on ceded reinsurance	1,186	1,516
Interest payable		400
Parent company debt payable to related parties		40,000
Bank overdraft.		1,436
Income taxes payable	3,421	3,530
Other liabilities	3,872	
Total Parent Company s and Insurance Services liabilities	74,003	134,857
Total liabilities	1,720,916	134,857
MINORITY INTERESTS	83,350	
Stockholders Equity:		
Preferred stock ($0.10 par value; authorized 10,000 shares; none issued and outstanding) Common stock ($0.10 par value; authorized 150,000 shares; issued 73,441 and 35,793 shares; outstanding 73,430 and 35,782 shares)	7,344	3,579
Additional paid-in capital	194,783	123,446

Unearned compensation		(3,489)		(289)
Accumulated other comprehensive income (loss)		583		(445)
Accumulated deficit		(64,340)		(98,434)
Treasury stock (cost of 11 shares)		(66)		(66)
Total stockholders equity		134,815		27,791
Total Liabilities and Stockholders Equity	$	1,939,081	$	162,648

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

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DANIELSON HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December,		
	2004	**2003**	**2002**
		(In thousands)	
Cash Flows From Operating Activities:			
Net income (loss)	$ 34,094	$ (69,225)	$ (32,955)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gain related to ACL debt contributed in acquisition of ACL			(13,614)
Net realized investment (gains) losses	(360)	(2,080)	2,799
Depreciation and amortization	52,783	375	42,359
Amortization of deferred financing costs	7,045	1,024	
Amortization of project debt premium and discount	(10,457)		
Accretion on principal of senior secured notes	2,736		
Provision for doubtful accounts	733		
Stock option and unearned compensation expense	1,425	521	920
Interest accretion and amortization	433		4,184
Other operating activities		(156)	6,037
Undistributed (earnings) loss of unconsolidated Marine Services subsidiaries	511	54,877	
Undistributed earnings of unconsolidated Energy subsidiaries	(17,535)		
Dividends from Energy Services equity investments	3,106		
Minority interests	6,919		
Deferred income taxes	12,335		
Gain on sale of assets and businesses	(344)		
Management of Operating Assets and Liabilities:			
Accrued investment income	318	242	336
Restricted funds for emergence costs	65,681		
Receivables	10,947		(13,743)
Unbilled service receivables	11,221		
Premium and consulting receivables	955	5,377	7,238
Reinsurance recoverable on paid losses	668	1,676	(983)
Reinsurance recoverable on unpaid losses	196	3,819	(4,323)
Ceded unearned premiums	508	583	986
Deferred policy acquisition costs	577		
Deferred tax asset	(15,591)		
Other assets	(5,034)	1,784	6,178
Unpaid losses and loss adjustment expenses	(19,110)	(17,869)	(4,496)
Unearned premiums	(3,341)	(6,027)	(10,496)
Reinsurance payables and funds withheld	(237)		
Accounts payable	(8,053)		
Materials and supplies			1,910
Accrued expenses	8,034		

Accrued emergence costs	(65,681)		
Deferred revenue	(1,395)		
Interest payable	(400)	400	15,378
Other liabilities	10,135	1,508	(7,667)
Other, net	4,244		
Net cash provided by (used in) operating activities	88,066	(23,171)	48

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DANIELSON HOLDING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the Years Ended December,		
	2004	2003	2002
	(In thousands)		
Cash Flows From Investing Activities:			
(Increase) decrease in restricted cash, Covanta escrow	37,026	(37,026)	
Purchase of Covanta	(36,400)		
Cash acquired from Covanta	57,795		
Purchase of ACL, GMS and Vessel Leasing			(42,665)
Cash acquired from Marine Services companies			21,839
Collection of notes receivable from affiliate		6,035	
Matured or called investment securities	27,307	47,598	33,043
Proceeds from the sale of investment securities	1,661	10,768	2,904
Purchase of investment securities	(24,828)	(36,624)	(19,378)
Purchase of property, plant and equipment	(11,999)	(96)	(18,152)
Distributions received from unconsolidated subsidiaries	14,705	58	
Proceeds from the sale of assets	3,311		3,116
Other	1,233	(979)	(670)
Net cash provided by (used in) investing activities	69,811	(10,266)	(19,963)
Cash Flows From Financing Activities:			
Bank overdrafts	(1,436)	1,436	(1,785)
Cash received for restricted stock		14	
Borrowings under note purchase agreement		40,000	
Proceeds from rights offering	41,021		42,228
Proceeds from exercise of warrants for common stock			9,500
Short term borrowings, net			7,000
Long term debt issued			3,206
Proceeds from the exercise of options for common stock	3,474		1,088
Repayment of bridge financing	(26,612)		
Borrowings for facilities	14,488		
Payment of recourse debt	(19,673)		(31,502)
Payment of project debt	(67,943)		
Increase in restricted funds held in trust	(13,839)		
Distribution to minority partners	(8,261)		
Parent company debt issue costs	(900)		(1,035)
Other financing activities			(1,468)
Net cash provided by (used in) financing activities	(79,681)	41,450	27,232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	78,196	8,013	7,317
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,952	25,183	17,866

Deconsolidation of ACL, GMS and Vessel Leasing				(15,244)		
CASH AND CASH EQUIVALENTS, END OF YEAR	$	96,148	$	17,952	$	25,183

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

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DANIELSON HOLDING CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-In	Unearned	Accumulated Other Comprehensive (Loss)	Retained	Treasury Stock		
	Shares	Amount	Capital	Compensation	Income	(Deficit)	Shares	Amount	Total
					(In thousands)				
Balance December 31, 2001	19,517	$ 1,952	$ 63,115		$ 5,716	$ 3,746	11	$ (66)	$ 74,463
Exercise of options to purchase common stock	265	26	1,061						1,087
Exercise of warrants to purchase common stock	2,002	200	9,300						9,500
Common stock issued pursuant to Rights Offering, net of expenses	8,705	871	41,357						42,228
Restricted common stock issued to ACL management	339	34	1,661	(1,695)					
Stock compensation expense			920						920
Adjustment of unearned compensation for terminated employees			(266)	266					
Amortization of unearned compensation				297					297
Treasury stock purchases									
Comprehensive loss:									
Net loss						(32,955)			(32,955)
Net unrealized gain on available					(1,989)				(1,989)

for sale securities									
Net gain on fuel swaps designated as cash flow hedging instruments					68				68
Net loss on interest rate swaps designated as cash flow hedging instruments					(355)				(355)
Foreign currency translation					453				453
Minimum pension liability adjustment Marine Services					(15,485)				(15,485)
Minimum pension liability adjustment Insurance Services					(872)				(872)
Total comprehensive loss					(18,180)	(32,955)			(51,135)
Balance at December 27, 2002	30,828	3,083	117,148	(1,132)	(12,464)	(29,209)	11	(66)	77,360
Common stock issued pursuant to Note Purchase Agreement	5,121	512	6,657						7,169
Stock option compensation expense			137						137
Amortization of unearned compensation				384					384
Adjustment of unearned compensation for terminated employees	(156)	(16)	(496)	459					(53)

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DANIELSON HOLDING CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (Continued)

	Common Stock		Additional Paid-In	Unearned	Accumulated Other Comprehensive (Loss)	Retained	Treasury Stock		
	Shares	Amount	Capital	Compensation	Income	(Deficit)	Shares	Amount	Total
				(In thousands)					
Comprehensive loss:									
Net loss						(69,225)			(69,225)
Minimum pension liability Insurance Services					(426)				(426)
Net unrealized loss on available for sale securities					(2,877)				(2,877)
Net reclassification adjustment for amount included in equity in net loss of unconsolidated Marine Services subsidiaries					15,322				15,322
Total comprehensive income (loss)					12,019	(69,225)			(57,206)
Balance at December 31, 2003	35,793	3,579	123,446	(289)	(445)	(98,434)	11	(66)	27,791
Stock option compensation expense			181						181
Amortization of unearned compensation				1,345					1,345
Adjustment of unearned compensation for terminated employees	(41)	(4)	(200)	68					(136)

Shares issued in Rights Offering, net of costs	27,438	2,744	38,277						41,021
Right cancelled for terminated employees	(12)	(1)	(18)						(19)
Exercise of options to purchase common stock	966	96	5,520						5,616
Shares cancelled in exercise of options	(89)	(9)	(785)						(794)
Conversion of portion of bridge financing	8,750	875	12,513						13,388
Share issued in restricted stock award	636	64	4,549	(4,613)					
Stock purchase rights issued to Covanta creditors (Note 2)			11,300						11,300
Comprehensive (loss), net of income taxes:									
Net income						34,094			34,094
Foreign currency translation					549				549
Minimum Pension Liability					1,225				1,225
Net Unrealized gain on securities on available for sale securities					(746)				(746)
Total comprehensive income					1,028	34,094			35,122
Balance at December 31, 2004	73,441	$ 7,344	$ 194,783	$ (3,489)	$ 583	$ (64,340)	11	$ (66)	$ 134,815

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DANIELSON HOLDING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

1. Basis of Presentation

Danielson is a holding company that owns subsidiaries engaged in a number of diverse business activities. The most significant of these is the energy business of Covanta Energy Corporation (Covanta) acquired on March 10, 2004 (the Effective Date). During 2004, Danielson also had investments in subsidiaries engaged in insurance operations in the western United States, primarily California, and in American Commercial Lines LLC (ACL), an integrated marine transportation and service company which throughout 2004 was in bankruptcy proceedings under Chapter 11 of the United States Bankruptcy Code (Chapter 11). ACL is no longer a subsidiary of Danielson. On December 30, 2004, ACL confirmed a plan of reorganization and has since emerged from bankruptcy. As part of ACL s plan of reorganization, Danielson s stock in ACL was cancelled, and its ownership interest terminated. Danielson received no distribution under the ACL plan of reorganization, but received from ACL s creditors, in January 2005, warrants to purchase three percent of ACL stock.

Covanta is engaged in developing, constructing, owning and operating for others, key infrastructure for the conversion of waste to energy and independent power production in the United States and abroad. On March 10, 2004, Covanta consummated a plan of reorganization and emerged from its reorganization proceeding under Chapter 11. Pursuant to the plan of reorganization (Reorganization Plan), Danielson acquired 100% of the equity in Covanta. This transaction is more fully described in Note 2.

Covanta s subsidiaries owning and operating Covanta s Warren County, New Jersey and Lake County, Florida waste-to-energy facilities and which were engaged in the Tampa Bay, Florida desalination project remained debtors-in-possession (the Remaining Debtors) after the Effective Date, and were not the subject of either plan. As a result, Covanta recorded its investment in the Remaining Debtors using the equity method as of March 10, 2004. Subsequent to the Effective Date, the Tampa Bay, Florida subsidiaries and the Lake County, Florida subsidiaries reached agreements with their counterparties and emerged from bankruptcy on August 6, 2004 and December 14, 2004, respectively. Covanta has included these entities as consolidated subsidiaries in its financial statements since their respective emergence dates. See Note 34 to the Consolidated Financial Statements for additional information regarding these settlements.

Three of the Company s subsidiaries, which relate to the Warren county project, have not reorganized or filed a liquidation plan under Chapter 11 of the United States Bankruptcy Code. While Covanta exercises significant influence over the operating and financial policies of these subsidiaries, these subsidiaries will continue to operate as debtors in possession in the Chapter 11 case until they reorganize or liquidate. Because any plan of reorganization or liquidation relating to these debtors would have to be approved by the Bankruptcy Court, and possibly their respective creditors, Covanta does not control these debtors or the ultimate outcome of their respective Chapter 11 case. Accordingly, Covanta does not include these subsidiaries as consolidated subsidiaries in the Financial Statements. Covanta s investment in these subsidiaries is recorded using the equity method effective as of March 10, 2004. Unless these subsidiaries emerge from bankruptcy under Covanta s control, it is unlikely that they will contribute to Covanta s results of operations.

Danielson holds all of the voting stock of Danielson Indemnity Company (DIND). DIND owns 100% of the common stock of National American Insurance Company of California, Danielson s principal operating insurance subsidiary, which owns 100% of the common stock of Valor Insurance Company, Incorporated. National American Insurance Company of California and its subsidiaries are collectively referred to herein as NAICC . The operations of NAICC are in property and casualty insurance. NAICC writes non standard private automobile insurance in the western United States, primarily California. Effective September 7, 2003, NAICC discontinued writing all commercial automobile insurance. Effective January, 2002, NAICC discontinued writing all workers compensation insurance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Danielson acquired a 100% ownership interest in ACL in May, 2002, 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, American Commercial Lines Holdings, LLC, referred to herein as ACL Holdings, filed a petition with the U.S. Bankruptcy Court to reorganize under Chapter 11. Danielson, its subsidiaries and equity investees, operating in the marine services industries, were not guarantors of ACL s debt, nor were they contractually liable for any of ACL s liabilities. Danielson s other investees in the marine services business consisted of Global Materials Services, LLC (GMS) and Vessel Leasing, LLC (Vessel Leasing). GMS was a joint venture of ACL, a third party and Danielson, in which Danielson held a 5.4% interest. Danielson sold its interests in GMS as of October 6, 2004. Vessel Leasing was a joint venture of ACL and Danielson. Danielson sold its interest in Vessel Leasing on January 13, 2005.

As a result of the ACL bankruptcy filing, Danielson no longer maintains control of ACL. Accordingly, beginning for the year ended December 31, 2003, Danielson has accounted for its investments in ACL, GMS and Vessel Leasing, using the equity method of accounting. Under the equity method of accounting, Danielson reports its share of the equity investees income or loss based on its ownership interest. Danielson has fully written off its investment in ACL, accordingly Danielson ceased recognizing losses on its investment as Danielson is not liable either directly or as guarantor for such losses.

SZ Investments, LLC, a significant stockholder of Danielson, and a company affiliated with Samuel Zell, former Chairman of Danielson s Board of Directors, William Pate, Danielson s current Chairman of the Board of Directors and Philip Tinkler, Danielson s former Chief Financial Officer, is a holder through its affiliate, HY I Investments, LLC, of approximately 42% of ACL s senior notes and payment in kind notes. As a result, a special committee of Danielson s Board of Directors was formed in November 2002, composed solely of disinterested directors, to oversee Danielson s investment in ACL and its related Chapter 11 bankruptcy proceedings.

Covanta Energy Corporation is referred to herein as Energy or as Covanta . Domestic Covanta refers to Covanta and its subsidiaries engaged in the waste to energy, water and independent power businesses in the United States; and CPIH refers to Covanta s subsidiary, Covanta Power International Holdings, Inc. and its subsidiaries engaged in the independent power business outside the United States. Danielson s insurance subsidiaries are referred to herein as Insurance Services . ACL, GMS and Vessel Leasing are together referred to herein as Marine Services .

2. Covanta Acquisition and Financing Agreements

On December 2, 2003, Danielson 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) the purchase by Danielson 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 organized by Danielson.

This agreement was amended on February 23, 2004 which reduced the purchase price and released from an escrow account $0.2 million to purchase Danielson s equity interest in Covanta Lake, Inc. A limited liability company was formed by Danielson and one of Covanta s subsidiaries and it acquired an equity interest in Covanta Lake II, Inc., an 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Bankruptcy Court. On March 5, 2004, the Bankruptcy Court confirmed the Covanta Reorganization Plan. On March 10, 2004, Danielson acquired 100% of Covanta s equity in consideration for approximately $30 million.

With the purchase of Covanta, Danielson acquired a leading provider of waste to energy services and independent power production in the United States and abroad. Danielson s equity investment and ownership provided Covanta s businesses with improved liquidity and capital resources to finance their business activities and emerge from bankruptcy.

The aggregate purchase price was $47.5 million which included the cash purchase price of $30 million, approximately $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 Danielson s commitment to sell up to 3 million shares of its common stock at $1.53 per share to certain creditors of Covanta, subject to certain limitations as more fully described below.

The following table summarizes a preliminary allocation of values to the assets acquired and liabilities assumed at the date of acquisition in conformity with Statement of Financial Accounting Standards (SFAS) No. 141 Business Combinations and SFAS No. 109 Accounting for Income Taxes . 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 (SOP) 90 7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code . Preliminary fair value determinations of the tangible and intangible assets were made by management based on anticipated discounted cash flows using currently available information. Management s estimate of the fair value of long term debt was based on the new principal amounts of recourse debt that was part of the reorganized capital structure of Covanta upon emergence. Management s estimate of the fair value of project debt was based on market information available to the Company. The Company has engaged valuation consultants to review its valuation methodology and their work is ongoing.

In accordance with SFAS No. 141, the preliminary purchase price allocation is subject to additional adjustment within one year after the acquisition as additional information on asset and liability valuations becomes available. The Company expects that adjustments to recorded fair values may include those relating to:

- property, plant, and equipment, intangibles, debt, and equity investments, all of which may change based on consideration of additional analysis by the Company and its valuation consultants;

- accrued expenses which may change based on identification of final fees and costs associated with Covanta s emergence from bankruptcy resolution of disputed claims;

- the final principal amount of the unsecured notes (recorded as an estimated principal amount of $28 million, which estimate excludes any notes that may be issued if and when Remaining Debtors emerge from bankruptcy), and which will be adjusted based upon the resolution of claims of creditors entitled to such notes as distributions; 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following depicts the summary balance sheet of Covanta after the purchase price allocation as of March 10, 2004:

Current assets	$	521,295
Property, plant and equipment		813,895
Intangible assets		191,761
Other assets		326,027
Total assets acquired	$	1,852,978
Current liabilities	$	362,061
Long term debt		328,053
Project debt		850,591
Deferred income taxes		87,940
Other liabilities		176,808
Total liabilities assumed	$	1,805,453
Net assets acquired	$	47,525

The acquired intangible assets of $191.8 million primarily relate to service 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.

In its initial purchase price allocation as of March 10, 2004, goodwill of $24.5 million was recorded to reflect the excess of cost over the preliminary fair value of acquired net assets. The Company has subsequently refined various estimates of fair values of the assets acquired and liabilities assumed. The most significant adjustments were decreases of (a) property, plant and equipment net of $220.9 million, (b) intangible assets of $126.4 million, (c) deferred income tax liabilities of $217.8 million and (d) other liabilities of $149.9 million. Goodwill was eliminated as a result of these fair value adjustments and the resulting excess of fair value over the purchase price paid was allocated on a pro rata basis to reduce the carrying value of the Company s eligible non current assets.

The results of operations from Covanta are included in Danielson s consolidated results of operations from March 11, 2004. The following table sets forth certain unaudited consolidated operating results for the years ended December 31, 2004 and 2003, as if the acquisition of Covanta were consummated on the same terms at the beginning of each period.

	December 31,			
	2004 ProForma		2003 ProForma	
Total revenues	$	715,485	$	791,662
Income (loss) from continuing operations before change in accounting principle	$	39,634	$	(7,330)
Cumulative effect of change in accounting principle			$	(8,538)
Net income (loss)	$	39,634	$	(15,868)
Basic income (loss) per share:				
Income (loss) from continuing operations	$	0.66	$	(0.12)

Cumulative effect of accounting change				(0.13)
Net income (loss) per share	$	0.66	$	(0.25)
Diluted net income (loss) per share	$	0.64	$	(0.25)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of the investment and purchase agreement, Danielson 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 SZ Investments, LLC, a Danielson stockholder (SZ Investments), Third Avenue Trust, on behalf of Third Avenue Value Fund Series, a Danielson stockholder (TAVF), and D. E. Shaw Laminar Portfolios, LLC, a creditor of Covanta and a Danielson stockholder (Laminar). Subsequent to the signing of the investment and purchase agreement, each of TAVF, Laminar and SZ Investments assigned approximately 30% of their participation in the second lien letter of credit facility to Goldman Sachs Credit Partners, L.P. and Laminar assigned the remainder of its participation in the second lien letter of credit facility to TRS Elara, LLC. In addition, in connection with a note purchase agreement described below, Laminar arranged for a $10 million revolving loan facility for CPIH, secured by CPIH s assets. Covanta also paid an upfront fee of $2.4 million upon entering into the second lien credit agreement, and will pay (i) a commitment fee equal to 0.5% per annum of the daily calculation of available credit, (ii) an annual agency fee of $30,000 and, (iii) with respect to each issued letter of credit an amount equal to 6.5% per annum of the daily amount available to be drawn under such letter of credit.

Danielson obtained the financing necessary for the Covanta acquisition pursuant to a note purchase agreement dated December 2, 2003, with each of SZ Investments, TAVF and Laminar, referred to collectively as the Bridge Lenders . Pursuant to the note purchase agreement, the Bridge Lenders severally provided Danielson with an aggregate of $40 million of bridge financing in exchange for notes which were convertible under certain circumstances into shares of Danielson common stock at a price of $1.53 per share, subject to agreed upon limitations. Danielson used $30 million of the proceeds from the notes to post an escrow deposit prior to the closing of the transactions contemplated by the investment and purchase agreement with Covanta. At closing, the deposit was used to purchase Covanta. Danielson will use the remainder of the proceeds to pay transaction expenses and for general corporate purposes. These notes were repaid on June 11, 2004 through the conversion of a portion of the notes held by Laminar and from the proceeds of a pro rata rights offering made to all stockholders on May 18, 2004.

Danielson issued to the Bridge Lenders an aggregate of 5,120,853 shares of Danielson s common stock in consideration for the $40 million of bridge financing. At the time that Danielson entered into the note purchase agreement, agreed to issue the notes convertible into shares of Danielson common stock and issued the equity compensation to the Bridge Lenders, the trading price of the Danielson common stock was below the $1.53 per share conversion price of the notes. On December 1, 2003, the day prior to the announcement of the Covanta acquisition, the closing price of Danielson common stock on the American Stock Exchange was $1.40 per share.

In addition, under the note purchase agreement, Laminar agreed to convert an amount of notes to acquire up to an additional 8.75 million shares of Danielson common stock at $1.53 per share based upon the levels of public participation in the May 18, 2004 rights offering. Based upon the public participation in the rights offering, Danielson issued the maximum of 8.75 million shares to Laminar pursuant to the conversion of approximately $13.4 million in principal amount of notes. Consequently, the $20 million principal amount of notes held by Laminar plus accrued but unpaid interest was repaid in full on June 11, 2004 through the issuance of 8.75 million shares of Danielson common stock to Laminar and $7.9 million of the proceeds from the rights offering.

Danielson has agreed to commence an offering of shares to a class of creditors of Covanta that are entitled to participate in an offering of up to 3 million shares of Danielson common stock at a price of $1.53 per share pursuant to the Covanta Reorganization Plan.

As part of Danielson s negotiations with Laminar and its becoming a five percent stockholder, pursuant to a letter agreement dated December 2, 2003, Laminar has agreed to additional restrictions on the transferability of the shares of Danielson common stock that Laminar holds or will acquire. Further, in accordance with the transfer restrictions contained in Article Fifth of Danielson s charter restricting the resale of Danielson common stock by 5% stockholders, Danielson has agreed with Laminar to provide it with limited rights to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

resell the Danielson common stock that it holds. Finally, pursuant to its agreement with the Bridge Lenders on July 28, 2004, Danielson has filed a registration statement with the SEC to register the shares of Danielson common stock issued to or acquired by them under the note purchase agreement. The registration statement was declared effective on August 24, 2004.

Samuel Zell, Danielson s former Chairman of the Board of Directors, Philip Tinkler, Danielson s former Chief Financial Officer and William Pate, current Chairman of Danielson, are affiliated with SZ Investments. David Barse, Director of Danielson, is affiliated with TAVF. The note purchase agreement and other transactions involving the Bridge Lenders were negotiated, reviewed and approved by a special committee of Danielson s Board of Directors composed solely of disinterested directors and advised by independent legal and financial advisors.

See Notes 17 through 20 for additional information regarding Covanta s credit and debt arrangements.

3. ACL Chapter 11 Filing

During 2002, ACL experienced a decline in barging rates, reduced shipping volumes and excess barging capacity during a period of slow economic growth. Due to these factors, ACL s revenues and earnings did not meet expectations and ACL s liquidity was significantly impaired. Debt covenant violations occurred and, as a result, ACL was unable to meet its financial obligations as they became due. On January 31, 2003 (the Petition Date), ACL filed a petition with the U.S. Bankruptcy Court for the Southern District of Indiana, New Albany Division (the Bankruptcy Court) to reorganize under Chapter 11 under case number 03 90305. Included in the filing were ACL, ACL s direct parent (ACL Holdings), American Commercial Barge Line LLC, Jeffboat LLC, Louisiana Dock Company LLC and ten other U.S. subsidiaries of ACL (collectively with ACL, the ACL ACL Debtors) under case numbers 03 90306 through 03 90319. These cases were jointly administered for procedural purposes before the Bankruptcy Court under case number 03 90305. The Chapter 11 petitions do not cover any of ACL s foreign subsidiaries or certain of its U.S. subsidiaries. GMS and Vessel Leasing did not file petitions under Chapter 11 and were not debtors in possession.

Throughout 2004, ACL and the other ACL Debtors operated their businesses as debtors in possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 and orders of the Bankruptcy Court. As debtors in possession, the ACL Debtors were prohibited from engaging in transactions outside of the ordinary course of business without approval, after hearing, of the Bankruptcy Court.

As part of the bankruptcy filings, the ACL Debtors entered into a Revolving Credit and Guaranty Agreement (DIP Credit Facility) that provided up to $75 million of financing during ACL s Chapter 11 proceeding. The obligations of the ACL Debtors under the DIP Credit Facility, by court order, have super priority administrative claim status as provided under Chapter 11. Under Chapter 11, a super priority claim is senior to secured and unsecured pre petition claims and all administrative expenses incurred in the Chapter 11 case. In addition, with certain exceptions (including a carve out for unpaid professional fees and disbursements), the DIP Credit Facility obligations are secured by (1) a first priority lien on all unencumbered pre and post petition property of the ACL Debtors, (2) a first priority priming lien on all property of the ACL Debtors that is encumbered by the existing liens securing the ACL Debtors pre petition secured lenders and (3) a junior lien on all other property of the ACL Debtors that is encumbered by the pre petition liens.

The DIP Credit Facility also contained certain restrictive covenants that, among other things, restrict the ACL Debtors ability to incur additional indebtedness or guarantee the obligations of others, and required ACL to maintain minimum cumulative EBITDA, as defined in the DIP Credit Facility, limit its capital expenditures to defined levels and restrict advances to certain subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Danielson believed it would receive little or no value with respect to its equity interest in ACL Holdings or ACL. Accordingly, Danielson wrote off its remaining investment in ACL at the end of the first quarter of 2003 as an other than temporary asset impairment. See Note 5 for additional information.

On April 23, 2004, ACL announced the sale of its ownership interest in UABL Limited (UABL), a South American barging and terminalling company, and other assets being used by UABL for $24.1 million of cash and other consideration. The sale transaction closed on April 23, 2004. In connection with the UABL sale, ACL recorded a pre tax loss of $35.2 million.

On June 8, 2004, ACL filed a Motion for Order Approving Sale Procedures, Break Up Fee and Authorizing the Employment of Environmental Consultants to establish procedures for the sale of its 50% membership interest in GMS, to request approval of a break up fee for a proposed stalking horse bidder for ACL s membership interest in GMS, to fix procedures for rights of access and due diligence by bidders, and to authorize the employment of a consulting firm to prepare certain environmental reports. The proposal by the stalking horse bidder also included a proposal for the coterminous acquisition of Danielson s 5.4% membership interest in GMS. Midsouth Terminal Company L.P. (MST), the holder of the remaining interests in GMS, filed an objection to ACL s motion and asserted their right of first refusal to acquire ACL s membership interest in GMS pursuant to GMS Amended and Restated Limited Liability Company Operating Agreement dated May 25, 2002. At a hearing of the Bankruptcy Court, an order was issued on June 24, 2004 granting the Motion, as amended, establishing sale procedures, a break up fee, and authorizing the employment of environmental consultants, and preserving the rights of MST to elect to exercise any right of first refusal it may have, subject to further court review, on the same terms and conditions as the stalking horse bidder, and further provided such exercise occurred on or before July 14, 2004. On July 13, 2004, MST notified ACL that it desired to exercise its right of first refusal to acquire ACL s membership interest in GMS.

During September, 2004, Danielson and MST agreed on terms with respect to the sale of Danielson s membership interest in GMS. On September 29, 2004, the Bankruptcy Court approved the sale to MST of ACL s membership interest in GMS as well as the sale to MST of Danielson s membership interest in GMS. On October 6, 2004, the parties consummated the sale of ACL s and Danielson s membership interests in GMS to MST. Danielson received approximately $1.5 million in connection with this transaction. Danielson does not expect to recognize a significant gain or loss or this transaction.

On September 10, 2004, ACL filed in the Bankruptcy Court a plan of reorganization (the ACL Plan) on behalf of itself and the other debtors. The ACL Plan provided for among other things, various distributions to creditors, and provides that 100% of the equity in ACL will be held by a newly formed holding company owned by certain of ACL s creditors. The ACL Plan provided for the cancellation of Danielson s ownership interest in ACL, and for Danielson to receive from certain creditors warrants entitling it to purchase up to 168,230 shares of such holding company, representing 3% of the total number of issued shares therein.

On December 30, 2004, the Bankruptcy Court confirmed the ACL Plan. ACL subsequently emerged from bankruptcy and is no longer a subsidiary of Danielson.

4. Summary of Significant Accounting Policies

Parent and Consolidated Entity

Principles of Consolidation

The consolidated financial statements reflect the results of operations, cash flows and financial position of Danielson and its majority owned or controlled subsidiaries. All intercompany accounts and transactions have been eliminated. Investments in companies that are not majority owned or controlled but in which Danielson has significant influence are accounted for under the equity method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets or liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include useful lives of long-lived assets, cash flows and taxable income from future operations, unpaid losses and loss adjustment expenses, allowances for doubtful accounts receivable, and liabilities related to pension obligations, and for workers compensation, severance and certain litigation.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments having original maturities of three months or less.

Deferred Financing Costs

At December 31, 2004 and 2003, Danielson had zero and $6.1, respectively, of net deferred financing costs recorded on the consolidated balance sheet. These costs were incurred in connection with arranging its various financing arrangements. These costs are being amortized over the expected period that the related financing will be outstanding.

Income Taxes

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

During the periods covered by the Consolidated Financial Statements, Danielson filed a consolidated Federal income tax return, which included all eligible United States subsidiary companies. Foreign subsidiaries were taxed according to regulations existing in the countries in which they do business. Subsequent to March 10, 2004, Domestic Covanta is included in Danielson s consolidated tax group. CPIH and its United States and foreign subsidiaries are not members of the Danielson consolidated tax group after March 10, 2004. In addition Covanta Lake is not a member of any consolidated tax group after February 20, 2004.

Pension and Postretirement Plans

Danielson has pension and post retirement obligations and costs that are developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates, expected return on plan assets and medical trend rates. Changes in these assumptions are primarily influenced by factors outside Danielson s control and can have a significant effect on the amounts reported in the financial statements.

Incentive Compensation Plans

Stock based compensation cost is measured using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees for Danielson s directors and employees. Pro forma net income (loss) and income (loss) per share are disclosed

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

below as if the fair value based method of accounting under SFAS No. 123 had been applied to all stock based compensation awards.

	2004	2003	2002
Net income (loss) as reported	$ 34,094	$ (69,225)	$ (32,955)
Pro Forma compensation expense	(987)	(970)	(2,274)
Less:			
Stock option expense recorded	128	137	920
Pro forma net income (loss)	$ 33,235	$ (70,058)	$ (34,309)
Basic earnings (loss) per share:			
As reported	$ 0.54	$ (1.46)	$ (0.82)
Pro forma	$ 0.52	$ (1.48)	$ (0.85)
Diluted earnings (loss) per share:			
As reported	$ 0.52	$ (1.46)	$ (0.82)
Pro Forma	$ 0.50	$ (1.48)	$ (0.85)

Energy

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.

Service revenues consist of the following:

1) Fees earned under contract 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 on 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 $156 million December 31, 2004, respectively;

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, the Company incurred some preliminary construction costs for which it has not billed the municipality or received reimbursement. Covanta anticipates the contracts will be finalized in 2005 at which time it expects to be fully reimbursed for all costs.

Pass Through Costs

Pass through costs are costs for which Covanta receives a direct contractually committed reimbursement from the municipal client who sponsors a waste-to-energy the project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal, and certain chemical costs. These costs are recorded net of municipal client reimbursements in Covanta s Financial Statements. Total pass through expenses for the March 11, 2004 through December 31, 2004, January 1, 2004 through March 10, 2004, and for 2003 were $39.9 million, $10 million, and $59.8 million, respectively.

Property, Plant and Equipment

As of March 10, 2004, the assets and liabilities of Covanta s energy business, including property, plant, and equipment were recorded at management s estimate of their fair values. Additions, improvements and major expenditures are capitalized if they increase the original capacity or extend the useful life of the original asset more than one year. Maintenance repairs and minor expenditures are expensed in the period incurred. For financial reporting purposes, depreciation is calculated by the straight line method over the estimated remaining useful lives of the assets, which range up to 41 years for waste to energy facilities. The original useful lives generally range from three years for computer equipment to 50 years for waste to energy facilities. Leaseholds are depreciated over the life of the lease or the asset, whichever is shorter. Landfill costs are amortized based on the quantities deposited into each landfill compared to the total estimated capacity of such landfill.

Service and Energy Contracts and Other Intangible Assets

As of March 10, 2004, service and energy contracts were recorded at their estimated fair values in accordance with SFAS No. 141 based upon discounted cash flows from the service contracts on publicly owned projects and the above market portion of the energy contracts on Covanta owned projects using currently available information. Amortization is calculated by the straight line method over the estimated contract lives of which the remaining weighted average life of the agreements is approximately 17 years. However, many of such contracts have remaining lives that are significantly shorter. Other intangible assets are amortized by the straight-line method over periods ranging from 15 to 25 years. (See Note 12 to the Notes to the Consolidated Financial Statements.)

Restricted Funds Held

Restricted funds held in trust are primarily amounts received by third party trustees relating to projects owned by Covanta, and which may be used only for specified purposes. Covanta generally does not control these accounts. They include debt service reserves for payment of principal and interest on project debt, deposits of revenues received with respect to projects prior to their disbursement as provided in the relevant indenture or other agreements, lease reserves for lease payments under operating leases, and proceeds received from financing the construction of energy facilities. Such funds are invested principally in United States Treasury bills and notes and United States government agency securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Project Development and Contract Acquisition Costs

Covanta capitalizes project development costs once it is determined that it is probable that such costs will be realized through the ultimate construction of a plant. These costs include outside professional services, permitting expense and other third party costs directly related to the development of a specific new project. Upon the start-up of plant operations or the completion of an acquisition, these costs are generally transferred to property, plant and equipment and are amortized over the estimated useful life of the related plant or charged to construction costs in the case of a construction contract for a facility owned by a municipality. Capitalized project development costs are charged to expense when it is determined that the related project is impaired.

Contract acquisition costs are capitalized for external costs incurred to acquire the rights to design, construct and operate waste-to-energy facilities and are amortized over the life of the contracts. Contract acquisition costs are presented net of accumulated amortization of and were $46.6 million at December 31, 2003. As of March 10, 2004, contract acquisition costs were recorded at their fair value of zero.

Interest Rate Swap Agreements

The fair value of interest rate swap agreements are recorded as assets and liabilities, with changes in fair value during the year credited or charged to debt service revenue or debt service charges, as appropriate.

Impairment of Long Lived Assets

Long-lived assets, such as property, plant and equipment and purchased intangible assets with finite lives, are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable over their estimated useful life in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Covanta reviews its 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. Covanta principally uses internal discounted cash flow estimates, but also uses 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.

Foreign Currency Translation

For foreign operations, assets and liabilities are translated at year end exchange rates and revenues and expenses are translated at the average exchange rates during the year. Gains and losses resulting from foreign currency translation are included in the Consolidated Statements of Operations and Comprehensive Income (Loss) as a component of Other comprehensive income (loss). For subsidiaries whose functional currency is deemed to be other than the U.S. dollar, translation adjustments are included as a separate component of Other Comprehensive income (loss) and Shareholders equity (deficit). Currency transaction gains and losses are recorded in Other net in the Statements of Consolidated Operations and Comprehensive Income (Loss).

Insurance Services

Investments

Insurance Services fixed maturity debt and equity securities portfolio are classified as available for sale and are carried at fair value. Changes in fair value are credited or charged directly to stockholders equity as unrealized gains or losses, respectively. All securities transactions are recorded on the trade date. Investment gains or losses realized on the sale of securities are determined using the specific identification method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other than temporary declines in fair value are recorded as realized losses in the statement of operations and the cost basis of the security is reduced. Realized gains and losses are recognized in the statements of operations based on the amortized cost of fixed maturities and cost basis for equity securities on the date of trade, subject to any previous adjustments for other than temporary declines.

Deferred Policy Acquisition Costs

Insurance Services deferred policy acquisition costs, consisting principally of commissions and premium taxes paid at the time of issuance of the insurance policy, are deferred and amortized over the period during which the related insurance premiums are earned. Deferred policy acquisition costs are limited to the estimated future profit after anticipated losses and loss adjustment expenses (LAE) (based on historical experience), maintenance costs, policyholder dividends, and anticipated investment income. Deferred policy acquisition costs were $0.3 million and $0.8 million at December 31, 2004 and 2003, respectively, and are included in other assets in the Consolidated Balance Sheet.

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and LAE are based on estimates of reported losses and historical experience for incurred but unreported claims, including losses reported by other insurance companies for reinsurance assumed, and estimates of expenses for investigating and adjusting all incurred and unadjusted claims. Management believes that the provisions for unpaid losses and LAE are adequate to cover the cost of losses and LAE incurred to date. However, such liability is, by necessity, based upon estimates, which may change in the near term, and there can be no assurance that the ultimate liability will not exceed, or even materially exceed, such estimates. Unpaid losses and LAE are continually monitored and reviewed, and as settlements are made or reserves adjusted, differences are included in current operations.

Reinsurance

In the normal course of business, Insurance Services seeks to reduce the loss it may incur on the policies it writes by reinsuring certain portions of the insured benefit with other insurance enterprises or reinsurers.

Insurance Services accounts for its reinsurance contracts which provide indemnification by reducing earned premiums for the amounts ceded to the reinsurer and establishing recoverable amounts for paid and unpaid losses and LAE ceded to the reinsurer. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Contracts that do not result in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk generally do not meet conditions for reinsurance accounting and are accounted for as deposits. For the years ended December 31, 2004 and 2003, Insurance Services had no reinsurance contracts which were accounted for as deposits.

Earned Premiums

Insurance Services earned premium income is recognized ratably over the contract period of an insurance policy. A liability is established for unearned insurance premiums that represent the portion of premium received which is applicable to the remaining portion of the unexpired terms of the related policies. Reinsurance premiums are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Insurance Services establishes an allowance for premium receivables and reinsurance recoverables through a charge to general and administrative expenses based on historical experience. After all collection efforts have been exhausted, Insurance Services writes off the receivable balances and reduces the previously established reserve.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123 Accounting for Stock-Based Compensation (SFAS 123) and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123, no longer will be an alternative to financial statement recognition. Danielson is required to adopt SFAS 123R in the third quarter of fiscal 2005, beginning July 1, 2005. Under SFAS 123R, Danielson must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive options, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. Danielson is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will have a material impact on Danielson s consolidated results of operations and earnings per share. Danielson has not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

Reclassification

Certain prior period amounts, have been reclassified in the Financial Statements to conform with the current period presentation.

5. Equity in Net Income and Losses of Unconsolidated Subsidiaries

Through the acquisition of Covanta, Danielson is now party to joint venture agreements in which Danielson has equity investments in several operating projects. The joint venture agreements generally provide for the sharing of operational control as well as voting percentages. Danielson records its share of earnings from its equity investees in equity in net income from unconsolidated investments in its Consolidated Statement of Operations.

Danielson is a party to a joint venture formed to design, construct, own and operate a coal-fired electricity generation facility in the Quezon Province, the Philippines (Quezon Joint Venture). Danielson owns 26.125% of, and has invested 27.5% of the total equity in, the Quezon Joint Venture. This project commenced commercial operations in 2000.

Manila Electric Company (Meralco), the sole power purchaser for Danielson 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 (U.S.). Although the Quezon Project was able to pay all of its debt service and operational costs, the withholding by Meralco

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 (U.S.).

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, the Company 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. At approximately the same time, Quezon Project management sought, and successfully obtained, a reduction of the hold back amount discussed above, resulting in a new excess hold back of approximately $10.5 million (U.S.) with effect from November 2004.

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, although it may have a material affect on CPIH s ability to repay its debt prior to maturity. In late 2004, Meralco successfully refinanced $228 million in expiring short-term debt on a long-term 7 year basis, improving Meralco s financial condition.

The December 31, 2004 aggregate carrying value of Covanta s investments in and advances to investees and joint ventures of $61.6 million is less than Covanta s equity in the underlying net assets of these investees by approximately $64.9 million. These differences of cost over acquired net assets are mainly related to fresh start adjustments related to property, plant, and equipment and power purchase agreements of several investees.

At December 31, 2004 energy investments in and advances to investees and joint ventures accounted for under the equity method were as follows:

	Ownership Interest at December 31, 2004	2004
Ultrapower Chinese Station Plant (U.S.)	50%	$ 5,112
South Fork Plant (U.S.)	50%	641
Koma Kulshan Plant (U.S.)	50%	4,116
Haripur Barge Plant (Bangladesh)	45%	6,983
Quezon Power (Philippines)	26%	44,804
Total investments in power plants		$ 61,656

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The unaudited combined results of operations and financial position of energy s equity method affiliates are summarized below.

		2004
Condensed Statements of Operations for the years ended December 31:		
Revenues	$	219,016
Gross profit		102,908
Net income		60,724
Company s share of net income		17,535
Condensed Balance Sheets at December 31:		
Current assets	$	145,969
Non-current assets		854,014
Total assets		999,983
Current liabilities		76,533
Non-current liabilities		512,759
Total liabilities		589,292

Danielson wrote off its investment in ACL during the quarter ended March 28, 2003. The GMS and Vessel Leasing investments were not considered by Danielson to be impaired. Danielson and ACL sold its investment in GMS on October 6, 2004. Danielson sold its investment in Vessel Leasing to ACL on January 13, 2005. The reported net income (loss) for the year ended December 31, 2004 and 2003, included, under the caption Equity in Net Income Loss of Unconsolidated Investments , the following:

		2004		2003
ACL s reported loss as of March 31, 2003	$		$	(46,998)
Other than temporary impairment of remaining investment in ACL as of March 28, 2003				(8,205)
Total ACL loss				(55,203)
GMS income (loss) as of October 6, 2004	$	156		55
Vessel leasing income		318		271
Write down of Vessel Leasing investment held for sale		(985)		
Equity in net income (loss) of unconsolidated Marine Services Subsidiaries		(511)		(54,877)
Equity in net income of unconsolidated Energy Investments		17,535		
	$	17,024	$	(54,877)

Activity in the equity investees for the years ended December 31, 2004 and 2003 was:

	Year Ended December 31, 2004	
	Quezon Power	Haripur Barge Plant

	(The Philippines)	(Bangladesh)
Revenues	$ 214,865	$ 36,655
Operating income	105,077	20,080
Net (Loss) income	65,047	9,397

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2003 ACL
Revenues	$ 620,071
Operating (loss) income*	367
Net (loss) income	$ (61,576)

* Before ACL Reorganization Expenses

The following table summarizes the results of operations for the Remaining Debtors for the period March 11, 2004 through December 31, 2004. Due to uncertainty regarding the realization of earnings of the Remaining Debtors, Covanta has not recognized the earnings set forth below:

	For the Period March 11, 2004 through December 31, 2004
Condensed Statements of Operations:	
Revenues	$ 10,801
Operating income	339
Net income	318

6. Gain (Loss) on Sale of Businesses

The following is a list of assets sold or impaired during the years ended December 31, 2004 the gross proceeds from those sales, the realized gain or (loss) on those sales and the write-down of or recognition of liabilities related to those assets:

Description of Business	Proceeds	Gain (Loss)
2004		
Investment in GMS	$ 1,512	$ 99
Equity investment in Linasa plant	1,844	245

7. Investments

The cost or amortized cost, unrealized gains, unrealized losses and fair value of Danielson s investments as of the year ended December 2004 and 2003, categorized by type of security, were as follows:

	2004			
	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value

Fixed maturities parent company	$ 3,300	$	$	$ 3,300
Fixed maturities insurance services:				
U.S. government/ Agency	27,024	174	129	27,070
Mortgage backed	13,625	22	206	13,440
Corporate	16,615	216	131	16,700
Total fixed maturities insurance services	57,264	412	466	57,210
Equity securities insurance services	1,324	110	2	1,432
Total available for sale	$ 61,888	$ 522	$ 468	$ 61,942

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2003			
	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Fixed maturities parent company	$ 453	$ 35	$	$ 488
Fixed maturities insurance services:				
U.S. government/ Agency	22,887	391	70	23,208
Mortgage backed	15,598	81	231	15,448
Corporate	30,902	716	106	31,512
Total fixed maturities insurance services	69,387	1,188	407	70,168
Equity securities insurance services	367	34		401
Total available for sale	$ 70,207	$ 1,257	$ 407	$ 71,057

The following table sets forth a summary of NAICC s temporarily impaired investments at December 31, 2004:

Description of Investments	Fair Value	Unrealized Losses
U.S. Treasury and other direct U.S. Government obligations	$ 13,579	$ 129
Federal agency MBS	10,583	206
Corporate Bonds	6,096	131
Equity Securities	148	2
Total temporarily impaired investments	$ 30,406	$ 468

Of the fixed maturity investments noted above 81.8% were acquired subsequent to 2002 during an historic low interest rate environment and are investment grade securities rated A or better. The number of U.S. Treasury obligations, Federal agency mortgage backed securities, corporate bonds and equity securities temporarily impaired are 21, 27 and 3, respectively. No security has a fair value less than 3.5% below its amortized cost.

Fixed maturities of Danielson include mortgage backed securities and collateralized mortgage obligations, collectively (MBS) representing 22.2% and 21.9% of the total fixed maturities at years ended December 31, 2004 and 2003, respectively. All MBS held by Danielson are issued by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac), both of which are rated AAA by Moody s Investors Services. MBS and callable bonds, in contrast to other bonds, are more sensitive to market value declines in a rising interest rate environment than to market value increases in a declining interest rate environment. This is primarily because of payors increased incentive and ability to prepay principal and issuers increased incentive to call bonds in a declining interest rate environment. Management does not believe that the inherent prepayment risk in its portfolio is significant. However, management believes that the potential impact of the interest rate risk on Danielson s consolidated financial statements could be significant because of the greater sensitivity of the MBS portfolio to market value declines and the classification of the entire portfolio as available for sale. Danielson has no MBS concentrations in any geographic region.

The expected maturities of fixed maturity securities, by amortized cost and fair value, as of the year ended December 2004, are shown below. Expected maturities may differ from contractual maturities due to borrowers having the right to call or prepay their obligations with or without call or prepayment penalties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expected maturities of MBS are estimated based upon the remaining principal balance, the projected cash flows and the anticipated prepayment rates of each security:

	Amortized Cost	Fair Value
Available for sale:		
One year or less	$ 3,977	$ 4,039
Over one year to five years	48,431	48,374
Over five years to ten years	4,857	4,797
More than ten years	3,300	3,300
Total fixed maturities	$ 60,564	$ 60,510

Danielson s fixed maturity and equity securities portfolio is classified as available for sale and is carried at fair value. Changes in fair value are credited or charged directly to stockholders equity as unrealized gains or losses, respectively. Other than temporary declines in fair value are recorded as realized losses in the statement of operations and the cost basis of the security is reduced.

The following reflects the change in net unrealized (loss) gain on available for sale securities included as a separate component of accumulated other comprehensive income (loss) in stockholders equity:

	2004	2003	2002
Fixed maturities, net	$ (874)	$ (4,284)	$ (907)
Equity securities, net	74	1,407	(1,082)
Change in net unrealized loss on investments	$ (800)	$ (2,877)	$ (1,989)

The components of net unrealized (loss) gain on available for sale securities for the years ended December 2004, 2003 and 2002 consist of the following:

	2004	2003	2002
Net unrealized holding (losses) gains on available for sale securities arising during the period	$ (500)	$ (797)	$ (1,445)
Reclassification adjustment for net realized gains on available for sale securities included in net income (loss)	(300)	(2,080)	(544)
Net unrealized (loss) gain on available for sale securities	$ (800)	$ (2,877)	$ (1,989)

Danielson considers the following factors in determining whether declines in the fair value of securities are other than temporary :

a. the significance of the decline in fair value compared to the cost basis,

b. the time period during which there has been a significant decline in fair value,

c. whether the unrealized loss is credit driven or a result of changes in market interest rates,

d. a fundamental analysis of the business prospects and financial condition of the issuer, and

e Danielson s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Based upon these factors, securities that have indications of potential impairment are subject to further review. In the third quarter of 2002, Danielson determined that two equity securities had declines in fair value that were other than temporary and Danielson, accordingly, recorded a realized loss of $2.7 million. These securities were subsequently sold in the fourth quarter of 2002. At year end 2002, Danielson determined that one equity security had a decline in fair value that was other than temporary and, accordingly, recorded a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

realized loss of $1 million. The net unrealized loss of Danielson s equity securities was $1.4 million at the end of December 2002.

During 2003, three equity securities had declines in fair value that were other than temporary and, accordingly, Danielson recorded a realized loss of $1.9 million. All of these securities were sold by December 31, 2003.

Net realized investment gains (losses) for the years ended in December are as follows:

	2004	2003	2002
Parent Company			
Fixed maturities	$ 252	$ 1,090	$ 8,740
Equity securities			100
Net realized investment gains	$ 252	$ 1,090	$ 8,840
Insurance Services			
Fixed maturities	$ 219	$ 952	$ 6,087
Equity services	(18)	38	(5,080)
Net realized investment gains	$ 201	$ 990	$ 1,007

Gross realized gains relating to fixed maturities were $0.2 million, $1 million, and $14.8 million for the years ended December 2004, 2003 and 2002, respectively. Gross realized losses relating to fixed maturities were approximately $0.02 million for each of the years ended December 2004, 2003 and 2002, respectively. Gross realized gains relating to equity securities were $0, $2 million and $0.1 million for the years ended December 2004, 2003 and 2002, respectively. Gross realized losses relating to equity securities were $0.2 million, $2 million and $5.1 million, for the years ended December 2004, 2003 and 2002, respectively.

Net investment income for the years ended December 2004, 2003 and 2002 was:

	2004	2003	2002
Parent Company			
Fixed maturities	$ 199	$ 302	$ 594
Short term investments	34	42	46
Net investment income parent company	$ 233	$ 344	$ 640
Insurance services			
Fixed maturities	$ 2,497	$ 3,951	$ 5,467
Short term investments		146	134
Dividend income	40	32	42
Other, net	107	44	95
Total investment income	2,644	4173	5,738
Less: investment expense	239	174	135
Net investment income insurance services	$ 2,405	$ 3,999	$ 5,603

At December 31, 2001, Danielson held $58.5 million face amount of ACL Senior Notes 10.25%, due June 30, 2008, at a cost of $30 million and a fair value of $32 million, representing 42.9% of stockholders equity. These notes were contributed to ACL Holdings in 2002 in connection with the acquisition discussed in Note 3. There were no other investments with a carrying value greater than ten percent of stockholders equity as of years ended December 2004, 2003 or 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In compliance with state insurance laws and regulations, securities with a fair value of approximately $31.1 million $43.4 million, and $45 million as of the years ended December 2004, 2003 and 2002, respectively, were on deposit with various states or governmental regulatory authorities. In addition, as of the years ended December 2004, 2003 and 2002, investments with a fair value of $7 million, $7.2 million and $6.4 million, respectively, were held in trust or as collateral under the terms of certain reinsurance treaties and letters of credit. NAICC has letters of credit outstanding of $3.1 million as of December 31, 2004.

Energy Services

The cost or amortized cost, unrealized gains, unrealized losses and fair value of Energy Services investments as of the year ended December 2004, categorized by type of security, were as follows:

Marketable securities at December 31, 2004 include the following:

	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Current investments:				
Fixed maturities Energy	$ 3,100	$	$	$ 3,100
Fixed maturities Energy	1,321			
Mutual and bond funds Energy	2,325	53		2,378
Total non-current investments	$ 3,646	$ 53	$	$ 3,699

Non-current investments are classified in other long-term assets in the Energy Services balance sheet.

Proceeds and realized gains and losses from the sales of securities classified as available for sale from March 11, 2004 through December 31, 2004 were $0.3 million and zero, respectively. For the purpose of determining realized gains and losses, the cost of securities sold was based on specific identification.

8. Energy Service Revenues and Unbilled Service Receivables

The following table summarized the components of Energy s Service Revenues at December 31, 2004.

	For the Period March 11, through December 31, 2004
Service Revenue unrelated to project debt	$ 313,543
Revenue earned explicitly to service project debt-principal	36,029
Revenue earned explicitly to service project debt-interest	25,050
Total service revenue	$ 374,622

Unbilled service receivables include 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 municipality pursuant to applicable waste-to-energy service agreements. Regardless of the timing of amounts paid by municipalities 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. Long-term unbilled service receivables related to waste-to-energy operations are recorded at their discounted amount.

9. Restricted Funds Held in Trust

Restricted funds held in trust are primarily amounts received and held by third party trustees relating to projects owned by the Company, and which may be used only for specified purposes. The Company generally does not control these accounts. They include debt service reserves for payment of principal and interest on

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

project debt, deposits of revenues received with respect to projects prior to their disbursement as provided in the relevant indenture or other agreements, lease reserves for lease payments under operating leases, and proceeds received from financing the construction of energy facilities. Such funds are invested principally in United States Treasury bills and notes and United States government agencies securities.

Fund balances were as follows:

	2004	
	Current	**Non-Current**
Debt service funds	$ 46,655	$ 112,012
Revenue funds	20,530	
Lease reserve funds	3,970	
Construction funds	264	
Other funds	44,673	11,814
Total	$ 116,092	$ 123,826

10. Reinsurance

Reinsurance is the transfer of risk, by contract, from one insurance company to another for consideration (premium). Reinsurance contracts do not relieve Insurance Services from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to Insurance Services; consequently, allowances are established for amounts deemed uncollectible. Insurance Services evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics to reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

NAICC has reinsurance under both excess of loss and quota share treaties. NAICC cedes reinsurance on an excess of loss basis for workers compensation risks in excess of $0.4 million prior to January 1996, $0.5 million through March 2000 and $0.2 million thereafter. Beginning in May 2001, NAICC retained 50% of the loss between $0.2 million and $0.5 million. For commercial automobile, NAICC cedes reinsurance on an excess of loss basis risks in excess of $0.25 million. Since January 1, 1999 the California non-standard personal automobile quota share ceded percentage was 10% and effective January 1, 2002 the quota share treaty was terminated. The property and casualty book of business of former affiliates contains both excess of loss and quota share reinsurance protection. Typically all excess of loss contracts effectively reduce NAICC s net exposure to any occurrence below $0.1 million.

The effect of reinsurance on written premiums and earned premiums reflected in Danielson s consolidated financial statements is as follows:

	2004	**2003**	**2002**
Direct written premium	$ 15,165	$ 32,733	$ 56,462
Ceded written premium		(2,325)	(3,807)
Net written premium	$ 15,165	$ 30,408	$ 52,655
Direct earned premium	$ 18,506	$ 38,805	$ 66,958
Ceded earned premium	(508)	(2,954)	(4,794)
Net earned premium	$ 17,998	$ 35,851	$ 62,164

The effect of ceded reinsurance on loss and LAE incurred was a decrease of $3.5 million, $3 million and $10.4 million for the years ended December 2004, 2003 and 2002, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of the year ended December 2004, General Reinsurance Corporation (GenRe) was the only reinsurer that comprised more than 10 percent of NAICC s reinsurance recoverable on paid and unpaid claims. NAICC monitors all reinsurers, by reviewing A.M. Best reports and ratings, information obtained from reinsurance intermediaries and analyzing financial statements. As of December 31, 2004 and 2003, NAICC had reinsurance recoverable on paid and unpaid balances of $12.4 million and $13.1 million from GenRe, respectively. GenRe has an A.M. Best rating of A+ or better. Allowances for paid and unpaid recoverables were $1.1 million and $1.5 million at December 31, 2004 and 2003, respectively.

11. Property, Plant and Equipment Energy Services

Property, plant and equipment consisted of the following at December 31, 2004:

	Useful Lives	2004
Land		$ 4,725
Energy facilities	3-50 years	782,965
Buildings and improvements	3-50 years	51,464
Machinery and equipment	3-50 years	5,514
Landfills		7,614
Construction in progress		5,403
Total		857,685
Less accumulated depreciation and amortization		(38,510)
Property, plant, and equipment net		$ 819,175

Depreciation and amortization related to property, plant and equipment amounted to $37.4 million for the period, March 11 through December 31, 2004.

12. Service and Energy Contracts and Other Intangibles Assets

Service and Energy Contracts and other intangible assets consisted of the following at December 31, 2004:

December 31, 2004	Gross	Accumulated Amortization	Net
Service and energy contracts	$ 192,058	$ (15,121)	$ 176,937
Land rights	442	(89)	353
Total	$ 192,500	$ (15,210)	$ 177,290

Amortization expense related to service and energy contracts and other intangible assets was $15.2 million for the period March 11, through December 31, 2004. The estimated future amortization expense of service and energy contracts and other intangible assets as of December 31, 2004 is as follows:

2005	$ 17,627
2006	17,627
2007	17,535
2008	15,868

2009		15,868
Thereafter		92,765
Total	$	177,290

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Other Assets Energy Services

Other assets consisted of the following at December 31,2004:

	2004
Marketable securities available for sale	$ 1,321
Unamortized bond issuance costs	1,736
Deferred financing costs	5,275
Non-current securities available for sale (see Note 6)	2,325
Interest rate swap	14,920
Other	5,439
Total	$ 31,016

Note 14. Accrued Expenses Energy Services

Accrued expenses consisted of the following at December 31, 2004:

	2004
Operating expenses	$ 30,803
Insurance	1,605
Debt service charges and interest	17,628
Municipalities share of energy revenues	36,897
Payroll	18,027
Payroll and other taxes	8,478
Lease payments	1,025
Pension and profit sharing	3,673
Other	2,877
Total	$ 121,013

15. Energy Services Deferred Revenue

Deferred income consisted of the following at December 31, 2004:

	2004
Advance billings to municipalities	$ 9,064
Other	4,901
Total	$ 13,965

Advance billings to various customers are billed one or two months prior to performance of service and are recognized as income in the period the service is provided.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Unpaid Losses and Loss Adjustment Expenses

The following table summarizes the activity in Insurance Services liability for unpaid losses and LAE during the three most recent years:

	2004	2003	2002
Net unpaid losses and LAE at beginning of year	$ 65,142	$ 79,192	$ 88,012
Incurred, net, related to:			
Current year	10,343	23,199	49,474
Prior years	2,518	13,485	10,407
Total net incurred	12,861	36,684	59,881
Paid, net, related to:			
Current year	(5,427)	(10,133)	(22,871)
Prior years	(26,348)	(40,601)	(45,830)
Total net paid	(31,775)	(50,734)	(68,701)
Net unpaid losses and LAE at end of year	46,228	65,142	79,192
Plus: Reinsurance recoverable on unpaid losses	18,042	18,238	22,057
Gross unpaid losses and LAE at end of year	$ 64,270	$ 83,380	$ 101,249

The net losses and LAE incurred during 2004 related to prior years is attributable to recognition of unfavorable development in: commercial auto of $2.4 million primarily for accident years 2001 through 2002, and property and casualty of $1.6 million and unallocated loss adjustment expense for all lines of $0.9 million. Favorable development on prior periods was recognized in workers compensation and private passenger automobile of $0.7 million and $1.8 million, respectively. The net losses and LAE incurred during 2003 related to prior years is attributable to recognition of unfavorable development in: commercial auto of $5.5 million for accident years 2000 through 2002, workers compensation of $5.5 million of which $3.9 million was attributable to Valor, and property and casualty of $1.5 million, most of which stems from unallocated LAE reserves. The net losses and LAE incurred during 2002 related to prior years is attributable to adverse development on both the California workers compensation line totaling $3.5 million, certain private passenger automobile programs totaling $4.7 million and commercial automobile totaling $2 million. All of the workers compensation lines and the private passenger automobile programs that caused higher than expected losses were placed in run off during 2001.

Insurance Services has claims for asbestos and environmental cleanup (A&E) against policies issued prior to 1985 and which are currently in run off. The principal exposure from these claims arises from direct excess and primary policies of current and past Fortune 500 companies, the obligations of which were assumed by Insurance Services of former affiliate companies. These direct excess and primary claims are relatively few in number and have policy limits of between $50,000 and $1 million, with reinsurance generally above $50,000. Insurance Services also has A&E claims primarily associated with participations in excess of loss facultative reinsurance contracts and voluntary risk pools assumed by Insurance Services same former affiliates. These facultative reinsurance contracts have relatively low limits, generally less than $25,000, and estimates of unpaid losses are based on information provided by the primary insurance company.

The unpaid losses and LAE related to A&E is established considering facts currently known and the current state of the law and coverage litigation. Liabilities are estimated for known claims (including the cost of related litigation)

when sufficient information has been developed to indicate the involvement of a specific contract of insurance or reinsurance and management can reasonably estimate its liability. Estimates for unknown claims and development of reported claims are included in Insurance Services unpaid losses and LAE. The liability for the development of reported claims is based on estimates of the range of potential losses

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for reported claims in the aggregate. Estimates of liabilities are reviewed and updated continually and there is the potential that Insurance Services exposure could be materially in excess of amounts which are currently recorded. Management does not expect that liabilities associated with these types of claims will result in a material adverse effect on the future liquidity or financial position of Insurance Services. However, claims such as these are based upon estimates and there can be no assurance that the ultimate liability will not exceed or even materially exceed such estimates. As of the years ended December 2004 and 2003, Insurance Services net unpaid losses and LAE relating to A&E were approximately $8.2 million and $8.3 million, respectively.

17. Credit Arrangements

Covanta entered into a secured revolving loan and letter of credit facility (the Master Credit Facility) as of March 14, 2001. The Master Credit Facility was secured by substantially all of Covanta s assets and was scheduled to mature on May 31, 2002 but was not fully discharged by the Debtor In Possession Credit Agreement (as amended, the DIP Credit Facility) discussed below. This, as well as the non-compliance with required financial ratios and possible other item caused Covanta to be in default under its Master Credit Facility. In connection with the bankruptcy petition, banks which were parties to the Master Credit Facility were stayed from enforcing remedies, and Covanta and most of its subsidiaries entered into the DIP Credit Facility with the DIP Lender, with the approval of the Bankruptcy Court. The DIP Credit Facility was largely for the continuation of existing letters of credit and was secured by all of the Company s domestic assets not subject to liens of others and generally 65% of the stock of its foreign subsidiaries held by domestic subsidiaries. The DIP Credit Facility was the operative debt agreement with Covanta s banks through March 10, 2004. The Master Credit Facility remained in effect during the Chapter 11 Cases to determine the rights of the lenders who are a party to it with respect to obligations not continued under the DIP Credit Facility. The DIP Credit Facility and the Master Credit Facility were discharged upon the effectiveness of the Reorganization Plan (see Note 2).

Upon Covanta s emergence from bankruptcy, it entered into new financing arrangements for liquidity and letters of credit for its domestic and international businesses. The Domestic Borrowers entered into the First Lien Facility and the Second Lien Facility (together, the Domestic Facilities), and CPIH entered into the CPIH Revolving Loan facility.

Material Terms of the Domestic Facilities. The First Lien Facility provides commitments for the issuance of letters of credit in the initial aggregate face amount of up to $139 million with respect to Covanta s Detroit, Michigan waste-to-energy facility. The First Lien Facility reduces semi-annually as the amount of the letter of credit requirement for this facility reduces. As of December 31, 2004, this requirement was approximately $119.7 million. The First Lien Facility is, secured by a first priority lien on substantially all of the assets of the Domestic Borrowers not subject to prior liens (the Collateral).

Additionally, the Domestic Borrowers entered into the Second Lien Facility, secured by a second priority lien on the Collateral. The Second Lien Facility is a letter of credit and liquidity facility which provides commitments for the issuance of additional letters of credit in support of the Company s domestic and international businesses, and for general corporate purposes. The Second Lien facility provided commitments in an aggregate amount of $118 million, up to $10 million of which may be used for cash borrowings on a revolving basis for general corporate purposes. As of December 31, 2004, an aggregate amount of $71 million in letters of credit had been issued under the Second Lien Facility, and the Company had made no cash borrowings under the Second lien Facility. Both facilities expire in March, 2009.

The First Lien Facility and the Second Lien Facility require cash collateral to be posted for issued letters of credit if Covanta has cash in excess of specified amounts. Covanta paid a 1% upfront fee upon entering into the First Lien Facility, and will pay with respect to each issued letter of credit (i) a fronting fee equal to the greater of $500 or 0.25% per annum of the daily amount available to be drawn under such letter of credit, (ii) a letter of credit fee equal to 2.5% per annum of the daily amount available to be drawn under such letter of credit, and (iii) an annual fee of $1,500.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The revolving loan component of the Second Lien Facility bears interest at either (i) 4.5% over a base rate with reference to either the Federal Funds rate of the Federal Reserve System or Bank One s prime rate, or (ii) 6.5% over a formula Eurodollar rate, the applicable rate to be determined by Covanta (increasing by 2% over the then applicable rate in specified default situations). Covanta also paid an upfront fee of $2.8 million upon entering into the Second Lien Facility, and will pay (i) a commitment fee equal to 0.5% per annum of the daily calculation of available credit, (ii) an annual agency fee of $30,000, and (iii) with respect to each issued letter of credit an amount equal to 6.5% per annum of the daily amount available to be drawn under such letter of credit.

The Domestic Facilities provide for mandatory prepayments of all or a portion of amounts funded by the lenders under letters of credit and the revolving loan upon the sales of assets, incurrence of additional indebtedness, availability of annual cash flow, or cash on hand above certain base amounts, and change of control transactions. To the extent that no amounts have been funded under the revolving loan or letters of credit, Covanta is obligated to apply excess cash to collateralize its reimbursement obligations with respect to outstanding letters of credit, until such time as such collateral equals 105% of the maximum amount that may at any time be drawn under outstanding letters of credit.

The terms of both of these facilities require Covanta to furnish the lenders with periodic financial, operating and other information. In addition, these facilities further restrict, without the consent of its lenders under these facilities, Covanta s ability to, among others:

- incur indebtedness, or incur liens on its property, subject to specific exceptions;
- pay any dividends on or repurchase any of its outstanding securities, subject to specific exceptions;
- make new investments, subject to specific exceptions;
- deviate from specified financial ratios and covenants, including those pertaining to consolidated net worth, adjusted EBITDA, and capital expenditures;
- sell any material amount of assets, enter into a merger transaction, liquidate or dissolve;
- enter into any material transactions with shareholders and affiliates; amend its organization documents; and
- engage in a new line of business.

All unpaid principal of and accrued interest on the revolving loan, and an amount equal to 105% of the maximum amount that may at any time be drawn under outstanding letters of credit, would become immediately due and payable in the event that Covanta or certain of its affiliates (including Danielson) become subject to specified events of bankruptcy or insolvency. Such amounts shall also become immediately due and payable, upon action taken by a certain specified percentage of the lenders, in the event that any of the following occurs after the expiration of applicable cure periods:

- a failure by Covanta to pay amounts due under the Domestic Facilities or other debt instruments;
- breaches of representations, warranties and covenants under the Domestic Facilities;
- a judgment or judgments are rendered against Covanta that involve an amount in excess of $5 million, to the extent not covered by insurance;
- any event that has caused a material adverse effect on Covanta;
- a change in control;

the Intercreditor Agreement or any security agreement pertaining to the Domestic Facilities ceases to be in full force and effect;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

certain terminations of material contracts; or

any securities issuance or equity contribution which is reasonably expected to have a material adverse effect on the availability of net operating losses.

Under these facilities, as described above, Covanta is obligated to apply excess cash to collateralize its reimbursement obligations with respect to outstanding letters of credit, until such time as such collateral equals 105% of the maximum amount that may at any time be drawn under outstanding letters of credit. In accordance with the annual cash flow and the excess cash on hand provisions of the First and Second Lien Facilities, Domestic Covanta deposited $3.2 million and $10.5 million on January 3, 2005 and March 1, 2005, respectively, into a restricted collateral account for this purpose. This restricted collateral will become available to the Domestic Borrowers if they are able to refinance their current corporate debt.

Material Terms of the CPIH Revolving Loan Facility: The CPIH Revolving Credit Facility is secured by a first priority lien on the CPIH stock and substantially all of the CPIH Borrowers assets not otherwise subject to security interests existing as of the Effective Date, and consists of commitments for cash borrowings of up to $10 million for purposes of supporting the international businesses. This $10 million commitment however is subject to permanent reductions as CPIH asset sales occur. Permanent reductions to the original commitment are determined by applying 50% of all net asset sales proceeds as they occur subject to certain specified limits. The CPIH revolving credit facility has a maturity date of three years and to the extent drawn upon bears interest at the rate of either (i) 7% over a base rate with reference to either the Federal Funds rate, of the Federal Reserve System or Deutsche Bank s prime rate, or (ii) 8% over a formula Eurodollar rate, the applicable rate to be determined by CPIH (increasing by 2% over the then applicable rate in specified default situations). CPIH also paid a 2% upfront fee of $0.2 million, and will pay (i) a commitment fee equal to 0.5% per annum of the average daily calculation of available credit, and (ii) an annual agency fee of $30,000. Through December 31, 2004, CPIH had not sought to make draws on this facility and the outstanding commitment amount has been reduced to $9.1 million.

The mandatory prepayment provisions, affirmative covenants, negative covenants and events of default under the two international credit facilities are similar to those found in the Domestic Facilities.

The CPIH Revolving Credit Facility is non-recourse to Covanta and its other domestic subsidiaries.

Of Covanta s outstanding letters of credit at December 31, 2004, approximately $5.6 million secures indebtedness that is included in the Consolidated Balance Sheet and approximately $187.3 million principally secured the Company s obligations under energy contracts to pay damages in the event of non-performance by Covanta which Covanta believes to be unlikely. These letters of credit were generally available for drawing upon if Covanta defaulted on the obligations secured by the letters of credit or failed to provide replacement letters of credit as the current ones expire.

Certain Domestic Borrowers are guarantors of performance obligations of some international projects or are the reimbursement parties with respect to letters of credit issued to secure obligations relating to some international projects. Domestic Borrowers are entitled to reimbursements of operating expenses incurred by the Domestic Borrowers on behalf of the CPIH Borrowers and payments, if any, made with respect to the above mentioned guarantees and reimbursement obligations. Any such obligation to reimburse the Domestic Borrowers, should it arise, would be senior to the repayment of principal on the CPIH Term Loan described in Note 15.

18. Parent Debt

Danielson s debt as of December 31, 2003 consisted of $40 million in bridge financing relating to the acquisition of Covanta. Pursuant to the note purchase agreement, the Bridge Lenders provided Danielson with bridge financing in exchange for notes convertible under certain circumstances into shares of Common Stock at a price of $1.53 per share. These notes had a scheduled maturity date of January 2, 2005 and an extended

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maturity date of July 15, 2005, and bear interest at a rate of 12% per annum through July 15, 2004 and 16% per annum thereafter. In the event of a default or the failure to pay a convertible note on its maturity, the interest rate under the convertible note increases by 2%. These notes were repaid on June 11, 2004 from the proceeds of a pro rata rights offering made to all stockholders on May 18, 2004.

Under the note purchase agreement, Laminar agreed to convert an amount of convertible notes to acquire up to an additional 8.75 million shares of Danielson common stock at $1.53 per share based upon the levels of public participation in a planned rights offering. If Danielson did not refinance all of the other outstanding notes, the remainder of the notes would be convertible, without action on the part of the Bridge Lenders, into shares of Common Stock at the rights offering price of $1.53 per share, subject to agreed upon limitations necessitated by Danielson s NOLs.

Danielson issued to the Bridge Lenders an aggregate of 5,120,853 shares of Danielson s common stock in consideration for the $40 million of bridge financing. At the time that Danielson entered into the note purchase agreement, agreed to issue the notes convertible into shares of Danielson common stock and issued the equity compensation to the Bridge Lenders, the trading price of the Danielson common stock was below the $1.53 per share conversion price of the notes. On December 1, 2003, the day prior to the announcement of the Covanta acquisition, the closing price of Danielson common stock on the American Stock Exchange was $1.40 per share.

19. Covanta Recourse Debt

Recourse debt consisted of the following:

	Successor
	2004
High Yield Notes	$ 207,735
Unsecured Notes (estimated)	28,000
CPIH term loan facility	76,852
9.25% debentures due 2022	
Other long-term debt	309
	312,896
Less amounts subject to compromise	
Less current portion of long term debt	(112)
Recourse debt	$ 312,784

Recourse debt included the following obligations at December 31, 2004:

The High Yield Notes are secured by a third priority lien in the same collateral securing the First Lien Facility and the Second Lien Facility (See Note 14). The High Yield Notes were issued in the initial principal amount of $205 million, which will accrete to $230 million at maturity in seven years. Interest is payable at a rate of 8.25% per annum, semi-annually on the basis of the principal at final maturity; no principal is due prior to maturity of the High Yield Notes.

Unsecured Notes in a principal amount of $4 million were issued on the effective date of the Reorganization Plan. The Company issued additional Unsecured Notes in the principal amount of $20 million after emergence and recorded additional Unsecured Notes in a principle amount of $4 million in 2004 which it expects to issue in 2005. Additional Unsecured Notes also may be issued to holders of allowed claims against the Remaining Debtors if and when they emerge from bankruptcy, and if the issuance of such notes is contemplated by the terms

of any plan of reorganization confirmed with respect to such Remaining Debtors. The final principal amount of all Unsecured Notes will be equal to the amount of allowed unsecured claims against the Company s operating subsidiaries which

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

were reorganizing Debtors, and such amount will be determined when such claims are resolved through settlement or further proceedings in the Bankruptcy Court. The principal amount of Unsecured Notes indicated in the table above represents the expected liability upon completion of the claims process, excluding any additional Unsecured Notes that may be issued if and when Remaining Debtors reorganize and emerge from bankruptcy. Notwithstanding the date on which Unsecured Notes are issued, interest on the Unsecured Notes accrues from March 10, 2004. Interest is payable semi-annually on the Unsecured Notes at a rate of 7.5% per annum; principal is paid annually in equal installments beginning in March, 2006. The Unsecured Notes mature in eight years.

The CPIH Borrowers entered into the CPIH Term Loan Facility in the principal amount of up to $95 million, of which $76.9 million was outstanding as of December 31, 2004. The CPIH Term Loan Facility is secured by a second priority lien on the same collateral as the CPIH Revolving Credit Facility, and bears interest at 10.5% per annum, 6.0% of such interest to be paid in cash and the remaining 4.5% to be paid in cash to the extent available and otherwise payable by adding it to the outstanding principal balance. The interest rate increases to 12.5% per annum in specified default situations. The CPIH Term Loan Facility matures in March 2007. The CPIH Term Loan Facility is non-recourse to Covanta and its other domestic subsidiaries. While the existing CPIH term loan and revolver are outstanding CPIH s cash balance is not available to be transferred to Domestic Covanta.

The maturities on recourse debt including capital lease obligations at December 31, 2004 were as follows:

2005	$ 112
2006	4,024
2007	80,824
2008	3,900
2009	3,900
Thereafter	220,136
Total	312,896
Less current portion	(112)
Total long-term recourse debt	$ 312,784

See Note 17 for a description of the credit arrangements of Covanta.

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20. Project Debt

Project debt consisted of the following:

		2004
Revenue Bonds Issued by and Prime Responsibility of Municipalities:		
3.9-6.75% serial revenue bonds due 2005 through 2011	$	319,050
5.0-7.0% term revenue bonds due 2005 through 2015		223,518
Adjustable-rate revenue bonds due 2006 through 2013		127,237
Revenue Bonds Issued by Municipal Agencies with Sufficient Service Revenues Guaranteed by Third Parties:		
5.25-5.5% serial revenue bonds due 2005 through 2008		30,301
Other Revenue Bonds:		
4.85-5.5% serial revenue bonds due 2005 through 2015		72,954