COVANTA HOLDING CORP
Form 424B5
January 19, 2007

The information contained in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated January 19, 2007

Filed Pursuant to Rule 424(b)(5)
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PROSPECTUS SUPPLEMENT
(To Prospectus Dated January 19, 2007)

$325,000,000

% Senior Convertible Debentures due 2027

This is an offering by Covanta Holding Corporation of $325,000,000 aggregate principal amount of its % Senior Convertible Debentures due 2027.

The Debentures will be convertible, at your option, into cash and shares of our common stock, initially based on a conversion rate of shares per $1,000 principal amount of Debentures (equivalent to an initial conversion price of approximately $ per share), subject to adjustment as described in this prospectus supplement, only under the limited circumstances described in this prospectus supplement and in any event on or prior to 5:00 p.m., New York City time, on the business day immediately preceding the maturity date.

Upon conversion, we will deliver cash and shares of our common stock, if any, equal to the sum of the daily settlement amounts (as described herein), for each day of the 20 settlement period trading days during the applicable conversion period. See Description of the Debentures Conversion Procedures Settlement Upon Conversion. In the event of certain types of fundamental changes, we will increase the conversion rate by a number of additional shares or, in lieu thereof, the acquiring company may elect to adjust the conversion obligation and conversion rate so that the Debentures are convertible into shares of the acquiring or surviving company, in each case as described in this prospectus supplement.

The Debentures will bear interest at a rate of % per year. Beginning with the six-month period commencing February 1, 2012, we will also pay contingent interest during any six-month interest period in which the trading price of the Debentures, measured over a specified number of trading days, is 120% or more of the principal amount of the Debentures. Interest on the Debentures is payable on February 1 and August 1 of each year, beginning on August 1, 2007. The Debentures will mature on February 1, 2027.

The Debentures will be subject to special United States federal income tax rules. For a discussion of the special United States federal income tax rules governing contingent payment debt instruments, see Certain United States Federal Income Tax Considerations.

We may redeem all or a portion of the Debentures on or after February 1, 2012, for cash at a redemption price equal to 100% of the principal amount of Debentures redeemed, plus accrued and unpaid interest (including contingent interest, if any).

You may require us to repurchase all or a portion of your Debentures on February 1, 2012, February 1, 2017 and February 1, 2022 at a cash repurchase price equal to 100% of the principal amount of the Debentures, plus accrued and unpaid interest (including contingent interest, if any). In addition, you may require us to repurchase all or a portion of your Debentures upon a fundamental change at a cash repurchase price equal to 100% of the principal amount of the Debentures, plus accrued and unpaid interest (including contingent interest, if any).

The Debentures will be our senior unsecured obligations. The Debentures will be effectively junior to all of our existing and future secured indebtedness, including our guarantee of indebtedness under the existing credit facilities of our subsidiary, Covanta Energy Corporation, or, if closed, Covanta Energy Corporation s new senior secured first lien credit facilities described in this prospectus supplement, to the extent of the value of the assets securing such indebtedness. The Debentures will be effectively subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries, including indebtedness under the existing credit facilities or, if closed, the new senior secured first lien credit facilities.

Our common stock is listed on The New York Stock Exchange under the symbol CVA. The closing sale price of our common stock on January 18, 2007 was $21.66 per share.

We do not intend to apply for listing of the Debentures on any securities exchange or for inclusion of the Debentures in any automated quotation system.

Concurrently with the offering of the Debentures, we are offering, pursuant to a separate prospectus supplement, $125,000,000 in gross proceeds of our common stock at $ per share. Our subsidiary, Covanta Energy Corporation, is also negotiating the terms of new senior secured first lien credit facilities with the intention of entering into the new credit facilities in the amount of $1,300 million, after the closing of this offering. The closing of this offering of the Debentures is not conditioned on the closing of the concurrent offering of our common stock or the closing of the new credit facilities.

Investing in the Debentures involves risks. See Risk Factors beginning on page S-9 of this prospectus supplement and page 3 of the accompanying prospectus.

	Per Debenture	**Total**
Price to the public(1)	%	$
Underwriting discounts and commissions	%	$
Proceeds to Covanta (before expenses)	%	$

(1) Plus accrued interest, if any, from January , 2007.

We have granted the underwriters an option to purchase, for a 13 day period beginning on and including the date of original issuance of the Debentures, up to an additional $48,750,000 aggregate principal amount of Debentures solely to cover over-allotments, if any, on the same terms and conditions as set forth above.

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

The underwriters expect to deliver the Debentures on or about January , 2007.

Joint Book-Running Managers

Lehman Brothers **JPMorgan** **Merrill Lynch & Co.**

Banc of America Securities LLC

Barclays Capital

UBS Investment Bank

January , 2007

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of the Debentures and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

The second part is the accompanying prospectus, which gives more general information, some of which does not apply to this offering. If the description of this offering of the Debentures varies between this prospectus supplement and the accompanying prospectus, you should rely only on the information contained in or incorporated by reference in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on this prospectus supplement or the documents incorporated by reference subsequent to the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date. You should read this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, when making your investment decision. You should also read and consider the information in the documents we have referred you to in the Where You Can Find More Information section.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act in this prospectus supplement, under which we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, referred to as the SEC in this prospectus supplement. 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, DC 20549. Copies of such material also can be obtained at the SEC s website, www.sec.gov or by mail from the SEC s public reference room, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the SEC s 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, referred to as the NYSE in this prospectus supplement. Materials filed by us can be inspected at the offices of the NYSE at 20 Broad Street, New York, NY 10005.

Information on our website is not incorporated into this prospectus supplement or other filings made by us with the SEC and is not a part of this prospectus supplement.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all the information that you should consider before investing in the Debentures or the shares of our common stock issuable upon conversion of the Debentures. You should read the entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section and our financial statements (including the notes thereto) included or incorporated by reference in this prospectus supplement and the accompanying prospectus before making an investment decision. This prospectus supplement and the accompanying prospectus contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors described under the Risk Factors section and elsewhere in this prospectus supplement.

Unless the context otherwise requires, references in this prospectus supplement to Covanta, we, our, us and similar terms refer to Covanta Holding Corporation and its subsidiaries; references to Covanta Energy refer to Covanta Energy Corporation, a direct wholly-owned subsidiary of Covanta, and its subsidiaries; references to ARC Holdings refer to Covanta ARC Holdings, Inc, a direct wholly-owned subsidiary of Covanta Energy and its subsidiaries; references to ARC refer to Covanta ARC LLC; and references to TransRiver refer to TransRiver Marketing Company, L.P. ARC and TransRiver are indirect subsidiaries of ARC Holdings.

Unless otherwise specifically indicated, all information in this prospectus supplement assumes that the underwriters option to purchase additional Debentures is not exercised.

Overview

We are a leading developer, owner and operator of infrastructure for the conversion of energy-from-waste, waste disposal, renewable energy production and independent power production in the United States and abroad. Through our operating subsidiaries, we own or operate 51 energy generation facilities, 41 of which are in the United States and 10 of which are located outside of the United States. Our energy generation facilities use a variety of fuels, including municipal solid waste, water (hydroelectric), natural gas, coal, wood waste, landfill gas and heavy fuel oil. We also own or operate several businesses that are associated with our energy-from-waste business, including a waste procurement business, two landfills and several waste transfer stations. We also operate one water treatment facility which is located in the United States.

The fundamental purpose of our energy-from-waste projects is to provide waste disposal services, typically to municipal clients who sponsor the projects. The electricity or steam generated is generally sold to local utilities or industrial customers, and most of the resulting revenues reduce the overall cost of waste disposal services to the municipal clients. These projects are capable of providing waste disposal services and generating electricity or steam, if properly operated and maintained, for several decades. Generally, we provide these waste disposal services and sell the electricity or steam generated under long-term contracts, which expire on various dates between 2008 and 2027. Many of our service contracts may be renewed for varying periods of time, at the option of the municipal client.

We receive revenue in the form of fees pursuant to waste disposal services contracts, and in some cases, energy purchase agreements, at facilities we own or operate. TransRiver, one of our subsidiaries, markets waste disposal services to third parties predominantly to efficiently utilize that portion of the waste disposal capacity of our energy-from-waste projects which is not dedicated to municipal clients.

Our Business Strategy

We believe our business offers solutions to public sector leaders around the world in two related elements of critical infrastructure: post-recycling waste disposal and energy generation. We further believe the environmental benefits of energy-from-waste, as an alternative to landfilling, are clear and compelling: utilizing energy-from-waste reduces greenhouse gas emissions, lowers the risk of groundwater contamination and conserves land. At the same time, energy-from-waste generates clean reliable energy from a renewable

Table of Contents

fuel source, thus reducing dependence on fossil fuels. As public planners address their needs for more environmentally sensitive waste disposal and energy generation in the years ahead, we believe energy-from-waste will be an increasingly attractive alternative.

Our mission is to be the world s leading energy-from-waste company, with a complementary network of waste disposal and energy generation assets. We expect to build value for our stockholders 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;
- maximize the long-term value of our existing portfolio by:
  - continuing to operate at historical production levels,
  - continuing to execute effective maintenance programs,
  - extending operating contracts, and
  - enhancing the value of facilities we own after expiration of existing contracts; and
- capitalize on growth opportunities by:
  - expanding our existing energy-from-waste facilities in attractive markets,
  - seeking new ownership opportunities or operating contracts for energy-from-waste and other energy generation and waste disposal projects,
  - seeking to expand our business in selected international markets where our energy-from-waste expertise adds value and market and regulatory conditions are favorable, and
  - developing TransRiver and seeking additional opportunities in businesses ancillary to our existing business, including additional waste transfer, transportation, processing and landfill businesses.

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

Concurrent Offering of Our Common Stock

Concurrently with this offering of the Debentures, we are offering, pursuant to a separate prospectus supplement, $125 million in gross proceeds of our common stock at $ per share, plus up to an additional $18.75 million in gross proceeds of our common stock if the underwriters exercise their option to purchase additional shares from us in full. This prospectus supplement is not an offer of shares of our common stock or a solicitation of an offer to buy shares of our common stock. The completion of this offering of the Debentures is not conditioned on the completion of the offering of our common stock.

Proposed New Credit Facilities

Concurrently with this offering of the Debentures and the concurrent offering of our common stock, Covanta Energy is negotiating the terms of new senior secured first lien credit facilities in the amount of $1,300 million, which it intends to enter into after the closing of this offering. We refer to these proposed credit facilities as the New Credit Facilities in this prospectus supplement. Under the New Credit Facilities, the lenders are expected to provide borrowings in the amount of up to $1,300 million, consisting of a secured term loan facility in the amount of $680 million that matures in 2014, a secured revolving credit facility in the

Table of Contents

amount of $300 million that terminates in 2013 and a secured funded letter of credit facility in the amount of $320 million that terminates in 2014. The New Credit Facilities are expected to be guaranteed by us and certain subsidiaries of Covanta Energy and secured by a first priority lien on substantially all of the assets of Covanta Energy and certain of its subsidiaries, subject to certain exclusions. Our guarantee of the obligations under the New Credit Facilities will be secured by a first priority lien on all of the capital stock of Covanta Energy owned by us. The closing of this offering of the Debentures is not conditioned on the closing of the New Credit Facilities, which will occur, if at all, after the closing of this offering of the Debentures. The closing of the New Credit Facilities is conditioned upon our raising in this offering of the Debentures and our concurrent offering of our common stock a minimum amount to be agreed with the lenders, which amount will be at least $400 million but not more than $450 million. See Description of Proposed New Credit Facilities.

Tender Offers and Consent Solicitations

Concurrently with this offering of the Debentures, we expect to commence cash tender offers and related consent solicitations to purchase any and all of the following outstanding notes (principal amounts outstanding as of September 30, 2006):

- $195.8 million aggregate principal amount of 8.50% senior secured notes due 2010 of MSW Energy Finance Co., Inc. and MSW Energy Holdings, LLC, referred to as the MSW I Notes in this prospectus supplement;

- $224.1 million aggregate principal amount of 7.375% senior secured notes due 2010 of MSW Energy Finance Co. II, Inc. and MSW Energy Holdings II, LLC, referred to as the MSW II Notes in this prospectus supplement; and

- $211.6 million aggregate principal amount of 6.26% senior notes due 2015 of ARC, referred to as the ARC Notes and, collectively with the MSW I Notes and the MSW II Notes, as the Outstanding Notes in this prospectus supplement.

Subsequent to September 30, 2006, we made a scheduled principal repayment on the ARC Notes in the amount of $19.6 million. Therefore, the principal amount of the ARC Notes we intend to repurchase is $192.0 million.

We refer to such tender offers and related consent solicitations as the tender offers in this prospectus supplement. We intend to use the net proceeds from this offering, together with the net proceeds from the concurrent offering of our common stock, a portion of the borrowings under the New Credit Facilities and available cash on hand, to repurchase the Outstanding Notes pursuant to the tender offers. See Use of Proceeds. The completion of each tender offer is conditioned upon, among other things, the closings of this offering of the Debentures, the concurrent offering of our common stock and the New Credit Facilities. Nothing in this prospectus supplement should be construed as an offer to purchase any Outstanding Notes.

THE OFFERING

Issuer	Covanta Holding Corporation, a Delaware corporation
Securities Offered	$325.0 million aggregate principal amount of % Senior Convertible Debentures due 2027, which we refer to as the Debentures. We have also granted the underwriters an option to purchase, for a 13 day period beginning on and including the date of original issuance of the Debentures, up to an additional $48.75 million aggregate principal amount of Debentures solely to cover over-allotments, if any.
Offering Price	Each Debenture will be issued at a price of 100% of its principal amount plus accrued interest, if any, from January , 2007.
Maturity	February 1, 2027, unless earlier converted, redeemed or repurchased.
Interest Rate	% per year. Interest will be payable in cash on February 1 and August 1 of each year, beginning August 1, 2007.
Contingent Interest	Beginning with the six-month interest period commencing February 1, 2012, we will pay contingent interest in cash during any six-month interest period in which the trading price of the Debentures for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the Debentures. During any interest period when contingent interest shall be payable, the contingent interest payable per $1,000 principal amount of Debentures will equal 0.25% of the average trading price of $1,000 principal amount of Debentures during the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period.
Ranking	The Debentures will be our senior unsecured obligations and will rank equally in right of payment with all of our future senior unsecured indebtedness. The Debentures will not be guaranteed by any of our subsidiaries and will be effectively subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries. The Debentures will be effectively junior to our existing and future secured indebtedness, including our guarantee of indebtedness under Covanta Energy s existing credit facilities or, if closed, Covanta Energy s New Credit Facilities, to the extent of the value of the assets securing such indebtedness. As of September 30, 2006, on a pro forma as adjusted basis, after giving effect to the transactions described under Capitalization, we would have had no indebtedness outstanding other than the Debentures and our

guarantee of indebtedness under the New Credit Facilities, and our subsidiaries would have had $3,307 million of indebtedness and other liabilities, consisting of $680 million under the first lien term loan facility of the New Credit Facilities for which we would be a guarantor, and $2,627 million of non-recourse project level indebtedness and other liabilities. Covanta Energy also would have $620 million of additional availability

Table of Contents

under the New Credit Facilities, of which it will have used $321 million in the form of issued letters of credit.

Conversion Rights

You may convert your Debentures into shares of our common stock on or prior to 5:00 p.m., New York City time on the business day immediately preceding the maturity date only under the following circumstances:

prior to February 1, 2025, on any date during any fiscal quarter beginning after March 31, 2007 (and only during such fiscal quarter) if the closing sale price of our common stock was more than 130% of the then effective conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter;

at any time on or after February 1, 2025;

with respect to any Debentures called for redemption, until 5:00 p.m., New York City time, on the business day prior to the redemption date;

during a specified period, if we distribute to all or substantially all holders of our common stock, rights or warrants entitling them to purchase, for a period of 45 calendar days or less, shares of our common stock at a price less than the average closing sale price for the ten trading days preceding the declaration date for such distribution;

during a specified period, if we distribute to all or substantially all holders of our common stock, cash or other assets, debt securities or rights to purchase our securities, which distribution has a per share value exceeding 10% of the closing sale price of our common stock on the trading day preceding the declaration date for such distribution;

during a specified period, if we are a party to a consolidation, merger or sale, lease, transfer, conveyance or other disposition of all or substantially all of our assets and those of our subsidiaries taken as a whole that does not constitute a fundamental change (as such term is described in Description of the Debentures Repurchase at the Option of the Holder Fundamental Change Put), in each case pursuant to which our common stock would be converted into cash, securities and/or other property;

during a specified period if a fundamental change occurs; and

during the five consecutive business day period following any five consecutive trading day period in which the trading price for the Debentures for each day during such five trading day period was less than 95% of the product of the closing sale price of our common stock on such day multiplied by the then effective conversion rate.

The Debentures will be convertible based on an initial conversion rate of shares of our common stock per $1,000 principal amount of Debentures (equivalent to an initial conversion price of approximately $ per share). The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described under Description of the Debentures Conversion Procedures Conversion Rate Adjustments.

Upon conversion, we will deliver cash and shares of our common stock, if any, equal to the sum of the daily settlement amounts for each day of the 20 settlement period trading days during the applicable conversion period. See Description of the Debentures Conversion Procedures Settlement Upon Conversion.

Upon any conversion, subject to certain exceptions, you will not receive any cash payment representing accrued and unpaid interest (including contingent interest, if any). See Description of the Debentures Conversion Rights.

Adjustment to conversion rate upon a non-stock change of control

Prior to February 1, 2012, if and only to the extent holders elect to convert the Debentures in connection with a transaction described under clause (1) or clause (4) of the definition of fundamental change as described in Description of the Debentures Repurchase at the Option of the Holder Fundamental Change Put pursuant to which 10% or more of the consideration for our common stock (other than cash payments for fractional shares and cash payments made in respect of dissenters appraisal rights) consists of cash or securities (or other property) that are not common equity interests traded or scheduled to be traded immediately following such transaction on a U.S. national securities exchange, which we refer to as a non-stock change of control, we will increase the conversion rate by a number of additional shares. The number of additional shares will be determined by reference to the table in Description of the Debentures Conversion Procedures Adjustment to Conversion Rate Upon a Non-Stock Change of Control, based on the effective date and the price paid per share of our common stock in such non-stock change of control.

If holders of our common stock receive only cash in the type of transaction described above, the price paid per share will be the cash amount paid per share. Otherwise, the price paid per share will be the average of the closing sale prices of our common stock on the five trading days prior to but not including the effective date of such non-stock change of control.

Conversion after a public acquirer change of control

In the case of a non-stock change of control constituting a public acquirer change of control (as defined in this prospectus supplement), the public acquirer may, in lieu of adjusting the conversion rate as described in Description of the Debentures Conversion Procedures Adjustment to Conversion Rate Upon a Non-Stock Change of Control, elect to adjust the conversion obligation and the conversion rate such that from and after the effective date of such public acquirer change of control, holders of the Debentures

Table of Contents

will be entitled to convert their Debentures (subject to the satisfaction of certain conditions) based on a number of shares of public acquirer common stock by adjusting the conversion rate in effect immediately before the public acquirer change of control by a fraction:

the numerator of which will be:

in the case of a share exchange, consolidation, merger or binding share exchange pursuant to which our common stock is converted into cash, securities or other property, the average value of all cash and any other consideration as determined by our board of directors paid or payable per share of our common stock, or

in the case of any other public acquirer change of control, the average of the closing sale prices of our common stock for the five consecutive trading days prior to but excluding the effective date of such public acquirer change of control, and

the denominator of which will be the average of the closing sale prices of the public acquirer common stock for the five consecutive trading days commencing on the trading day next succeeding the effective date of such public acquirer change of control.

Optional Redemption

At any time on or after February 1, 2012, we may redeem all or a portion of the Debentures for cash at a redemption price equal to 100% of the principal amount of the Debentures being redeemed, plus accrued and unpaid interest (including contingent interest, if any) to, but not including, the redemption date.

Optional Repurchase Right of Holders

You may require us to repurchase all or a portion of your Debentures on February 1, 2012, February 1, 2017 and February 1, 2022 for cash at a repurchase price equal to 100% of the principal amount of the Debentures being repurchased, plus accrued and unpaid interest (including contingent interest, if any) to, but not including, the repurchase date.

Fundamental Change Repurchase Right of Holders

If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you may require us to repurchase for cash all or a portion of your Debentures at a repurchase price equal to 100% of the principal amount of the Debentures being repurchased, plus accrued and unpaid interest (including contingent interest, if any) to, but not including, the repurchase date. See Description of the Debentures Repurchase at the Option of the Holder Fundamental Change Put.

Events of Default

Except as described below under Failure to Comply with Reporting Obligations, if an event of default with respect to the Debentures occurs, the principal amount of the Debentures, plus accrued and unpaid interest (including contingent interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving us or certain of our subsidiaries.

Table of Contents

Failure to Comply with Reporting Obligations	Should we fail to comply with the reporting obligations in the indenture or fail to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act, your remedy for the 365 calendar days after the occurrence of such event of default will consist exclusively of the right to receive additional interest on the Debentures at an annual rate equal to 0.50% of the principal amount of the Debentures. See Description of the Debentures Events of Default; Notice and Waiver.
Absence of a Public Market for the Debentures	The Debentures will be a new issue of securities and will not be listed on any securities exchange or automated quotation system. We cannot assure you that any active or liquid market will develop for the Debentures. See Underwriting.
NYSE Symbol for our Common Stock	Our common stock is listed on the NYSE under the symbol CVA.
Use of Proceeds	We estimate that our net proceeds from this offering will be approximately $315.9 million, after deducting the underwriting discounts and commissions and estimated offering expenses totaling $9.1 million ($363.4 million if the underwriters option to purchase additional Debentures is exercised in full). We intend to use the net proceeds of this offering, together with the net proceeds from the concurrent offering of our common stock, a portion of the borrowings under the New Credit Facilities and available cash on hand to repurchase the Outstanding Notes pursuant to the tender offers or by redemptions, pay accrued and unpaid interest and related premiums thereon and pay other related expenses. In the event that we do not enter into the New Credit Facilities, or such tender offers are not successfully consummated, we intend to use the net proceeds of this offering and the concurrent offering of our common stock for general corporate purposes, which may include construction of new facilities, expansions of existing facilities, or possible permitted investments or acquisitions or, if we receive waivers from the lenders under Covanta Energy s existing credit facilities, the repurchases of the MSW I Notes and/or MSW II Notes. See Use of Proceeds.
U.S. Federal Income Tax Considerations	The Debentures and the common stock issuable upon conversion of the Debentures will be subject to special and complex United States federal income tax rules. Holders are urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the Debentures and our common stock issuable upon conversion of the Debentures. See Risk Factors Risks Relating to this Offering You should consider the United States federal income tax consequences of owning the Debentures and Certain United States Federal Income Tax Considerations.

RISK FACTORS

You should carefully consider the following factors and other information contained or incorporated by reference in this prospectus supplement before deciding to invest in the Debentures. Any of these risks could materially adversely affect our business, financial condition, results of operations and cash flow, which could in turn materially adversely affect the price of the Debentures and the common stock issuable upon conversion of the Debentures.

Risks Relating to this Offering

Our substantial indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under our indebtedness, including the Debentures.

We do not currently have any indebtedness other than our guarantee of indebtedness under Covanta Energy s existing credit facilities. As of September 30, 2006, our subsidiaries had $3,909 million of outstanding indebtedness and other liabilities, including $629 million under Covanta Energy s existing credit facilities and approximately $3,280 million of the Outstanding Notes, non-recourse project level indebtedness and other liabilities. As described more fully under the Description of Proposed New Credit Facilities section, Covanta Energy is currently negotiating the terms of the New Credit Facilities with a syndicate of lenders. If Covanta Energy is successful in entering into the New Credit Facilities and we are successful in consummating this offering of the Debentures and the concurrent offering of our common stock, as described under Capitalization, Covanta Energy would repay the outstanding indebtedness under its existing credit facilities and would incur up to $1,300 million of secured indebtedness under the New Credit Facilities, for which we would be a guarantor, and we would repurchase or redeem the Outstanding Notes issued by other indirect subsidiaries. Assuming this recapitalization occurs, we would have no indebtedness outstanding other than the Debentures and our guarantee of indebtedness under the New Credit Facilities, and our subsidiaries would have approximately $3,307 million of indebtedness, including Covanta Energy s indebtedness under the New Credit Facilities, non-recourse project level indebtedness and other liabilities outstanding.

Whether or not Covanta Energy is successful in entering into the New Credit Facilities, the level of our consolidated indebtedness could have significant consequences on our future operations, including:

- making it difficult for us to meet our payment and other obligations under our outstanding indebtedness, including the Debentures;

- resulting in an event of default if our subsidiaries fail to comply with the financial and other restrictive covenants contained in their debt agreements, which event of default could result in all of such debt becoming immediately due and payable;

- limiting our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness under Covanta s existing credit facilities or indebtedness under the New Credit Facilities;

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industries in which we operate and the general economy; and

- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Debentures and our subsidiaries debt, and the price of our common stock.

We cannot assure you that our cash flow from operations will be sufficient to service our indebtedness.

As a holding company, our ability to meet our obligations under the Debentures depends on our subsidiaries ability to generate cash and our ability to receive dividends and distributions from our subsidiaries

Table of Contents

in the future. This, in turn, is subject to many factors, some of which are beyond our control, including the following:

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

maintenance or enhancement of revenue from renewals or replacement of existing contracts 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 our existing contracts expire;

the continued availability to Covanta Energy of the benefit of our net operating loss carryforwards, referred to as NOLs in this prospectus supplement, under a tax sharing agreement; and

general economic, financial, competitive, legislative, regulatory and other factors.

We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under the New Credit Facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Debentures and to fund other liquidity needs. If our subsidiaries are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Debentures, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under our outstanding indebtedness, including the Debentures.

We may not have access to the cash flow and other assets of our subsidiaries that may be needed to make payments on our indebtedness, including the Debentures.

All of our business is conducted through our subsidiaries. Our ability to make payments on the Debentures is dependent on the earnings of, and the distribution of funds to us from, our subsidiaries. Certain of our subsidiaries and affiliates are currently subject to project and other financing arrangements that restrict their ability to make dividends or distributions to us. Covanta Energy derives its cash flow principally from its domestic and international project operations and businesses. A material portion of Covanta Energy s domestic cash flows are expected to be derived from projects where financial test and other covenants contained in respective debt arrangements must be satisfied in order for project subsidiaries to make cash distributions to Covanta Energy s intermediate subsidiaries and, in turn, to us. We cannot assure you that our project subsidiaries will be able to satisfy such financial tests and covenants in the future, and that we, indirectly through Covanta Energy, will be able to receive cash distributions from such subsidiaries.

In addition, Covanta Energy s existing credit facilities prohibit Covanta Energy from making cash distributions or dividends to us in respect of any of our cash payment obligations on the Debentures. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Cash Flow and Liquidity Financing Arrangements Covanta Energy Debt of our annual report on Form 10-K for the fiscal year ended December 31, 2005 for a more complete description of the terms of Covanta Energy s existing credit facilities. If Covanta Energy is not successful in refinancing its existing credit facilities with the New Credit Facilities, we intend to retain sufficient cash at Covanta to fund our cash payment obligations on the Debentures until such time as Covanta Energy is successful in refinancing its existing credit facilities or until it receives appropriate consents from the lenders thereunder.

Under the proposed terms of the New Credit Facilities, Covanta Energy s ability to make cash distributions or dividends to us in respect of our cash payment obligations on the Debentures (other than in respect of payment of interest on the Debentures) is limited. Therefore, even if Covanta Energy is successful

in refinancing its existing credit facilities with the New Credit Facilities, we may not be able to receive sufficient cash distributions or dividends from Covanta Energy to make such cash payments on the Debentures.

The Debentures will be effectively subordinated to any existing and future indebtedness and other liabilities of our subsidiaries.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the Debentures or, subject to existing or future contractual obligations between us and our subsidiaries, to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Our right to receive any assets of any of our subsidiaries upon liquidation or reorganization, and, as a result, the right of the holders of the Debentures to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including lenders under Covanta Energy s existing credit facilities or, if closed, the New Credit Facilities, and lenders under the project level indebtedness. The Debentures do not restrict the ability of our subsidiaries to incur additional liabilities. As of September 30, 2006, on a pro forma as adjusted basis after giving effect to the transactions described under the Capitalization section, our subsidiaries would have had $3,307 million of indebtedness and other liabilities, including $680 million under the term loan facility of the New Credit Facilities for which we would be a guarantor. Covanta Energy also would have $620 million of additional availability under the New Credit Facilities, of which it will have used $321 million in the form of issued letters of credit.

Despite our current and anticipated indebtedness levels, we may still incur substantially more indebtedness or take other actions which would intensify the risks discussed above.

Despite our current and anticipated consolidated indebtedness levels, we may be able to incur substantial additional indebtedness in the future. We will not be restricted under the terms of the indenture governing the Debentures from incurring additional indebtedness. In addition, under the proposed terms of the New Credit Facilities, upon the request of Covanta Energy, and subject to the satisfaction of certain conditions set forth in the New Credit Facilities, up to $400 million in additional term loan facilities and/or the revolving credit facility and incremental funded letter of credit facilities up to an aggregate of $400 million may become available to Covanta Energy. See Description of Proposed New Credit Facilities. Although the terms of Covanta Energy s existing credit facilities contain, and the terms of the New Credit Facilities are expected to contain, restrictions on the incurrence of additional indebtedness by Covanta Energy and certain of its subsidiaries, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, indebtedness incurred in compliance with these restrictions could be substantial. If new indebtedness is added to our current or anticipated indebtedness levels, the substantial risks described above would intensify. Our ability to recapitalize, incur additional debt, secure existing or future debt, and take a number of other actions that are not limited by the terms of the indenture for the Debentures could have the effect of diminishing our ability to make payments on the Debentures when due.

The terms of the Debentures will not contain restrictive covenants and provide only limited protection in the event of a change of control.

The indenture under which the Debentures will be issued will not contain restrictive covenants that would protect you from several kinds of transactions that may adversely affect you. In particular, the indenture will not contain covenants that will limit our ability to pay dividends or make distributions on or redeem our capital stock or limit our ability to incur additional indebtedness. Therefore, the indenture may not protect you in the event of a highly leveraged transaction or other similar transaction. The requirement that we offer to repurchase the Debentures upon a change of control of Covanta is limited to the transactions specified in the definition of a fundamental change under Description of the Debentures Repurchase at the Option of the Holder Fundamental Change Put. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us would not constitute a fundamental change requiring us to repurchase the Debentures. Similarly, the circumstances under which we are required to increase the conversion rate upon the occurrence of a non-stock change of control are limited to circumstances where the

Table of Contents

Debentures are converted in connection with such a transaction as set forth under Description of the Debentures Conversion Procedures Adjustment to Conversion Rate Upon a Non-Stock Change of Control. Accordingly, subject to restrictions contained in our other debt agreements, we could enter into certain transactions that could increase the amounts of our indebtedness or otherwise affect our capital structure and the value of the Debentures and our common stock but would not constitute a fundamental change under the indenture governing the Debentures.

We may not have sufficient funds necessary to settle conversion of the Debentures or to repurchase the Debentures for cash when required by the holders, including following a fundamental change.

Upon conversion of the Debentures, we will be required to pay a conversion settlement amount in cash and shares of our common stock, if any, based upon a period of 20 settlement period trading days. In addition, holders of the Debentures will have the right to require us to repurchase all or a portion of their Debentures on February 1, 2012, February 1, 2017 and February 1, 2022 or upon the occurrence of a fundamental change prior to maturity for cash as described under Description of the Debentures Repurchase at the Option of the Holder Optional Put and Fundamental Change Put. Our ability to satisfy our conversion obligations or to repurchase the Debentures in cash may be limited by law or the terms of Covanta Energy s existing credit facilities until such time as Covanta Energy is successful in refinancing its existing credit facilities or until it receives appropriate consents from the lenders thereunder. Under the proposed terms of the New Credit Facilities, we may be subject to a similar restriction. In addition, any fundamental change would constitute a default under Covanta Energy s existing credit facilities and is expected to constitute a default under the New Credit Facilities. Therefore, upon the occurrence of a fundamental change, the lenders under Covanta Energy s existing credit facilities or the New Credit Facilities, as the case may be, would have the right to accelerate their loans, and Covanta Energy would be required to prepay all of its outstanding obligations under its existing credit facilities or the New Credit Facilities. We may not have sufficient funds to pay the conversion settlement amount or the required repurchase price in cash at such time or the ability to arrange necessary financing on acceptable terms. If we fail to pay the conversion settlement amount upon conversion or repurchase the Debentures in cash as required by the indenture governing the Debentures, it would constitute an event of default under the indenture governing the Debentures.

The Debentures will be effectively junior to any of our existing and future secured indebtedness.

The Debentures will be our unsecured obligations and therefore will be effectively junior to our existing and future secured indebtedness, including our guarantee of indebtedness under Covanta Energy s existing credit facilities, or, if closed, the New Credit Facilities, to the extent of the value of the assets securing such indebtedness. Further, the Debentures do not restrict us from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment. As a result, in the event of our bankruptcy, liquidation, dissolution, reorganization, or similar proceeding, our assets will be available to satisfy obligations of our secured indebtedness before any payment may be made on the Debentures. To the extent that such assets cannot satisfy in full our secured indebtedness, the holders of such indebtedness would have a claim for any shortfall that would rank equally in right of payment with the Debentures. In such an event, we may not have sufficient assets remaining to pay amounts on any or all of the Debentures.

The adjustment to the conversion rate upon the occurrence of specified types of fundamental changes may not adequately compensate you.

If specified types of fundamental changes occur on or prior to the date when the Debentures may be redeemed by us, we will increase the conversion rate by a number of additional shares of our common stock for Debentures converted in connection with such specified fundamental changes unless the price paid per share of our common stock in the fundamental change is less than $ or more than $ (subject to adjustment). A description of how the increase in the conversion rate will be determined is set forth under the Description of the Debentures Conversion Procedures

Adjustment to Conversion Rate Upon A Non-Stock Change of Control section. Although this increase in the conversion rate is designed to compensate you for the lost value of your Debentures as a result of certain types of fundamental changes, it may not adequately compensate you for such loss. Furthermore, our obligation to increase the conversion rate in connection with any such specified fundamental changes could be considered a penalty, in which case the enforceability thereof would be subject to general principles of economic remedies.

There is currently no public market for the Debentures, and an active trading market may not develop for the Debentures. The failure of a market to develop for the Debentures could adversely affect the liquidity and value of your Debentures.

The Debentures are a new issue of securities for which there is currently no active trading market. We do not intend to apply for listing of the Debentures on any securities exchange or for quotation of the Debentures on any automated dealer quotation system. We have been advised by the underwriters that following the completion of this offering, certain of the underwriters intend to make a market in the Debentures. However, they are not obligated to do so and any market-making activities with respect to the Debentures may be discontinued by them at any time without notice. In addition, any market-making activity will be subject to limits imposed by law. A market may not develop for the Debentures, and there can be no assurance as to the liquidity of any market that may develop for the Debentures. If an active, liquid market does not develop for the Debentures, the market price and liquidity of the Debentures may be adversely affected. If any of the Debentures are traded after their initial issuance, they may trade at a discount from their initial offering price.

The liquidity of the trading market, if any, and future trading prices of the Debentures will depend on many factors, including, among other things, the market price of our common stock, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the Debentures will be subject to disruptions which may have a negative effect on the holders of the Debentures, regardless of our operating results, financial performance or prospects.

The conditional conversion feature of the Debentures could result in your receiving less than the value of our common stock into which a Debenture would otherwise be convertible.

The Debentures are convertible only if specified conditions are met. If these conditions are not met, you will not be able to convert your Debentures, and you may not be able to receive the value of our common stock into which the Debentures would otherwise be convertible.

The value of consideration received by holders upon conversion of the Debentures under certain circumstances may be less than the conversion value of the Debentures on the conversion date.

Upon conversion, we will pay cash and deliver shares of our common stock, if any, equal to the sum of the daily settlement amounts for each day of the 20 settlement period trading days during the applicable conversion period. Accordingly, upon conversion of a Debenture, you may receive less proceeds than you expected because the value of our common stock may decline between the conversion date and the day the conversion settlement amount of your Debenture is determined. In addition, because of the 20 settlement period trading days, settlement will generally be delayed until at least the 26th trading day following the related conversion date. See Description of the Debentures Conversion Procedures Settlement Upon Conversion.

The conversion rate of the Debentures may not be adjusted for all dilutive events that may adversely affect the trading price of the Debentures or our common stock issuable upon conversion of the Debentures.

The conversion rate of the Debentures is subject to adjustment upon specified events, including the issuance of stock dividends on our common stock, the issuance of rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, cash dividends and issuer tender or exchange offers as described under Description of the Debentures Conversion Procedures Conversion Rate Adjustments. The conversion rate will not be adjusted for certain other events, such as a third party tender or

Table of Contents

exchange offer or an issuance of common stock for cash, that may adversely affect the trading price of the Debentures or our common stock issuable upon conversion of the Debentures.

The trading price of the Debentures will be directly affected by the trading price of our common stock, which is difficult to predict.

The trading price of our common stock could be affected by possible sales of our common stock by investors who view the Debentures as a more attractive means of equity participation in Covanta by hedging or arbitrage trading activity that may develop involving our common stock. This arbitrage could, in turn, affect the trading price of the Debentures.

If you hold the Debentures, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting our common stock. You will only be entitled to rights on our common stock if and when we deliver shares of our common stock to you upon conversion of your Debentures. For example, in the event that an amendment is proposed to our restated certificate of incorporation, as amended, or by-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to your conversion of Debentures, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences, or special rights of our common stock or other classes of capital stock.

Any adverse rating of the Debentures may cause the trading price of the Debentures to fall.

The Debentures have been rated BB− by Standard & Poor s Credit Market Services. We also expect to be rated by Moody s Investor Services, Inc. If these rating agencies do not rate us or reduce their ratings on the Debentures in the future or indicate that they have their ratings on the Debentures under surveillance or review with possible negative implications, the value of the Debentures could decline.

In addition, our current corporate credit has been rated BB− by Standard & Poor s. We also expect to be rated by Moody s. Any decline in the ratings of our corporate credit or any indications from the rating agencies that their ratings on our corporate credit are under surveillance or review with possible negative implications could adversely affect the value of the Debentures and the trading price of our common stock. In addition, a ratings downgrade could adversely affect our ability to access capital. Ratings on the Debentures are not a recommendation to buy the Debentures and such ratings may be withdrawn or changed at any time.

You should consider the United States federal income tax consequences of owning the Debentures.

We and each holder agree in the indenture to treat the Debentures as contingent payment debt instruments subject to the contingent payment debt regulations. As a result, you will be required to include amounts in income, as original issue discount, in advance of cash you receive on the Debentures, and to accrue interest on a constant yield to maturity basis at a rate comparable to the rate at which we would borrow in a fixed-rate, noncontingent, nonexchangeable borrowing (which we have determined to be %, compounded semi-annually), even though the Debentures will have a lower yield to maturity for non-tax purposes. You will recognize taxable income significantly in excess of cash received while the Debentures are outstanding. In addition, you will recognize ordinary income, if any, upon a sale, exchange or redemption of the Debentures at a gain. You are urged to consult your own tax advisors as to the United States federal, state, local and foreign consequences of acquiring, owning and disposing of the Debentures and shares of our common stock. See Certain United States Federal Income Tax Considerations.

If we pay a cash dividend on our common stock, you may be deemed to have received a taxable dividend without the receipt of any cash.

If we pay a cash dividend on our common stock, an adjustment to the conversion rate may result, and you may be deemed to have received a taxable dividend subject to United States federal income tax without the receipt of any cash. If you are a non-U.S. holder (as defined in Certain United States Federal Income Tax Considerations), such deemed dividend may be subject to United States federal withholding tax at a 30% rate or such lower rate as may be specified by an applicable treaty. See Certain United States Federal Income Tax Considerations.

The market price of our common stock, and therefore of the Debentures, may fluctuate significantly, and this may make it difficult for you to resell the Debentures or our common stock issuable upon conversion of the Debentures when you want or at prices you find attractive.

The price of our common stock on the NYSE constantly changes. We expect that the market price of our common stock will continue to fluctuate. In addition, because the Debentures are convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the Debentures. Consequently, there can be no assurance as to the liquidity of an investment in our common stock or the Debentures or as to the price you may realize upon the sale of our common stock.

The market price of our common stock may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- changes in the waste and energy market conditions;
- quarterly variations in our operating results;
- our operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in the economy and the financial markets;
- departures of key personnel;
- changes in governmental regulations; and
- geopolitical conditions, such as acts or threats of terrorism or military conflicts.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating results.

Future issuances of our common stock, including conversion of the Debentures, will dilute the ownership interests of stockholders and may adversely affect the trading price of our common stock.

Except as described under the Underwriting section, we are not restricted from issuing additional shares of our common stock, or securities convertible into or exchangeable for our common stock, during the life of the Debentures and have no obligation to consider your interests for any reason. Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could materially and adversely affect prevailing trading prices of our common stock and, in turn, the trading price of the Debentures. In addition, the conversion of some or all of the Debentures will dilute the ownership interests of our existing stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Debentures may encourage short selling by market participants because the conversion of the Debentures could depress the trading price of our common stock.

Table of Contents

We will have broad discretion as to the use of the proceeds of this offering.

Subject to certain plans and limitations as described under the Use of Proceeds section, we will have significant flexibility in allocating the net proceeds of this offering. In the event that we are unsuccessful in refinancing indebtedness under Covanta Energy s existing credit facilities with the New Credit Facilities, then we would be prohibited by the terms of such credit facilities from repurchasing the Outstanding Notes. In that case, the net proceeds from this offering and the concurrent offering of our common stock, if successful, would be used for general corporate purposes, which may include construction of new facilities, expansions of existing facilities or possible permitted investments or acquisitions or repurchase or redemption of any of the MSW I Notes or MSW II Notes if we are successful in obtaining waivers from Covanta Energy s current lenders. If we fail to spend these funds effectively, it could harm our financial condition and result in lost business opportunities.

Provisions of the Debentures could discourage an acquisition of Covanta by a third party.

Certain provisions of the Debentures could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, the holders of the Debentures will have the right to require us to repurchase their Debentures. We may also be required to issue additional shares upon conversion or provide for conversion based on the acquirer s capital stock in the event of certain fundamental changes. These possibilities could discourage an acquisition of us.

Concentrated stock ownership may discourage unsolicited acquisition proposals.

As of November 22, 2006, SZ Investments, L.L.C., together with its affiliate, EGI-Fund (05-07) Investors, L.L.C., referred to 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 as Third Avenue, and D. E. Shaw Laminar Portfolios, L.L.C., referred to as Laminar, separately own approximately 15.71%, 5.97% and 9.9%, respectively, or when aggregated, approximately 31.6% of our outstanding common stock. 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 our common stock could have the effect of discouraging or impeding an unsolicited acquisition proposal.

Further, as a result, these stockholders may continue to have the ability to influence the election or removal of our directors and influence the outcome of matters presented for approval by our stockholders. Circumstances may occur in which the interests of these stockholders could be in conflict with the holders of the Debentures.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of our restated certificate of incorporation, as amended, and bylaws could make it more difficult for a third party to acquire control of us. For example, our restated certificate of incorporation authorizes our board of directors to issue preferred stock without requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders.

Specific Risks Relating to Our Business

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

Our NOLs will expire in various amounts, if not used, between 2007 and 2023. The Internal Revenue Service, referred to in this prospectus supplement 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

Table of Contents

obligations to Covanta Energy under a tax sharing agreement, or to pay taxes that may be due from our consolidated tax group. The loss of a significant portion of NOLs could also trigger an event of default under Covanta Energy s existing credit facilities.

As of December 31, 2005, we estimated that we had approximately $489 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 reorganization in 1990 of certain of our subsidiaries engaged in the insurance business and are administered by state regulatory agencies. As a result of uncertainty regarding the administration of certain of these grantor trusts during June 2006, we reduced the aggregate amount of our available NOLs by $46 million. During or at the conclusion of the administration of these grantor trusts, taxable income could result, which could utilize a portion of our NOLs and, in turn, could accelerate the date on which we may be otherwise obligated to pay incremental cash taxes.

In addition, if our existing insurance business were to require capital infusions from us in order to meet certain regulatory capital requirements, and we were 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. In such event, there may be a significant inclusion of taxable income in our federal consolidated income tax return.

Covanta Energy s debt agreements contain covenant restrictions that may limit our ability to operate our business.

Covanta Energy s existing credit facilities contain, Covanta Energy s New Credit Facilities are expected to contain, and any of our other future debt agreements may contain covenants that impose significant operating and financial restrictions on Covanta Energy and certain of its subsidiaries and require Covanta Energy to meet certain financial tests. Complying with these covenant restrictions may have a negative impact on our business, results of operations and financial condition by limiting our ability to engage in certain transactions or activities, including:

- incurring additional indebtedness or issuing guarantees;
- creating liens;
- making certain investments;
- entering into transactions with our affiliates;
- selling certain assets;
- redeeming capital stock or making other restricted payments;
- declaring or paying dividends or making other distributions to stockholders; and
- merging or consolidating with any person.

Covanta Energy s ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, the failure to comply with these covenants in Covanta Energy s existing credit facilities or in the New Credit Facilities could result in a default thereunder and a default under the Debentures. Upon the occurrence of such an event of default, the lenders under Covanta Energy s existing credit facilities or in the New Credit Facilities could elect to declare all amounts outstanding under such agreement, together with accrued interest, to be immediately due and payable. If the lenders accelerate the payment of the indebtedness under Covanta Energy s existing credit facilities or the New Credit Facilities, we cannot assure you that the assets securing such indebtedness would be sufficient to repay in full that indebtedness and our other indebtedness, including the Debentures.

Operation of our facilities and the expansion of facilities involve significant risks.

The operation of our waste and energy 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 business or operations. These risks, if they were to occur, could prevent Covanta Energy and its subsidiaries from meeting their obligations under their operating contracts.

A failure to identify suitable acquisition candidates and to complete acquisitions could have an adverse effect on our business strategy and growth plans.

As part of our business strategy, we intend to continue to pursue acquisitions of complementary businesses. Although we regularly evaluate acquisition opportunities, we may not be able successfully to identify suitable acquisition candidates; to obtain sufficient financing on acceptable terms to fund acquisitions; or to complete acquisitions.

The rapid growth of our operations could strain our resources and cause our business to suffer.

We have experienced rapid growth and intend to further grow our business. This growth has placed, and potential future growth will continue to place, a strain on our management systems, infrastructure and resources. Our ability to successfully offer services and implement our business plan in a rapidly evolving market requires an effective planning and management process. We expect that we will need to continue to improve our financial and managerial controls, reporting systems and procedures. We will also need to expand, train and manage our workforce worldwide. Furthermore, we expect that we will be required to manage an increasing number of relationships with various customers and other third parties. Failure to expand in any of the foregoing areas efficiently and effectively could interfere with the growth of our business as a whole.

Table of Contents

Our efforts to grow our business will require us to incur significant costs in business development, often over extended periods of time, with no guarantee of success.

Our efforts to grow our waste and energy business will depend in part on how successful we are in developing new projects and expanding existing projects. The development period for each project may occur over several years, during which we incur substantial expenses relating to siting, design, permitting, community relations, financing and professional fees associated with all of the foregoing. Not all of our development efforts will be successful, and we may decide to cease developing a project for a variety of reasons. If the cessation of our development efforts were to occur at an advanced stage of development, we may have incurred a material amount of expenses for which we will realize no return.

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

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

Covanta Energy and certain of its subsidiaries have issued or are party to performance guarantees and related contractual obligations associated with its energy-from-waste, renewable energy, independent power and water facilities. With respect to its domestic businesses, Covanta Energy and certain of its subsidiaries have issued guarantees to its municipal clients and other parties that Covanta Energy s 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 Covanta Energy s subsidiaries have contracts to operate and maintain energy-from-waste 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 Energy and certain of its subsidiaries could be material, and in circumstances where one or more

Table of Contents

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 Covanta Energy s owned energy-from-waste facilities could expose Covanta Energy to recourse liability on project debt. Covanta Energy 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 Energy and such subsidiaries will be able to continue to avoid incurring material payment obligations under such guarantees or that, if Covanta Energy did incur such obligations, that Covanta Energy would have the cash resources to pay them.

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

Covanta Energy s subsidiaries must satisfy performance and other obligations under contracts governing energy-from-waste facilities. These contracts typically require Covanta Energy 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 Energy s subsidiaries to satisfy these criteria may subject them to termination of their respective operating contracts. If such a termination were to occur, Covanta Energy s subsidiaries would lose the cash flow related to the projects and incur material termination damage liability, which may be guaranteed by Covanta Energy or certain of its subsidiaries. In circumstances where the contract of one or more subsidiaries has been terminated due to the default of one of Covanta Energy s subsidiaries they may not have sufficient sources of cash to pay such damages. We cannot assure you that Covanta Energy 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 Energy and certain of its subsidiaries have provided guarantees and support in connection with its subsidiaries projects.

Covanta Energy 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 obligations to pay lease payment installments in connection with three 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 Energy may face increased risk of market influences on its domestic revenues after its contracts expire.

Covanta Energy s contracts to operate energy-from-waste projects expire on various dates between 2008 and 2023, and our contracts to sell energy output generally expire when the project s operating contract expires. Expiration of these contracts will subject Covanta Energy to greater market risk in entering into new or replacement contracts at pricing levels which will generate comparable or enhanced revenues. As its operating contracts at municipally-owned projects approach expiration, Covanta Energy will seek to enter into renewal or replacement contracts to continue operating such projects. However, we cannot assure you that Covanta Energy will be able to enter into renewal or replacement contracts on terms favorable to it, or at all. Covanta Energy 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 Energy 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 Energy to effect extensions of existing operating contracts along with facility expansions. Such extensions and expansions are currently being considered at a limited number of our facilities in conjunction with Covanta Energy s clients. If Covanta Energy is unable to reach agreement with its municipal clients on the terms under which they 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 our cash flow and profitability. We cannot assure you that Covanta Energy 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 businesses depend on performance by third parties under contractual arrangements.

Our waste and energy businesses depend on a limited number of third parties to, among other things, purchase the electric and steam energy produced by our 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 businesses or other parties to the contracts, or due to force majeure events or changes in laws or regulations, our 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 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 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. For example, our 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 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 businesses.

In addition, for their energy-from-waste facilities, our subsidiaries rely on their municipal clients as a source not only of waste for fuel but also of revenue from the 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 business is subject to pricing fluctuations caused by the waste disposal and energy markets.

While our businesses sell the majority of their waste disposal capacity and energy output pursuant to long-term contracts, a material portion of this capacity and output is subject to market price fluctuation. Consequently, our operating results may be adversely affected by fluctuations in waste disposal and energy prices.

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

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

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

Eight of our 31 energy-from-waste facilities receive 100% of the energy revenues they generate. As a result, if we are unable to operate these facilities at their historical performance levels for any reason, our revenues from energy sales could materially decrease.

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

Our international operations expose us 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 us of a foreign project.

Our projected cash distributions from existing international facilities come 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;
- expropriation and confiscation of assets and facilities; and
- credit quality of entities that purchases our power.

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

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

Exposure to foreign currency fluctuations may affect our costs of operations.

We participate in projects exclusively 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 our costs and results of operations for our international projects.

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

The market prices and availability of fuel supplies for some of our international facilities fluctuate. Any price increase, delivery disruption or reduction in the availability of such supplies could affect our ability to operate the facilities and impair their cash flow and profitability. We may be subject to further exposure if any of our future international 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 energy-from-waste facilities depend on solid waste for fuel, which provides a source of revenue. For most of our facilities, the prices we 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 energy-from-waste facilities, the availability of solid waste to us, as well as the tipping fee that we must charge to attract solid waste to our facilities, depends upon competition from a number of sources such as other energy-from-waste 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 energy-from-waste 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 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 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 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. Certain environmental laws make us potentially liable on a joint and several basis for the remediation of contamination at or emanating from properties or facilities we currently or formerly owned or operated or properties to which we arranged for the disposal of hazardous substances. Such liability is not limited to the cleanup of contamination we actually caused. Although we seek to obtain indemnities against liabilities relating to historical contamination at the facilities we own or operate, we cannot provide any assurance that we will not incur liability relating to the remediation of contamination, including contamination we did not cause.

Our 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.

Energy regulation could adversely affect our revenues and costs of operations.

Our waste and energy businesses are subject to extensive energy regulations by federal, state and foreign authorities. We cannot predict whether the federal, state or foreign governments will modify or adopt new legislation or regulations relating to the solid waste or energy industries. 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 (other than our facilities with net power production capacities in excess of 30MW) are exempt from most provisions of the FPA and state rate regulation. Our foreign projects are also exempt from regulation under the FPA.

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

If our businesses lose existing exemptions under 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, 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 businesses are continually in the process of obtaining or renewing federal, state and local approvals required to operate our facilities. While our 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 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 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.

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. 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.

Our reputation could be adversely affected if opposition to our efforts to grow our business results in adverse publicity or our businesses were to fail to comply with United States or foreign laws or regulations.

With respect to our efforts to renew our contracts and grow our waste and energy business both domestically and internationally, we sometimes experience opposition from advocacy groups or others intended to halt a development effort or other opportunity we may be pursuing. Such opposition is often intended to discourage third parties from doing business with us and may be based on inaccurate, incomplete or inflammatory assertions. We cannot provide any assurance that our reputation would not be adversely affected as a result of adverse publicity resulting from such opposition. Some of our projects and new business may be conducted in countries where corruption has historically penetrated the economy to a greater extent than in the United States. It is our policy to comply, and to require our local partners and those with whom we do business to comply, with all applicable anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act and with applicable local laws of the foreign countries in which we operate. We cannot provide any assurance that our reputation would not be adversely affected if we were reported to be associated with corrupt practices or if we or our local partners failed to comply with such laws.

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

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

Table of Contents

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 may 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 discovered, and may potentially in the future discover, areas of internal control over financial reporting which may require improvement. 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.

FORWARD-LOOKING STATEMENTS

Cautionary Note Regarding Forward-Looking Statements

This prospectus supplement and the related prospectus and registration statement, including documents incorporated by reference therein, contain statements that may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, Section 21E of the Exchange Act, the Private Securities Litigation Reform Act of 1995, referred to as the PSLRA in this prospectus supplement, 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 facts 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, would, could, 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 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 our businesses described in the Risk Factors section in this prospectus supplement and in registration statements and other filings with the SEC made by us and our subsidiaries.

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 our 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 supplement and related 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.

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the periods indicated. For purposes of computing the ratio of earnings to fixed charges, earnings consist of income (loss) before income tax expense, minority interests and equity in net income (loss) from unconsolidated investments plus fixed charges and fixed charges consists of interest expense and imputed interest for operating leases.

Pro Forma Nine Months Ended September 30, 2006	Pro Forma Year Ended December 31, 2005	Nine Months Ended September 30, 2006	Year Ended December 31, 2005	2004	2003	2002	2001
2.33(1)	2.29(1)	1.70	1.49	1.41	(2)	(3)	(4)

(1) The pro forma ratio of earnings to fixed charges assumes, as of January 1, 2005, the issuance of the Debentures, the closing of the New Credit Facilities and the repurchase of all of the Outstanding Notes. See Use of Proceeds for a discussion of the status of the New Credit Facilities.

(2) For the year ended December 31, 2003, were insufficient to cover fixed charges by $14.3 million.

(3) For the year ended December 31, 2002, earnings were insufficient to cover fixed charges by $27.0 million.

(4) For the fiscal year ended December 31, 2001, there were no fixed charges.

Table of Contents

USE OF PROCEEDS

We estimate that our net proceeds from this offering will be approximately $315.9 million, after deducting the underwriting discounts and commissions and estimated offering expenses totaling $9.1 million ($363.4 million if the underwriters option to purchase additional Debentures is exercised in full). We estimate that our net proceeds from this offering, together with the estimated net proceeds from our concurrent offering of our common stock of $118.5 million ($136.3 million if the underwriters option to purchase additional shares of common stock is exercised in full), will be approximately $434.4 million ($499.7 million if the underwriters options to purchase additional Debentures and shares of our common stock are both exercised in full).

We expect to use the net proceeds from this offering, together with the net proceeds from our concurrent offering of our common stock, a portion of the borrowings under the New Credit Facilities and available cash on hand, to repurchase, pursuant to the tender offers or by redemptions, the Outstanding Notes issued by our subsidiaries, pay accrued and unpaid interest and related premiums thereon and pay related expenses thereto. The Outstanding Notes of our subsidiaries expected to be repurchased, with principal amounts as of September 30, 2006 reflected, consist of the following:

- $195.8 million in principal amount of 8.50% MSW I Notes;
- $224.1 million in principal amount of 7.375% MSW II Notes; and
- $211.6 million in principal amount of 6.26% ARC Notes.

Subsequent to September 30, 2006, we made scheduled repayments on the ARC Notes in the amount of $19.6 million. Therefore, the principal amount of the ARC Notes we intend to repurchase is $192.0 million.

Although we have had significant negotiations with possible lenders for the New Credit Facilities, Covanta Energy has not entered into any definitive agreements as of the date hereof. Consequently, we cannot assure you that we will be able to use the net proceeds from this offering in the manner described above. In the event that we are unsuccessful in refinancing indebtedness under Covanta Energy s existing credit facilities with the New Credit Facilities, then we would be prohibited by the terms of such credit facilities from repurchasing or redeeming any of the Outstanding Notes. In that case, the net proceeds from this offering and the concurrent common stock offering, if successful, would be used for general corporate purposes, which may include construction of new facilities, expansions of existing facilities, possible permitted investments or acquisitions, or if we receive waivers from the lenders under Covanta Energy s existing credit facilities the repurchase or redemption of the MSW I Notes and/or MSW II Notes. Although we examine various acquisition opportunities from time to time and may submit indications of interest, we do not have a binding agreement to acquire another business at this time. We may also elect to seek waivers from the lenders under Covanta Energy s existing credit facilities to the restriction on repurchasing, pursuant to the tender offers or by redemption, the MSW I Notes and the MSW II Notes, which have higher interest rates and earlier due dates than the ARC Notes. If we obtain waivers from the lenders under Covanta Energy s existing credit facilities, but our concurrent offering of common stock is not consummated, we may repurchase, pursuant to a tender offer or by redemption, the MSW I Notes. We cannot assure you that in such situations the tender offers will be subscribed for in any amount or that we will be successful in obtaining waivers from the lenders under Covanta Energy s existing credit facilities.

Table of Contents

PRICE RANGE OF OUR COMMON STOCK

Our common stock is listed on the NYSE under the symbol CVA. On January 18, 2007 there were approximately 1,054 holders of record of common stock. On January 18, 2007, the closing sale price of our common stock on the NYSE was $21.66 per share.

The following table sets forth the range of high and low composite prices of our common stock for the periods indicated. 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 NYSE Composite Tape with respect to dates on and after October 5, 2005. Effective as of the close of trading on October 4, 2005, we