COVANTA HOLDING CORP
Form 10-Q
April 23, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-06732

COVANTA HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	95-6021257
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

445 South Street, Morristown, NJ	07960
(Address of Principal Executive Office)	(Zip Code)

(862) 345-5000
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Applicable Only to Corporate Issuers:

Indicate the number of shares of the registrant's Common Stock outstanding as of the latest practicable date.

Class	Outstanding at April 17, 2015
Common Stock, $0.10 par value	133,651,837

COVANTA HOLDING CORPORATION AND SUBSIDIARIES
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended March 31, 2015

PART I. FINANCIAL INFORMATION

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q may constitute "forward-looking" statements as defined in Section 27A of the Securities Act of 1933 (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), the Private Securities Litigation Reform Act of 1995 (the "PSLRA") or in releases made by the Securities and Exchange Commission ("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 Covanta Holding Corporation and its subsidiaries ("Covanta") or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words "plan," "believe," "expect," "anticipate," "intend," "estimate," "project," "may," "will," "would," "could," "should," "seeks," or "sche 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, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the "safe harbor" provisions of such laws. Covanta cautions investors that any forward-looking statements made by us are not guarantees or indicative of future performance. Important factors, risks and uncertainties that could cause actual results to differ materially from those forward-looking statements include, but are not limited to:

- seasonal or long-term fluctuations in the prices of energy, waste disposal, scrap metal and commodities;
- our ability to renew or replace expiring contracts at comparable prices and with other acceptable terms;
- adoption of new laws and regulations in the United States and abroad, including energy laws, environmental laws, labor laws and healthcare laws;
- our ability to utilize net operating loss carryforwards;
- failure to maintain historical performance levels at our facilities and our ability to retain the rights to operate facilities we do not own;
- our ability to avoid adverse publicity relating to our business;
- advances in technology;
- difficulties in the operation of our facilities, including fuel supply and energy delivery interruptions, failure to obtain regulatory approvals, equipment failures, labor disputes and work stoppages, and weather interference and catastrophic events;
- difficulties in the financing, development and construction of new projects and expansions, including increased construction costs and delays;
- limits of insurance coverage;
- our ability to avoid defaults under our long-term contracts;
- performance of third parties under our contracts and such third parties' observance of laws and regulations;
- concentration of suppliers and customers;
- geographic concentration of facilities;
- increased competitiveness in the energy and waste industries;
- changes in foreign currency exchange rates;
- limitations imposed by our existing indebtedness and our ability to perform our financial obligations and guarantees and to refinance our existing indebtedness;
- exposure to counterparty credit risk and instability of financial institutions in connection with financing transactions;
- the scalability of our business;
- restrictions in our certificate of incorporation and debt documents regarding strategic alternatives;
- failures of disclosure controls and procedures and internal controls over financial reporting;
- our ability to attract and retain talented people;
- general economic conditions in the United States and abroad, including the availability of credit and debt financing; and
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other risks and uncertainties affecting our businesses described in Item 1A. Risk Factors of Covanta's Annual Report on Form 10-K for the year ended December 31, 2014 and in other filings by Covanta with the SEC.

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 Quarterly Report on Form 10-Q are made only as of the date hereof and we do not have, or undertake, any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2015	2014
	(Unaudited) (In millions, except per share amounts)	
OPERATING REVENUES:		
Waste and service revenues	$246	$241
Recycled metals revenues	16	21
Energy revenues	112	120
Other operating revenues	9	19
Total operating revenues	383	401
OPERATING EXPENSES:		
Plant operating expenses	289	282
Other operating expenses	11	18
General and administrative expenses	28	21
Depreciation and amortization expense	48	53
Net interest expense on project debt	2	3
Net write-off	—	9
Total operating expenses	378	386
Operating income	5	15
Other expenses:		
Interest expense	(33)	(29)
Non-cash convertible debt related expense	—	(8)
Loss on extinguishment of debt	—	(2)
Other expense, net	(2)	—
Total other expenses	(35)	(39)
Loss before income tax (expense) benefit and equity in net income from unconsolidated investments	(30)	(24)
Income tax (expense) benefit	(10)	14
Equity in net income from unconsolidated investments	3	1
NET LOSS ATTRIBUTABLE TO COVANTA HOLDING CORPORATION	$(37)	$(9)
Weighted Average Common Shares Outstanding:		
Basic	132	129
Diluted	132	129
Loss Per Share:		
Basic	$(0.28)	$(0.07)
Diluted	$(0.28)	$(0.07)
Cash Dividend Declared Per Share:	$0.25	$0.18

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31,	
	2015	2014
	(Unaudited) (In millions)	
Net loss	$(37)	$(9)
Foreign currency translation	(13)	(3)
Net unrealized loss on derivative instruments, net of tax benefit of $1 and $2, respectively	(7)	(4)
Other comprehensive loss attributable to Covanta Holding Corporation	(20)	(7)
Comprehensive loss attributable to Covanta Holding Corporation	$(57)	$(16)

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2015 (Unaudited)	December 31, 2014
	(In millions, except per share amounts)	
ASSETS		
Current:		
Cash and cash equivalents	$67	$91
Restricted funds held in trust	94	105
Receivables (less allowances of $6 and $6, respectively)	302	302
Deferred income taxes	65	29
Prepaid expenses and other current assets	102	104
Total Current Assets	630	631
Property, plant and equipment, net	2,605	2,653
Restricted funds held in trust	90	91
Waste, service and energy contracts, net	304	314
Other intangible assets, net	17	17
Goodwill	274	274
Investments in investees and joint ventures	48	46
Other assets	172	178
Total Assets	$4,140	$4,204
LIABILITIES AND EQUITY		
Current:		
Current portion of long-term debt	$6	$5
Current portion of project debt	40	40
Accounts payable	79	34
Accrued expenses and other current liabilities	278	310
Total Current Liabilities	403	389
Long-term debt	2,024	1,968
Project debt	193	207
Deferred income taxes	753	740
Waste and service contracts, net	18	19
Other liabilities	97	97
Total Liabilities	3,488	3,420
Commitments and Contingencies (Note 12)		
Equity:		
Covanta Holding Corporation stockholders equity:		
Preferred stock ($0.10 par value; authorized 10 shares; none issued and outstanding)	—	—
Common stock ($0.10 par value; authorized 250 shares; issued 136 and 136 shares, respectively; outstanding 133 and 133 shares, respectively)	14	14
Additional paid-in capital	808	805
Accumulated other comprehensive loss	(42)	(22)
Accumulated deficit	(130)	(15)
Total Covanta Holding Corporation stockholders equity	650	782
Noncontrolling interests in subsidiaries	2	2

Total Equity	652	784
Total Liabilities and Equity	$4,140	$4,204

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2015	2014
	(Unaudited, in millions)	
OPERATING ACTIVITIES:		
Net loss	$(37)	$(9)
Adjustments to reconcile net loss to net cash provided by operating activities from continuing operations:		
Depreciation and amortization expense	48	53
Amortization of long-term debt deferred financing costs	2	2
Net write-off	—	9
Loss on extinguishment of debt	—	2
Non-cash convertible debt related expense	—	8
Stock-based compensation expense	8	4
Equity in net income from unconsolidated investments	(3)	(1)
Dividends from unconsolidated investments	1	—
Deferred income taxes	10	(8)
Other, net	(4)	(1)
Change in restricted funds held in trust	1	—
Change in working capital	16	43
Total adjustments for continuing operations	79	111
Net cash provided by operating activities from continuing operations	42	102
Net cash provided by operating activities from discontinued operations	—	1
Net cash provided by operating activities	42	103
INVESTING ACTIVITIES:		
Proceeds from the sale of investment securities	—	2
Purchase of investment securities	—	(2)
Purchase of property, plant and equipment	(86)	(72)
Change in restricted funds held in trust	4	—
Other, net	(1)	(1)
Net cash used in investing activities from continuing operations	(83)	(73)
Net cash provided by investing activities from discontinued operations	—	—
Net cash used in investing activities	(83)	(73)
FINANCING ACTIVITIES:		
Proceeds from borrowings on long-term debt	—	400
Proceeds from borrowings on revolving credit facility	167	5
Proceeds from equipment financing capital lease	9	—
Principal payments on long-term debt	—	(95)
Payments of borrowings on revolving credit facility	(118)	(115)
Payment of equipment financing capital lease	(1)	—
Principal payments on project debt	(10)	(9)
Payment of deferred financing costs	(3)	(10)
Cash dividends paid to stockholders	(33)	(22)
Change in restricted funds held in trust	3	2
Other, net	6	7
Net cash provided by financing activities from continuing operations	20	163

Net cash used in financing activities from discontinued operations	—	(2)
Net cash provided by financing activities	20	161
Effect of exchange rate changes on cash and cash equivalents	(3)	(1)
Net (decrease) increase in cash and cash equivalents	(24)	190
Cash and cash equivalents at beginning of period	91	200
Cash and cash equivalents at end of period	67	390
Less: Cash and cash equivalents of assets held for sale and discontinued operations at end of period	—	3
Cash and cash equivalents of continuing operations at end of period	$67	$387

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

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

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

Organization

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

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity and/or steam, generally under contracts, as well as from the sale of metal recovered during the EfW process. We process approximately 20 million tons of solid waste annually. We operate and/or have ownership positions in 45 energy-from-waste facilities, which are primarily located in North America, and 11 other energy generation facilities, primarily consisting of renewable energy production facilities in North America (wood biomass and hydroelectric). In total, these assets produce approximately 10 million megawatt hours (“MWh”) of baseload electricity annually. We also operate a waste management infrastructure that is complementary to our core EfW business.

We have one reportable segment, North America, which is comprised of waste and energy services operations located primarily in the United States and Canada. We are currently constructing an energy-from-waste facility in Dublin, Ireland, which we own and will operate upon completion. We hold equity interests in EfW facilities in China and Italy. For additional information, see Note 5. Financial Information by Business Segments.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete condensed consolidated financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for fair presentation have been included in our condensed consolidated financial statements. All intra-entity accounts and transactions have been eliminated. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015. This Form 10-Q should be read in conjunction with the Audited Consolidated Financial Statements and accompanying Notes in our Annual Report on Form 10-K for the year ended December 31, 2014 (“Form 10-K”).

We use the equity method to account for our investments for which we have the ability to exercise significant influence over the operating and financial policies of the investee. Consolidated net income includes our proportionate share of the net income or loss of these companies. Such amounts are classified as “equity in net income from unconsolidated investments” in our condensed consolidated financial statements. Investments in companies in which we do not have the ability to exercise significant influence are carried at the lower of cost or estimated realizable value. We monitor investments for other-than-temporary declines in value and make reductions when appropriate.

Reclassification

During the quarter ended March 31, 2015, certain amounts have been reclassified in our prior period condensed consolidated statement of operations to conform to current year presentation and such amounts were not material to current and prior periods.

Change in Accounting Principle

Effective January 1, 2015, we were required to adopt guidance concerning service concession arrangements. The amendment applies to an operating entity of a service concession arrangement entered into with a public-sector entity grantor when the arrangement meets certain conditions. The amendments specify that such an arrangement may not be accounted for as a lease nor should the infrastructure used in a service concession arrangement be recognized as property, plant and equipment by the operating entity. Instead, the operating entity should refer to other guidance to account for the arrangement, such as Topic 605 of the Accounting Standard Codification - Revenue Recognition. We adopted this guidance using a modified retrospective approach which requires the cumulative effect of applying this guidance to arrangements existing at the beginning of the period of adoption be recognized as an adjustment to retained earnings. As a result, accumulated deficit as of January 1, 2015 as originally reported of $15 million increased by $45 million ($75 million reduction of property, plant and equipment, net of tax of $30 million) to $60 million.

The adoption of this guidance had the following effect on our condensed consolidated statement of operations for the three months ended March 31, 2015 (in millions, except per share amount):

	Increase (Decrease)
Plant operating expenses	$8
Depreciation and amortization	$(5)
Income tax expense	$(1)
Net loss attributable to Covanta Holding Corporation	$2
Basic and Diluted loss per share	$0.01

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board ("FASB") issued guidance to simplify the accounting for cloud computing arrangements. The amendments in this update requires that if a cloud computing arrangement includes a software license, then a customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. We are required to adopt this standard in the first quarter of fiscal 2016 and early adoption is permitted. We are currently evaluating the impact of adopting this guidance on our condensed consolidated financial statements.

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. The amendments in the update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of the debt. Recognition and measurement of debt issuance costs were not affected by this amendment. We are required to adopt this standard in the first quarter of fiscal 2016 on a retrospective basis and early adoption is permitted. We plan to adopt this standard in the first quarter of 2016. As of March 31, 2015, debt issuance costs included in current assets and noncurrent assets on our condensed consolidated balance sheet totaled $5 million and $46 million, respectively, which, upon adoption of this guidance, would be reclassified against the corresponding carrying amount of our long-term debt and project debt.

In February 2015, the FASB issued updated guidance to improve the existing consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. The amendment simplifies consolidation accounting by reducing the number of consolidation models that a reporting entity may apply. The amendments in this update are to be applied on a modified retrospective basis by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. We are required to adopt this standard in the first quarter of fiscal 2016 and early adoption is permitted. We are currently evaluating the impact of adopting this guidance on our condensed consolidated financial statements.

In November 2014, the FASB issued updated guidance related to derivatives and hedging, specifically, to determine whether the host contract in a hybrid financial instrument issued in the form of a share is more akin to debt or equity. The amendment clarifies how an entity should apply current standards to determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. The amendments in this update are to be applied on a modified retrospective basis and are required to be adopted in the first quarter of fiscal 2016 and early adoption is permitted. We are currently evaluating the impact of adopting this guidance on our condensed consolidated financial statements.

In May 2014, the FASB issued amended guidance for recognizing revenue which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The core principle of this update is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. Further, the guidance requires disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. We are required to adopt this standard in the first quarter of fiscal 2017. Early adoption is not permitted. The amended guidance permits the initial application to be applied either retrospectively to each prior reporting period presented, or retrospectively with a cumulative effect adjustment made at the date of initial application. We are currently evaluating the impact of adopting this guidance on our condensed consolidated financial statements.

NOTE 3. BUSINESS DEVELOPMENT AND ORGANIC GROWTH

Durham-York EfW Facility

We are constructing a municipally-owned 140,000 tonne-per-year EfW facility located in the Durham Region of Canada. The facility began processing waste in the first quarter of 2015 and is expected to be fully operational in the third quarter of 2015, after which we will operate the facility under a 20 year service fee contract.

New York City Waste Transport and Disposal Contract

In 2013, New York City's Department of Sanitation awarded us a contract to handle waste transport and disposal from two marine transfer stations located in Queens and Manhattan. Service for the Queens marine transfer station began in the first quarter of 2015 in a ramp up phase, with service for the Manhattan marine transfer station expected to follow pending notice to proceed to be issued by New York City. The contract is for 20 years, with options for New York City to extend the term for two additional five-year periods. In connection with this contract, we will invest in equipment and facility enhancements (including barges, railcars, containers, and intermodal equipment), the aggregate amount of which is expected to be approximately $140 million. Investments relating to service for the Queens transfer station commenced in 2013 and are expected to continue through the end of 2015. During the three months ended March 31, 2015 and for the twelve months ended December 31, 2014 and December 31, 2013, we invested $13 million, $59 million, $23 million, respectively, in property, plant and equipment relating to this contract.

Essex County Energy-from-Waste Facility

We are implementing significant operational improvements at our Essex County EfW facility, including a state-of-the-art particulate emissions control system, at a total estimated cost of approximately $90 million. Construction on the system commenced in 2014 and is expected to be completed by the end of 2016. Capital expenditures related to these improvements totaled approximately $8 million and $17 million during the three months ended March 31, 2015 and the twelve months ended December 31, 2014, respectively. The facility's environmental performance is currently compliant with all environmental permits and will be further improved with the installation of this equipment.

NOTE 4. EARNINGS PER SHARE (“EPS”) AND EQUITY

Earnings Per Share

Per share data is based on the weighted average number of outstanding shares of our common stock, par value $0.10 per share, during the relevant period. Basic earnings per share are calculated using only the weighted average number of outstanding shares of common stock. Diluted earnings per share computations, as calculated under the treasury stock method, include the weighted average number of shares of additional outstanding common stock issuable for stock options, restricted stock awards, restricted stock units and warrants whether or not currently exercisable. Diluted earnings per share for all of the periods presented does not include securities if their effect was anti-dilutive (in millions, except per share amounts).

	Three Months Ended March 31,	
	2015	2014
Net loss attributable to Covanta Holding Corporation	$(37)	$(9)
Basic loss per share:		
Weighted average basic common shares outstanding	132	129
Basic loss per share	$(0.28)	$(0.07)
Diluted loss per share:		
Weighted average basic common shares outstanding	132	129
Dilutive effect of stock options	—	—
Dilutive effect of restricted stock	—	—
Dilutive effect of restricted stock units	—	—
Dilutive effect of convertible securities	—	—
Dilutive effect of warrants	—	—
Weighted average diluted common shares outstanding	132	129

Diluted loss per share	$(0.28)	$(0.07)

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	Three Months Ended March 31,	
	2015	2014
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been anti-dilutive:		
Stock options	—	2
Restricted stock	—	1
Restricted stock units	1	—
Warrants	—	30

Equity

During the three months ended March 31, 2015, we granted awards of 513,219 shares of restricted stock and 316,397 restricted stock units. For information related to stock-based award plans, see Note 9. Stock-Based Compensation.

During the three months ended March 31, 2015, we withheld 239,495 shares of our common stock in connection with tax withholdings for vested stock awards.

Dividends declared to stockholders were as follows (in millions, except per share amounts):

	Three Months Ended March 31,	
	2015	2014
Cash dividend		
Declared	$33	$24
Per Share	$0.25	$0.18

NOTE 5. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

We have one reportable segment, North America, which is comprised of waste and energy services operations located primarily in the United States and Canada. The results of our reportable segment are as follows (in millions):

	North America	All Other (1)	Total
Three Months Ended March 31, 2015			
Operating revenues	$374	$9	$383
Depreciation and amortization expense	47	1	48
Operating income	5	—	5
Three Months Ended March 31, 2014			
Operating revenues	$391	$10	$401
Depreciation and amortization expense	52	1	53
Net write-off	9	—	9
Operating income	15	—	15

(1) For the three months ended March 31, 2015, All Other is comprised of the financial results of our international assets. For the three months ended March 31, 2014, All Other is comprised of the financial results of our international assets and our insurance subsidiaries' operations. Our insurance business was sold in the fourth quarter of 2014.

NOTE 6. CONSOLIDATED DEBT

Consolidated debt is as follows (in millions):

	As of March 31, 2015	December 31, 2014
LONG-TERM DEBT:		
Revolving Credit Facility expiring 2019	$194	$145
Term Loan due 2019	198	198
Debt discount related to Term Loan	(1)	(1)
Term Loan, net	197	197
Credit Facilities Sub-total	$391	$342
7.25% Senior Notes due 2020	$400	$400
6.375% Senior Notes due 2022	400	400
5.875% Senior Notes due 2024	400	400
Senior Notes Sub-total	$1,200	$1,200
4.00% - 5.25% Tax-Exempt Bonds due 2024 through 2042	$335	$335
Variable Rate Tax-Exempt Bonds due 2043	34	34
Tax-Exempt Bonds Sub-total	$369	$369
3.48% - 4.52% Equipment Financing Capital Leases due 2024 through 2026	$70	$62
Total long-term debt	$2,030	$1,973
Less: current portion	(6)	(5)
Noncurrent long-term debt	$2,024	$1,968
PROJECT DEBT:		
North America project debt:		
4.00% - 7.00% project debt related to Service Fee structures due 2015 through 2022	$129	$135
5.248% - 6.20% project debt related to Tip Fee structures due 2019 through 2020	29	29
Unamortized debt premium, net	1	1
Total North America project debt	159	165
Other project debt:		
Dublin Junior Term Loan due 2022	$55	$61
Debt discount related to Dublin Junior Term Loan	—	(1)
Dublin Junior Term Loan, net	55	60
China project debt	19	22
Total Other project debt	74	82
Total project debt	$233	$247
Less: Current portion, includes $0 and $2 of unamortized discount, respectively)	(40)	(40)
Noncurrent project debt	$193	$207
TOTAL CONSOLIDATED DEBT	$2,263	$2,220
Less: Current debt	(46)	(45)
TOTAL NONCURRENT CONSOLIDATED DEBT	$2,217	$2,175

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Credit Facilities

Our subsidiary, Covanta Energy, has senior secured credit facilities consisting of a $1.0 billion revolving credit facility expiring in 2019 (the “Revolving Credit Facility”) and a $198 million term loan due 2019 (the “Term Loan”) (collectively referred to as the "Credit Facilities").

The Revolving Credit Facility is available for the issuance of letters of credit up to the full amount of the facility, provides for a $50 million sub-limit for the issuance of swing line loans (a loan that can be requested in US Dollars on a same day basis for a short drawing period); and is available in US Dollars, Euros, Pounds Sterling, Canadian Dollars and certain other currencies to be agreed upon, in each case for either borrowings or for the issuance of letters of credit. The proceeds under the Revolving Credit Facility are available for working capital and general corporate purposes.

We have the option to establish additional term loan commitments and/or increase the size of the Revolving Credit Facility (collectively, the “Incremental Facilities”), subject to the satisfaction of certain conditions and obtaining sufficient lender commitments, in an amount up to the greater of $500 million and the amount that, after giving effect to the incurrence of such Incremental Facilities, would not result in a leverage ratio, as defined in the credit agreement governing our Credit Facilities (the “Credit Agreement”), exceeding 2.75:1.00.

Effective April 10, 2015, we amended and restated Covanta Energy’s Credit Facilities. For additional information see Note 13. Subsequent Events.

Availability under Revolving Credit Facility

As of March 31, 2015, we had availability under the Revolving Credit Facility as follows (in millions):

	Total Available Under Credit Facility	Expiring	Direct Borrowings as of March 31, 2015	Outstanding Letters of Credit as of March 31, 2015	Availability as of March 31, 2015
Revolving Credit Facility	$ 1,000	2019	$194	$227	$579

During the three months ended March 31, 2015, we borrowed and repaid $167 million and $118 million, respectively under the Revolving Credit Facility.

Repayment Terms

As of March 31, 2015, the Term Loan has mandatory amortization payments of $2 million in each of the years 2015 to 2018 and $190 million in 2019. The Credit Facilities are pre-payable at our option at any time.

Under certain circumstances, the Credit Facilities obligate us to apply 25% of our excess cash flow (as defined in the Credit Agreement) for each fiscal year commencing in 2013, as well as net cash proceeds from specified other sources, such as asset sales or insurance proceeds, to prepay the Term Loan, provided that this excess cash flow percentage shall be reduced to 0% in the event the Leverage Ratio (as defined below under Credit Agreement Covenants) is at or below 3.00:1.00.

Interest and Fees

Borrowings under the Credit Facilities bear interest, at our option, at either a base rate or a Eurodollar rate plus an applicable margin determined by a pricing grid, in the case of the Revolving Credit Facility, which is based on Covanta Energy’s leverage ratio. Base rate is defined as the higher of (i) the Federal Funds Effective Rate plus 0.50%, (ii) the rate the administrative agent announces from time to time as its per annum “prime rate” or (iii) the one-month LIBOR rate plus 1.00%. Eurodollar rate borrowings bear interest at the London Interbank Offered Rate, commonly referred to as “LIBOR”, or a comparable or successor rate, for the interest period selected by us. Base rate borrowings under the Revolving Credit Facility shall bear interest at the base rate plus an applicable margin ranging from 1.25% to 1.75%. Eurodollar borrowings under the Revolving Credit Facility shall bear interest at LIBOR plus an applicable margin ranging from 2.00% to 2.75%. Fees for issuances of letters of credit include fronting fees equal to 0.125% per annum and a participation fee for the lenders equal to the applicable interest margin for LIBOR rate borrowings. We will incur an unused commitment fee ranging from 0.375% to 0.50% on the unused amount of commitments under the Revolving Credit Facility. The Term Loan bears interest, at our option, at either (i) the base rate plus an applicable margin of 1.50%, or (ii) LIBOR plus an applicable margin of up to 2.50%, subject to a LIBOR floor of 0.75%.

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COVANTA HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Guarantees and Security

The Credit Facilities are guaranteed by us and by certain of our subsidiaries. The subsidiaries that are party to the Credit Facilities agreed to secure all of the obligations under the Credit Facilities by granting, for the benefit of secured parties, a first priority lien on substantially all of their assets, to the extent permitted by existing contractual obligations; a pledge of substantially all of the capital stock of each of our domestic subsidiaries and 65% of substantially all the capital stock of each of our foreign subsidiaries which are directly owned, in each case to the extent not otherwise pledged.

Credit Agreement Covenants

The loan documentation governing the Credit Facilities contains various affirmative and negative covenants, as well as financial maintenance covenants, that limit our ability to engage in certain types of transactions. We were in compliance with all of the affirmative and negative covenants under the Credit Facilities as of March 31, 2015.

The negative covenants of the Credit Facilities limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness (including guarantee obligations);
- create certain liens against or security interests over certain property;
- pay dividends on, redeem, or repurchase our capital stock or make other restricted junior payments;
- enter into agreements that restrict the ability of our subsidiaries to make distributions or other payments to us;
- make investments;
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis;
- dispose of certain assets; and
- make certain acquisitions.

The financial maintenance covenants of the Credit Facilities, which are measured on a trailing four quarter period basis, include the following:

- a maximum Leverage Ratio of 4.00 to 1.00 for the trailing four quarter period, which measures the principal amount of Covanta Energy's consolidated debt less certain restricted funds dedicated to repayment of project debt principal and construction costs ("Consolidated Adjusted Debt") to its adjusted earnings before interest, taxes, depreciation and amortization, as calculated in the Credit Agreement ("Adjusted EBITDA"). The definition of Adjusted EBITDA in the Credit Facilities excludes certain non-recurring and non-cash charges.
- a minimum Interest Coverage Ratio of 3.00 to 1.00, which measures Covanta Energy's Adjusted EBITDA to its consolidated interest expense plus certain interest expense of ours, to the extent paid by Covanta Energy, as calculated in the Credit Agreement.

Senior Notes and Tax-Exempt Bonds

For specific criteria related to redemption features of the following debt instruments, refer to Note 11. Consolidated Debt of the Notes to Consolidated Financial Statements in our Form 10-K.

- 7.25% Senior Notes due 2020 (the "7.25% Notes")
- 6.375% Senior Notes due 2022 (the "6.375% Notes")
- 5.875% Senior Notes due 2024 (the "5.875% Notes")
- 4.00% - 5.25% Tax-Exempt Bonds due from 2024 to 2042 ("Tax Exempt Bonds")

3.25% Cash Convertible Senior Notes due 2014 (the "3.25% Notes")

On June 1, 2014, we repaid the $460 million of 3.25% Cash Convertible Senior Notes utilizing net proceeds from the March 2014 5.875% Notes issuance.

During the period from March 1, 2014 to May 30, 2014, and under certain additional limited circumstances, the 3.25% Notes were cash convertible by holders thereof (the "Cash Conversion Option"). Upon maturity, we were required to pay $83 million to satisfy the obligation under the Cash Conversion Option in addition to the principal amount of the 3.25% Notes.

Also, in connection with the issuance of the 3.25% Notes offering, we entered into privately negotiated cash convertible note hedge transactions (the “Note Hedge”) with affiliates of certain of the initial purchasers of the 3.25% Notes (the “Option Counterparties”) which we cash-settled for $83 million upon maturity of the 3.25% Notes and effectively offset our liability under the Cash Conversion Option.

Variable Rate Tax-Exempt Demand Bonds due 2043 ("Variable Rate Bonds")

The Variable Rate Bonds bear interest either on a daily or weekly interest rate as determined by the remarketing agent on the basis of examination of bonds comparable to the Variable Rate Bonds known by the remarketing agent to have been priced or traded under then prevailing market conditions. As of March 31, 2015, the weekly interest rate was 0.04%.

For specific criteria related to redemption features of the Variable Rate Bonds, refer to Note 11. Consolidated Debt of the Notes to Consolidated Financial Statements in our Form 10-K.

Equipment Financing Capital Leases Arrangements

In 2014, we entered into equipment financing capital lease arrangements to finance the purchase of barges, railcars, containers and intermodal equipment related to our New York City contract. During the three months ended March 31, 2015, we borrowed an additional $9 million under the equipment financing capital lease arrangements. The lease terms range from 10 years to 12 years and the fixed interest rates range from 3.48% to 4.52%. As of March 31, 2015, the outstanding borrowings under the equipment financing capital leases have mandatory amortization payments remaining as follows (in millions):

	2015	2016	2017	2018	2019	Thereafter
Annual Remaining Amortization	$4	$4	$4	$4	$4	$50

Dublin Project Financing

In 2014, we executed agreements for project financing totaling €375 million to fund a majority of the construction costs of the Dublin Energy-from-Waste Facility. The project financing package includes: (i) €300 million of project debt to be borrowed under a credit facility agreement with various lenders (the “Dublin Credit Agreement”), which consists of a €250 million senior secured term loan (the “Dublin Senior Term Loan”) and a €50 million second lien term loan (the “Dublin Junior Term Loan”), and (ii) a €75 million convertible preferred investment (the “Dublin Convertible Preferred”), which has been committed by a leading global energy infrastructure investor.

For key commercial terms related to the Dublin Project financing, refer to Note 11. Consolidated Debt of the Notes to Consolidated Financial Statements in our Form 10-K.

Dublin Senior Term Loan due 2021

The €250 million Dublin Senior Term Loan is expected to be drawn in 2016 and 2017 to fund remaining construction costs after our equity investment into the project (estimated at approximately €125 million), the Dublin Convertible Preferred, and the Dublin Junior Term Loan have been fully utilized.

Dublin Junior Term Loan due 2022

The €50 million Dublin Junior Term Loan was funded into an escrow account in September 2014, with proceeds expected to be drawn from the account to fund construction costs in 2015 and 2016 after our equity investment into the project and the Dublin Convertible Preferred have been fully utilized. As of March 31, 2015, $55 million (€51 million) is included in both project debt and noncurrent restricted funds held in trust on our condensed consolidated balance sheet.

Dublin Convertible Preferred

The €75 million Dublin Convertible Preferred is expected to be drawn to fund construction costs in 2015 after our equity investment into the project has been fully utilized. The instrument will have: (i) liquidation preference equal to par value of the investment, (ii) a preferred claim on project cash flows during operations (after debt service) to pay a fixed dividend rate and repay principal according to an amortization schedule, and (iii) an option to convert loan principal into a common equity interest in the project. The Dublin Convertible Preferred is structured as a shareholder loan with the concurrent issuance of warrants.

Financing Costs and Capitalized Interest

Financing costs related to the Dublin project financing totaled $3 million for the three months ended March 31, 2015. Interest expense paid on the Dublin project financing and costs amortized to interest expense will be capitalized during the construction phase of the project.

NOTE 7. INCOME TAXES

We record our interim tax provision based upon our estimated annual effective tax rate ("ETR") and account for the tax effects of discrete events in the period in which they occur. We file a federal consolidated income tax return with our eligible subsidiaries. Our federal consolidated income tax return also includes the taxable results of certain grantor trusts described below.

We currently estimate that our ETR for the year ending December 31, 2015 will be approximately 77%. We review the annual effective tax rate on a quarterly basis as projections are revised and laws are enacted. During the three months ended March 31, 2015 and 2014 tax expense (benefit) on our loss before income tax and equity in net income from unconsolidated investments was $10 million and $(14) million, respectively. The ETR was approximately (33)% and 59% for the three months ended March 31, 2015 and 2014, respectively. The increase in tax expense and change in the effective tax rate primarily results from the impact of legal entity restructuring and changes in the mix of earnings.

Uncertain tax positions, exclusive of interest and penalties, were $133 million as of both March 31, 2015 and December 31, 2014. Included in the balance of unrecognized tax benefits as of March 31, 2015 are potential benefits of $133 million that, if recognized, would impact the effective tax rate. For both the three months ended March 31, 2015 and 2014, we recognized a net tax expense of less than $1 million for uncertain tax positions, including interest and penalties. We have accrued interest and penalties associated with liabilities for uncertain tax positions of $1 million for both periods ended March 31, 2015 and December 31, 2014. We continue to reflect tax related interest and penalties as part of the tax provision.

In the ordinary course of our business, the Internal Revenue Service ("IRS") and state tax authorities will periodically audit our federal and state tax returns. As issues are examined by the IRS and state auditors, we may decide to adjust the existing liability for uncertain tax positions for issues that were not previously deemed an exposure. Federal income tax returns for Covanta Energy are closed for the years through 2003. However, to the extent NOLs are utilized from earlier years, federal income tax returns for Covanta Holding Corporation, formerly known as Danielson Holding Corporation, are still open.

Reserves in the liability for uncertain tax positions may decrease by approximately $107 million in the next twelve months, primarily as a result of the final resolution of the IRS audit of our federal income tax returns for the years 2004 through 2009, including proposed adjustments to our 2008 tax return, which we challenged through the IRS's administrative appeals process, as described below.

The IRS audited our tax returns for the years 2004 through 2009, a period which included both years in which NOLs generated in prior years were utilized and years in which losses giving rise to additional NOLs were reported. In connection with this audit, the IRS proposed certain adjustments to our 2008 tax return, which we do not believe were consistent with applicable rules, and we challenged these adjustments through the IRS's administrative appeals procedures. As a result of this process, we have reached an agreement with the IRS that would result in substantially all of the NOLs remaining available to offset consolidated taxable income. The proposed agreement is subject to documentation and approval, which is expected within the next twelve months.

State income tax returns are generally subject to examination for a period of three to five years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

Our NOLs predominantly arose from our predecessor insurance entities, formerly named Mission Insurance Group, Inc., ("Mission"). These Mission insurance entities have been in state insolvency proceedings in California and Missouri since the late 1980's. The amount of NOLs available to us will be reduced by any taxable income or increased by any taxable losses generated by current members of our consolidated tax group, which include grantor trusts associated with the Mission insurance entities.

While we cannot predict what amounts, if any, may be includable in taxable income as a result of the final administration of these grantor trusts, substantial actions toward such final administration have been taken and we believe that neither arrangements with the California Commissioner of Insurance nor the final administration by the Director of the Division of Insurance for the State of Missouri will result in a material reduction in available NOLs. We had consolidated federal NOLs estimated to be approximately $486 million for federal income tax purposes as of December 31, 2014, based on the income tax returns filed and projected to be filed. The federal NOLs will expire in various amounts from December 31, 2028 through December 31, 2033, if not used. In addition to the consolidated federal NOLs, as of December 31, 2014, we had state NOL carryforwards of approximately $561 million, which expire between 2014 and 2033, net foreign NOL carryforwards of approximately $58 million expiring between 2015 and 2033, federal tax credit carryforwards, including production tax credits of $56 million expiring between 2024 and 2034, and minimum tax credits of $7 million with no expiration. These deferred tax assets are offset by a valuation allowance of approximately $63 million. For further information, refer to Note 15. Income Taxes of the Notes to the Consolidated Financial Statements in our Form 10-K.

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NOTE 8. SUPPLEMENTARY INFORMATION

Renewable Energy Credits

Renewable Energy Credits ("RECs") are environmental commodities that can be sold and traded in certain states, and represent the renewable energy attributes created when electricity is produced from an eligible renewable energy source. The RECs are recognized at fair value as a reduction to plant operating expense in the condensed consolidated statements of operations and as an intangible asset within other current assets in the consolidated balance sheets on the date the renewable energy is generated. The fair value amount recognized is reduced by a valuation allowance for those RECs which management believes will ultimately be sold at below market or depressed market prices. As the RECs are delivered, the intangible asset is relieved. Fair values for the RECs are based on prices established by executed contracts, pending contracts or management estimates of current market prices. The total RECs amount recognized as a reduction to plant operating expense in the condensed consolidated statements of operations was $5 million and $6 million for the three months ended March 31, 2015 and 2014, respectively.

Pass through costs

Pass through costs are costs for which we receive a direct contractually committed reimbursement from the municipal client which sponsors an energy-from-waste project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal and certain chemical costs. These costs are recorded net of municipal client reimbursements in our condensed consolidated financial statements. Total pass through costs were $11 million and $15 million for the three months ended March 31, 2015 and 2014, respectively.

Other operating expenses

The components of other operating expenses are as follows (in millions):

	Three Months Ended March 31,	
	2015	2014
Construction costs	$11	$17
Other	—	1
Total other operating expenses	$11	$18

Amortization of waste, service and energy contracts

Our waste, service, energy and other contract intangibles are intangible assets and liabilities relating to long-term operating contracts at acquired facilities and are recorded upon acquisition at their estimated fair market values based upon discounted cash flows. Intangible assets and liabilities are amortized using the straight line method over their remaining useful lives.

The following table details the amount of the actual/estimated amortization expense and contra-expense associated with these intangible assets and liabilities as of March 31, 2015 included or expected to be included in our condensed consolidated statements of operations for each of the years indicated (in millions):

	Waste, Service and Energy Contracts (Amortization Expense)	Waste and Service Contracts (Contra-Expense)
Three Months Ended March 31, 2015	$7	$(2)
Remainder of 2015	$18	$(5)
2016	21	(6)
2017	14	(4)
2018	13	(2)
2019	13	(1)

Thereafter	225	—
Total	$304	$(18)

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Net write-off

During the three months ended March 31, 2014, we recorded a $9 million non-cash impairment write-off of the intangible asset for Hudson Valley EfW facility that was recorded upon acquisition in 2009 based on the expected cash flows over the remaining life of the contract.

Accumulated Other Comprehensive Income (Loss) ("AOCI")

The changes in accumulated other comprehensive loss are as follows (in millions):

	Foreign Currency Translation	Pension and Other Postretirement Plan Unrecognized Net Gain	Net Unrealized Loss on Derivatives	Net Unrealized Gain on Securities	Total
Balance December 31, 2013	$—	$2	$(5)	$1	$(2)
Other comprehensive loss before reclassifications	(3)	—	(4)	—	(7)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—	—
Net current period comprehensive loss	(3)	—	(4)	—	(7)
Balance March 31, 2014	$(3)	$2	$(9)	$1	$(9)
Balance December 31, 2014	$(12)	$2	$(12)	$—	$(22)
Other comprehensive loss before reclassifications	(13)	—	(7)	—	(20)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—	—
Net current period comprehensive loss	(13)	—	(7)	—	(20)
Balance March 31, 2015	$(25)	$2	$(19)	$—	$(42)

NOTE 9. STOCK-BASED COMPENSATION

During the three months ended March 31, 2015, we awarded certain employees grants of 513,219 shares of restricted stock and 98,618 restricted stock units ("RSUs"). The restricted stock awards will be expensed over the requisite service period, subject to an assumed 12% average forfeiture rate. The terms of the restricted stock awards include vesting provisions based solely on continued service. If the service criteria are satisfied, the restricted stock awards generally vest during March of 2016, 2017, and 2018.

During the three months ended March 31, 2015, we awarded an additional 172,303 RSUs that will vest based upon the total stockholder return (“TSR”) performance of our common stock over a three year period relative to companies included in published indices for the waste and disposal industry, the conventional electricity utilities industry and other similarly sized “mid-cap” companies (the “TSR Equity Awards”). We recognize compensation expense for the TSR Equity Awards based on the grant date fair value of the award which was determined using a Monte Carlo model.

On March 5, 2015, we awarded 45,476 shares of restricted stock units pursuant to a separation agreement in connection with the departure of our former chief executive officer. We determined the service vesting condition of this restricted stock unit award to be non-substantive and, in accordance with accounting principles for stock compensation, recorded the entire fair value of the award as compensation expense on the grant date.

Compensation expense related to our stock-based awards totaled $8 million and $4 million for the three months ended March 31, 2015 and 2014, respectively. The increase in stock-based award compensation is due to expense recognized for stock awards and accelerated vesting of stock awards pursuant to separation agreements in connection with the departure of two executive offers during the three months ended March 31, 2015.

Unrecognized stock-based compensation expense and weighted-average years to be recognized are as follows (in millions, except for weighted average years):

	As of March 31, 2015	
	Unrecognized stock-based compensation	Weighted-average years to be recognized
Restricted Stock Awards	$ 14	1.8
Restricted Stock Units	$ 6	3.0

NOTE 10. FINANCIAL INSTRUMENTS

Fair Value Measurements

Authoritative guidance associated with fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), then significant other observable inputs (Level 2 inputs) and the lowest priority to significant unobservable inputs (Level 3 inputs).The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- For cash and cash equivalents, restricted funds, and marketable securities, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of restricted funds held in trust is based on quoted market prices of the investments held by the trustee.
- Fair values for long-term debt and project debt are determined using quoted market prices.
- The fair value for interest rate swaps were determined by obtaining quotes from two counterparties (one is a holder of the long position and the other is in the short) and extrapolating those across the long and short notional amounts.

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of March 31, 2015. Such amounts have not been comprehensively revalued for purposes of these financial statements since March 31, 2015, and current estimates of fair value may differ significantly from the amounts presented herein.

The following table presents information about the fair value measurement of our assets and liabilities as of March 31, 2015 and December 31, 2014:

Financial Instruments Recorded at Fair Value on a Recurring Basis:	Fair Value Measurement Level	As of March 31, 2015	December 31, 2014
		(In millions)	
Assets:			
Cash and cash equivalents:			
Bank deposits and certificates of deposit	1	$62	$86
Money market funds	1	5	5
Total cash and cash equivalents:		67	91
Restricted funds held in trust:			
Bank deposits and certificates of deposit	1	58	67
Money market funds	1	31	36
U.S. Treasury/Agency obligations [1]	1	5	2
State and municipal obligations	1	89	87
Commercial paper/Guaranteed investment contracts/Repurchase agreements	1	1	4
Total restricted funds held in trust:		184	196
Restricted funds — other:			
Bank deposits and certificates of deposit [2]	1	2	1
Investments:			
Mutual and bond funds [2][3]	1	2	2
Derivative Asset — Energy Hedges	2	3	5
Total assets:		$258	$295
Liabilities:			
Derivative Liability — Interest rate swaps	2	19	15
Liability — Contingent consideration related to acquisition	3	—	2
Total liabilities:		$19	$17

The following financial instruments are recorded at their carrying amount (in millions):

Financial Instruments Recorded at Carrying Amount:	As of March 31, 2015		As of December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Accounts receivable [4]	$324	$324	$326	$326
Liabilities:				