

COVANTA HOLDING CORP

Form SC 13D/A

October 11, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D/A

Under the Securities Exchange Act of 1934

(Amendment No. 7)

Covanta Holding Corporation

(Name of Issuer)

Common Stock, par value \$0.10 per share

(Title of Class of Securities)

22282E102

(CUSIP Number)

D. E. Shaw Laminar Portfolios, L.L.C.

Attn: Compliance Department

120 West Forty-Fifth Street

Floor 39, Tower 45

New York, NY 10036

212-478-0000

(Name, Address and Telephone Number of Person

Authorized to Receive Notices and Communications)

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Copies to:

Peter J. Romeo, Esq.

Hogan & Hartson L.L.P.

555 13th Street, N.W.

Washington, DC 20004

(202) 637-5805

October 6, 2006

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box: []

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 22282E102

1 NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

D. E. Shaw Laminar Portfolios, L.L.C.

2 FEIN 01-0577802

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

WC

5 CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

NUMBER OF
SHARES

8 -0-
SHARED VOTING POWER

BENEFICIALLY
OWNED BY EACH
REPORTING
PERSON WITH

9 19,762,505
SOLE DISPOSITIVE POWER

10 -0-
SHARED DISPOSITIVE POWER

19,762,505

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

19,762,505

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN
SHARES (SEE INSTRUCTIONS)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13.4%¹

14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

OO

¹ Calculated based on a total of 147,450,853 shares of Common Stock outstanding as of July 31, 2006, as reported in the Issuer's quarterly report on Form 10-Q for the quarter ended June 30, 2006.

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CUSIP No. 22282E102

1 NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

D. E. Shaw & Co., L.P.

FEIN 13-3695715

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

AF

5 CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

8 -0- SHARED VOTING POWER

19,762,505
9 SOLE DISPOSITIVE POWER

10 -0- SHARED DISPOSITIVE POWER

19,762,505

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

19,762,505

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13.4%¹

14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IA, PN

¹ Calculated based on a total of 147,450,853 shares of Common Stock outstanding as of July 31, 2006, as reported in the Issuer's quarterly report on Form 10-Q for the quarter ended June 30, 2006.

CUSIP No. 22282E102

1 NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

D. E. Shaw & Co., L.L.C.

FEIN 13-3799946

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)

(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

AF

5 CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

NUMBER OF SHARES **8** -0- SHARED VOTING POWER

BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH **9** 19,762,505 SOLE DISPOSITIVE POWER

10 -0- SHARED DISPOSITIVE POWER

11 19,762,505 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

12 19,762,505 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

14 13.4%¹ TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

OO

¹ Calculated based on a total of 147,450,853 shares of Common Stock outstanding as of July 31, 2006, as reported in the Issuer's quarterly report on Form 10-Q for the quarter ended June 30, 2006.

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CUSIP No. 22282E102

1 NAME OF REPORTING PERSON

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

David E. Shaw

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

AF

5 CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

United States

7 SOLE VOTING POWER

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

8 -0- SHARED VOTING POWER

19,762,505
9 SOLE DISPOSITIVE POWER

10 -0- SHARED DISPOSITIVE POWER

19,762,505

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

19,762,505

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13.4%¹

14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IN

¹ Calculated based on a total of 147,450,853 shares of Common Stock outstanding as of July 31, 2006, as reported in the Issuer's quarterly report on Form 10-Q for the quarter ended June 30, 2006.

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This Amendment No. 7 amends and supplements the Schedule 13D originally filed on December 12, 2003, as amended, and is being filed on behalf of D. E. Shaw Laminar Portfolios, L.L.C., a Delaware limited liability company (Laminar), D. E. Shaw & Co., L.P., a Delaware limited partnership (DESCO LP), D. E. Shaw & Co., L.L.C., a Delaware limited liability company (DESCO LLC), and David E. Shaw, a citizen of the United States of America (David E. Shaw, together with Laminar, DESCO LP, and DESCO LLC, collectively, the Reporting Persons), relating to the common stock, par value \$0.10 per share (Common Stock), of Covanta Holding Corporation, a Delaware corporation (the Issuer).

Unless otherwise defined, capitalized terms used in this Amendment No. 7 shall have the meaning ascribed to them in the original Schedule 13D filed by the Reporting Persons on December 12, 2003 (the Original Schedule 13D).

Item 5. Interest in Securities of the Issuer.

The information in this Item 5 is hereby amended and supplemented with the following text:

- (a) As of the date of this filing, Laminar may be deemed to own 19,762,505 shares of Common Stock of the Issuer (the Subject Shares). To the knowledge of the Reporting Persons, there were a total of 147,450,853 shares of Common Stock outstanding as of July 31, 2006. Based upon the foregoing, Laminar may be deemed to own 13.4% of the Issuer.
- (b) Laminar currently has the shared power to vote or to direct the vote of and shared power to dispose or direct the disposition of the Subject Shares.

DESCO LP as Laminar s investment adviser and DESCO LLC as Laminar s managing member also may be deemed to have the shared power to vote or direct the vote of and the shared power to dispose or direct the disposition of the Subject Shares. As general partner of DESCO LP, DESCO, Inc. may be deemed to have the shared power to vote or to direct the vote of and the shared power to dispose or direct the disposition of the Subject Shares. As managing member of DESCO LLC, DESCO II, Inc. may be deemed to have the shared power to vote or to direct the vote of and the shared power to dispose or direct the disposition of the Subject Shares. None of DESCO LP, DESCO LLC, DESCO, Inc., or DESCO II, Inc. owns any shares of the Issuer directly and each such entity disclaims beneficial ownership of the Subject Shares.

David E. Shaw does not own any shares of the Issuer directly. By virtue of David E. Shaw s position as president and sole shareholder of DESCO, Inc., which is the general partner of DESCO LP, and by virtue of David E. Shaw s position as president and sole shareholder of DESCO II, Inc., which is the managing member of DESCO LLC, David E. Shaw may be deemed to have the shared power to vote or direct the vote of, and the shared power to dispose or direct the disposition of, the Subject Shares owned by Laminar, constituting 13.4% of the outstanding shares and, therefore, David E. Shaw may be deemed to be the beneficial owner of such Subject Shares. David E. Shaw disclaims beneficial ownership of the Subject Shares.

As of the date hereof, neither any Reporting Person, nor to the best knowledge of any Reporting Person, any of the persons set forth in Item 2 of the Original Schedule 13D, owns any shares of Common Stock other than the shares owned by Laminar.

(c) Since the filing on September 27, 2006 of Amendment No. 6 to the Reporting Persons' Schedule 13D, the Reporting Persons sold shares of Common Stock in broker transactions on the New York Stock Exchange as follows:

	Date	Number of Shares	Price per Share
	09/29/06	100,000	\$21.65
	10/03/06	250,000	\$21.48
	10/04/06	101,000	\$21.52
	10/05/06	500,000	\$21.50
	10/06/06	842,199	\$21.30

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(d) No person other than the Reporting Persons has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of shares of Common Stock owned by Laminar.

SIGNATURES

After reasonable inquiry and to the best of each of the undersigned's knowledge and belief, each of the undersigned, severally and not jointly, certifies that the information set forth in this statement is true, complete and correct.

Dated: October 11, 2006

D. E. SHAW LAMINAR PORTFOLIOS, L.L.C.
By: D. E. SHAW & CO., L.L.C., as Managing Member

By: /s/ Julius Gaudio
Name: Julius Gaudio
Title: Managing Director

D. E. SHAW & Co., L.P.

By: /s/ Julius Gaudio
Name: Julius Gaudio
Title: Managing Director

D. E. SHAW & Co., L.L.C.

By: /s/ Julius Gaudio
Name: Julius Gaudio
Title: Managing Director

DAVID E. SHAW

By: /s/ Julius Gaudio
Name: Julius Gaudio
Title: Attorney-in-Fact for David E. Shaw*

* Power of Attorney previously filed.

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Total insurance expenses

76,810 65,616 216,407 200,619

Insurance income

254,185 270,378 788,742 887,873

Investment management services

Total investment management services expenses

202,738 126,051 552,787 346,868

Investment management services income

65,824 2,326 110,295 26,233

Municipal services

Revenues

5,611 8,245 16,545 19,956

Net realized gains (losses)

(51) (48) (136) (90)

Net gains (losses) on derivative instruments and foreign exchange

64 200

Total municipal services revenues

5,624 8,197 16,609 19,866

Expenses

5,321 7,633 15,834 19,013

Municipal services income

303 564 775 853

Corporate

Net investment income

3,411 1,934 17,114 6,511

Net realized gains (losses)

226 390 (1,301) (186)

Interest expense

22,080 17,798 66,141 53,343

Corporate expenses

81,391 4,174 92,470 14,134

Corporate loss

(99,834) (19,648) (142,798) (61,152)

Income from continuing operations before income taxes

220,478 253,620 757,014 853,807

Provision for income taxes

77,601 70,409 227,656 240,206

Income from continuing operations per common share:

Basic

\$1.08 \$1.30 \$3.93 \$4.30

Diluted

\$1.05 \$1.27 \$3.84 \$4.21

Net income per common share:

Basic

\$1.07 \$1.30 \$3.93 \$4.32

Diluted

\$1.04 \$1.27 \$3.84 \$4.23

Weighted-average number of common shares outstanding:

Basic

132,622,848 141,408,855 134,589,606 142,819,366

Diluted

135,822,330 144,125,409 137,722,142 145,781,763

Gross revenues from continuing operations

608,818 474,892 1,700,653 1,487,784

Gross expenses from continuing operations

388,340 221,272 943,639 633,977

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

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For the nine months ended September 30, 2005

(In thousands except per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation- Restricted Stock	Treasury Stock		Total Shareholders Equity	
	Shares	Amount					Shares	Amount		
	Balance, January 1, 2005 (Restated)	155,608					\$ 155,608	\$ 1,410,799		\$ 5,187,484 ₍₁₎
Comprehensive income:										
Net income				528,265						528,265
Other comprehensive income (loss):										
Change in unrealized appreciation of investments net of change in deferred income taxes of \$(73,735)					(157,980)					(157,980)
Change in fair value of derivative instruments net of change in deferred income taxes of \$14,559					27,039					27,039
Change in foreign currency translation net of change in deferred income taxes of \$2,243					(33,487)					(33,487)
Other comprehensive income (loss)										(164,428)
Comprehensive income										363,837
Treasury shares acquired, net							(6,262)	(363,410)		(363,410)
Stock-based compensation	931	931	62,391			(14,013)				49,309
Dividends (declared per common share \$0.840, paid per common share \$0.800)				(113,756)						(113,756)

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Balance, September 30, 2005	156,539	\$ 156,539	\$ 1,473,190	\$ 5,601,993	\$ 454,178	\$ (48,699)	(22,478)	\$ (1,142,424)	\$ 6,494,777
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(1) Restated; previously reported \$5,215,191.

(2) Restated; previously reported \$611,173.

	<u>2005</u>
Disclosure of reclassification amount:	
Unrealized appreciation of investments arising during the period, net of taxes	\$ (138,497)
Reclassification adjustment, net of taxes	(19,483)
Net unrealized appreciation, net of taxes	<u>\$ (157,980)</u>

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

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Nine months ended September 30	
	2005	2004 Restated
Cash flows from operating activities of continuing operations:		
Net income	\$ 528,265	\$ 616,298
Loss from discontinued operations, net of tax	1,093	481
Gain on sale of discontinued operations, net of tax		(3,178)
	<u>529,358</u>	<u>613,601</u>
Income from continuing operations	529,358	613,601
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Increase in accrued investment income	(66,687)	(25,353)
Increase in deferred acquisition costs	(24,975)	(28,223)
Decrease (increase) in prepaid reinsurance premiums	17,675	(28,416)
(Decrease) increase in deferred premium revenue	(3,122)	83,922
(Decrease) increase in loss and loss adjustment expense reserves	(37,446)	32,499
(Increase) decrease in reinsurance recoverable on unpaid losses	(11,067)	27,504
Depreciation	9,356	10,204
Amortization of discount on bonds, net	43,875	52,511
Amortization of premium on medium-term notes and commercial paper	(15,092)	(14,028)
Net realized (gains) losses on sale of investments	4,756	(59,971)
Current income tax benefit		(9,627)
Deferred income tax provision	16,424	35,844
Net (gains) losses on derivative instruments and foreign exchange	(42,248)	11,206
Stock option compensation	15,048	16,156
Accrued interest payable	80,495	38,014
Penalties and disgorgement	75,000	
Other, net	29,983	(47,329)
	<u>91,975</u>	<u>94,913</u>
Total adjustments to income from continuing operations	91,975	94,913
	<u>621,333</u>	<u>708,514</u>
Net cash provided by operating activities of continuing operations	621,333	708,514
Cash flows from investing activities of continuing operations:		
Purchases of fixed-maturity securities, net of payable for investments purchased	(7,698,659)	(6,377,166)
Sale of fixed-maturity securities, net of receivable for investments sold	7,196,062	5,183,061
Redemption of fixed-maturity securities, net of receivable for investments redeemed	404,234	631,247
Purchases for investment agreement and medium-term note portfolios, net of payable for investments purchased	(4,374,560)	(11,469,730)
Sales for investment agreement and medium-term note portfolios, net of receivable for investments sold	1,599,064	9,213,312
Purchases of held-to-maturity investments	(283,863)	(30,323)
Proceeds from principal paydown of held-to-maturity investments	1,414,836	2,348,660

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(Purchase) sale of short-term investments	(147,365)	173,658
Sale of other investments	20,288	75,798
Capital expenditures	(5,646)	(5,801)
Disposals of capital assets	1,402	2,255
	<u> </u>	<u> </u>
Net cash used by investing activities of continuing operations	(1,874,207)	(255,029)
	<u> </u>	<u> </u>
Cash flows from financing activities of continuing operations:		
Proceeds from issuance of investment agreements	5,307,982	4,825,943
Payments for drawdowns of investment agreements	(3,908,350)	(3,415,023)
Decrease in commercial paper, net	(851,921)	(226,138)
Issuance of medium-term notes	2,018,408	1,173,745
Issuance of variable interest entity floating rate notes	200,000	
Principal paydown of medium-term notes	(1,061,466)	(2,341,657)
Securities sold under agreements to repurchase, net	(43,452)	(133,834)
Dividends paid	(109,708)	(98,102)
Net proceeds from issuance of short-term debt		1,408
Capital issuance costs	(2,184)	(1,761)
Other borrowings and deposits	(5,907)	(23,383)
Purchase of treasury stock	(363,410)	(233,031)
Exercise of stock options	18,132	37,721
	<u> </u>	<u> </u>
Net cash provided (used) by financing activities of continuing operations	1,198,124	(434,112)
	<u> </u>	<u> </u>
Discontinued operations:		
Net cash provided by discontinued operations		14,717
	<u> </u>	<u> </u>
Net (decrease) increase in cash and cash equivalents	(54,750)	34,090
Cash and cash equivalents - beginning of period	366,236	227,544
	<u> </u>	<u> </u>
Cash and cash equivalents - end of period	\$ 311,486	\$ 261,634
	<u> </u>	<u> </u>
Supplemental cash flow disclosures:		
Income taxes paid	\$ 195,327	\$ 213,108
Interest paid:		
Investment agreements	\$ 251,493	\$ 183,854
Commercial paper	46,423	24,263
Medium-term notes	172,916	95,469
Variable interest entity floating rate notes	16,218	6,039
Securities sold under agreements to repurchase	14,226	8,963
Long-term debt	54,661	50,965
Other borrowings and deposits	3,039	5,446
Non cash items:		
Stock compensation	\$ 15,048	\$ 16,156
Dividends declared but not paid	37,537	33,969

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

NOTE 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP). These statements should be read in conjunction with the consolidated financial statements and notes thereto included in Form 10-K, as amended, for the year ended December 31, 2004 for MBIA Inc. and Subsidiaries (MBIA or the Company). The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (United States), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position and results of operations. The results of operations for the nine months ended September 30, 2005 may not be indicative of the results that may be expected for the year ending December 31, 2005. The December 31, 2004 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities required by GAAP. All significant intercompany balances have been eliminated. Business segment results are presented net of all material intersegment transactions.

NOTE 2: Restatement of Consolidated Financial Statements

On November 8, 2005, MBIA announced its decision to correct and restate its previously issued financial statements for 1998 and subsequent years in connection with potential settlements of investigations by the Securities and Exchange Commission (SEC) and the New York Attorney General's Office (NYAG) regarding agreements entered into by its subsidiary, MBIA Insurance Corporation, in 1998.

In 1998, three reinsurers, Converium Reinsurance (North America) Inc. (Converium), AXA Re Finance S.A. (ARF) and Muenchener Rueckversicherungs-Gesellschaft (Munich Re) paid the Company \$170 million under three separate agreements (the Excess-of-Loss Agreements) in connection with losses the Company incurred on \$265 million of MBIA-insured bonds issued by the Alleghany Health, Education and Research Foundation (AHERF). The Excess-of-Loss Agreements were structured as three successive excess-of-loss facilities that aggregated to \$170 million. Under the Excess-of-Loss Agreements, Converium paid the Company \$70 million, and Munich Re and ARF each paid the Company \$50 million.

In connection with the arrangements for the Excess-of-Loss Agreements, the Company entered into quota share agreements with Munich Re, ARF and Converium (each a Quota Share Agreement and, collectively, the Quota Share Agreements). Under the Quota Share Agreements, the Company agreed to cede to the three reinsurers new business written with an aggregate par sufficient to generate \$297 million in gross premiums over a six year period ending October 1, 2004. Of the \$297 million in premiums to be ceded under the Quota Share Agreements, the Company agreed to cede to Converium cash premiums equal to \$102 million, to ARF adjusted gross premiums of \$97 million and to Munich Re adjusted gross premiums of \$98 million over this period.

On March 8, 2005, the Company announced its decision to restate its financial statements for 1998 and subsequent years to correct the accounting for the agreements with Converium and reflected this correction in the consolidated financial statements of its original Annual Report on Form 10-K for the year ended December 31, 2004. At that time, the Company believed that the accounting for the Excess of Loss Agreements and Quota Share Agreements with Munich Re and ARF was appropriate under Statement of Financial Accounting Standards (SFAS) 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts.

This restatement of the Company's financial statements for the Munich Re and ARF Excess-of-Loss and Quota Share Agreements, made in connection with the potential settlements, corrects and restates its accounting for these agreements because, taking into account developments in the regulatory investigations since March and further accounting analyses, they did not satisfy the risk transfer requirements for reinsurance accounting under SFAS 113. As a result, the Company is restating its previously issued financial statements to reflect the Excess-of-Loss and Quota Share Agreements with Munich Re and ARF under deposit accounting in accordance with Statement of Position (SOP) 98-7, "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk" instead of under reinsurance accounting. The Company is also correcting and restating its 2004 statutory financial statements for the Munich Re and ARF Excess-of-Loss and Quota Share Agreements because they did not satisfy the requirements for reinsurance accounting under Regulation 108 of the New York State Insurance Department. The restatements do not have a significant effect on the Company's financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

Additionally, in the third quarter of 2005, the Company completed a detailed review of its derivative instruments for which it applied shortcut method hedge accounting under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Shortcut method hedge accounting allows the assumption that the change in fair value of a hedged item exactly offsets the change in fair value of the related derivative. After completing its review, the Company determined that certain hedging relationships did not meet every technical aspect of shortcut method hedge accounting, although, such hedging relationships would have qualified for basic hedge accounting. Since the documentation that the Company prepared was designed to support shortcut method hedge accounting, it was not sufficient to support basic hedge accounting. As a result, the Company must account for these derivatives, from 2001 to the present, as if they were not part of hedging relationships, which requires the change in fair value of these derivatives to be reflected in the Company's income statement without an offsetting change in fair value of the hedged items. The Company has restated its financial statements to correct the accounting for these derivatives for the year ended December 31, 2001 and subsequent years.

The following table presents the effects of the Munich Re, ARF and derivative accounting restatement on the consolidated financial statements of the Company for the three months ended March 31, 2005 and June 30, 2005. The effect of the Converium restatement was reflected in the previously issued consolidated financial statements of the Company for these periods.

In thousands except per share information	As of and For the Three Months		As of and For the Three Months	
	Ended		Ended	
	March 31, 2005		June 30, 2005	
	Previously Reported	Restated	Previously Reported	Restated
Consolidated Statement of Income Data:				
Ceded premiums	\$ (35,688)	\$ (32,126)	\$ (33,641)	\$ (31,622)
Net premiums written	246,931	250,493	215,324	217,343
Increase in deferred premium revenue	(40,693)	(39,648)	(6,391)	(3,958)
Scheduled premiums earned	169,873	173,760	177,207	180,902
Refunding premiums earned	36,365	37,085	31,726	32,483
Premiums earned	206,238	210,845	208,933	213,385
Net gains (losses) on derivative instruments and foreign exchange-insurance	(6,075)	(6,072)	4,119	4,002
Total insurance revenues	325,945	330,555	339,264	343,599
Losses and loss adjustment expenses	20,385	20,851	21,265	21,708
Amortization of deferred acquisition costs	16,293	16,657	16,506	16,858
Operating expenses	29,166	30,262	32,268	33,261
Total insurance expenses	65,844	67,770	70,039	71,827
Insurance income	260,101	262,785	269,225	271,772
Net gains (losses) on derivative instruments and foreign exchange-IMS	11,178	27,421	(3,439)	(27,395)
Investment management services income	36,812	53,055	15,372	(8,584)
Income from continuing operations before income taxes	277,706	296,633	261,312	239,903
Provision for income taxes	77,202	83,826	73,722	66,229
Income from continuing operations	200,504	212,807	187,590	173,674
Net income	\$ 200,504	\$ 212,807	\$ 187,590	\$ 173,674
Basic EPS:				
Income from continuing operations	\$ 1.46	\$ 1.55	\$ 1.40	\$ 1.30
Net income	\$ 1.46	\$ 1.55	\$ 1.40	\$ 1.30

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Diluted EPS:

Income from continuing operations	\$ 1.43	\$ 1.52	\$ 1.37	\$ 1.27
Net income	\$ 1.43	\$ 1.52	\$ 1.37	\$ 1.27

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

Consolidated Balance Sheet Data:

Deferred acquisition costs	\$ 371,932	\$ 417,454	\$ 383,006	\$ 428,613
Prepaid reinsurance premiums	462,390	427,028	451,113	418,184
Reinsurance recoverable on unpaid losses	33,202	34,091	42,869	41,671
Derivative assets	270,648	270,485	252,637	252,544
Other assets	282,295	281,406	253,843	255,041
Total assets	33,756,665	33,766,662	34,784,595	34,797,180
Loss and loss adjustment expense reserves	755,563	778,064	667,570	690,801
Investment agreements	9,316,470	9,318,116	10,005,780	9,998,534
Deferred income taxes, net	573,849	563,551	661,184	654,888
Derivative liabilities	428,360	427,334	484,842	484,003
Other liabilities	381,426	397,724	396,596	412,019
Total liabilities	27,320,654	27,349,775	28,197,097	28,221,370
Retained earnings	5,377,327	5,361,923	5,527,063	5,497,743
Accumulated other comprehensive income	500,516	496,796	630,628	648,260
Total shareholders' equity	\$ 6,436,011	\$ 6,416,887	\$ 6,587,498	\$ 6,575,810

Additionally, the following table presents the effects of the ARF, Munich Re and derivative accounting restatement on the consolidated financial statements of the Company for the three and nine months ended September 30, 2004.

In thousands except per share information	As of and For the Three Months Ended September 30, 2004		As of and For the Nine Months Ended September 30, 2004	
	Previously Reported	Restated	Previously Reported	Restated
	Consolidated Statement of Income Data:			
Ceded premiums	\$ (47,682)	\$ (42,289)	\$ (123,473)	\$ (107,340)
Net premiums written	207,927	213,320	709,738	725,871
Increase in deferred premium revenue	(3,606)	(2,326)	(92,765)	(86,629)
Scheduled premiums earned	171,741	177,808	505,691	525,756
Refunding premiums earned	32,580	33,186	111,282	113,486
Premiums earned	204,321	210,994	616,973	639,242
Net gains (losses) on derivative instruments and foreign exchange- insurance	1,929	1,897	3,209	3,167
Total insurance revenues	329,353	335,994	1,066,265	1,088,492
Losses and loss adjustment expenses	20,608	21,336	60,682	63,090
Amortization of deferred acquisition costs	15,680	16,200	47,759	49,495
Operating expenses	26,575	28,080	83,256	88,034
Total insurance expenses	62,863	65,616	191,697	200,619
Insurance income	266,490	270,378	874,568	887,873
Net gains (losses) on derivative instruments and foreign exchange-IMS	(3,843)	(14,324)	(3,839)	(14,373)
Investment management services income	12,807	2,326	36,767	26,233
Income from continuing operations before income taxes	260,213	253,620	851,036	853,807
Provision for income taxes	72,717	70,409	239,237	240,206
Income from continuing operations	187,496	183,211	611,799	613,601
Net income	\$ 187,496	\$ 183,211	\$ 614,496	\$ 616,298
Basic EPS:				

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Income from continuing operations	\$ 1.33	\$ 1.30	\$ 4.28	\$ 4.30
Net income	\$ 1.33	\$ 1.30	\$ 4.30	\$ 4.32
Diluted EPS:				
Income from continuing operations	\$ 1.30	\$ 1.27	\$ 4.20	\$ 4.21
Net income	\$ 1.30	\$ 1.27	\$ 4.22	\$ 4.23

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**MBIA Inc. and Subsidiaries****Consolidated Balance Sheet Data:**

Deferred acquisition costs	\$ 345,243	\$ 401,255	\$ 345,243	\$ 401,255
Prepaid reinsurance premiums	489,042	419,187	489,042	419,187
Reinsurance recoverable on unpaid losses	32,492	33,898	32,492	33,898
Derivative assets	234,428	233,935	234,428	233,935
Other assets	283,422	282,016	283,422	282,016
Total assets	30,875,612	30,861,276	30,875,612	30,861,276
Loss and loss adjustment expense reserves	721,841	744,330	721,841	744,330
Investment agreements	8,375,723	8,376,949	8,375,723	8,376,949
Deferred income taxes, net	525,948	503,119	525,948	503,119
Derivative liabilities	415,987	413,914	415,987	413,914
Other liabilities	420,933	450,180	420,933	450,180
Total liabilities	24,397,427	24,425,487	24,397,427	24,425,487
Retained earnings	5,047,873	4,994,223	5,047,873	4,994,223
Accumulated other comprehensive income	562,552	573,806	562,552	573,806
Total shareholders' equity	\$ 6,478,185	\$ 6,435,789	\$ 6,478,185	\$ 6,435,789

Information presented in the Notes to Consolidated Financial Statements gives effect to the restatement, as applicable.

NOTE 3: Dividends Declared

Dividends declared by the Company during the nine months ended September 30, 2005 were \$114 million.

NOTE 4: Earnings Per Share (Restated)

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share shows the dilutive effect of all stock options and other items outstanding during the period that could potentially result in the issuance of common stock. For the three and nine months ended September 30, 2005 there were 2,456,389 and 2,869,503 stock options outstanding, respectively, and for the three and nine months ended September 30, 2004, there were 2,466,960 and 2,247,601 stock options outstanding, respectively, that were not included in the diluted earnings per share calculation because they were antidilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MBIA Inc. and Subsidiaries

The following table sets forth the computation of basic and diluted earnings per share for the third quarter and nine months ended September 30, 2005 and 2004:

In millions except per share amounts	3rd Quarter		Year-to-date	
	2005	Restated 2004	2005	Restated 2004
Income from continuing operations, net of tax	\$ 143	\$ 183	\$ 529	\$ 613
Income from discontinued operations, net of tax	(1)		(1)	3
Net income	\$ 142	\$ 183	\$ 528	\$ 616
Diluted weighted average shares (in thousands):				
Basic weighted average shares outstanding	132,623	141,409	134,590	142,819
Effect of stock based compensation	3,199	2,716	3,132	2,963
Diluted weighted average shares	135,822	144,125	137,722	145,782
Basic EPS:				
Income from continuing operations	\$ 1.08	\$ 1.30	\$ 3.93	\$ 4.30
Income from discontinued operations	(0.01)		(0.01)	0.02
Net income *	\$ 1.07	\$ 1.30	\$ 3.93	\$ 4.32
Diluted EPS:				
Income from continuing operations	\$ 1.05	\$ 1.27	\$ 3.84	\$ 4.21
Income from discontinued operations	(0.01)		(0.01)	0.02
Net income *	\$ 1.04	\$ 1.27	\$ 3.84	\$ 4.23

* May not add due to rounding.

NOTE 5: Business Segments (Restated)

MBIA Inc., through its subsidiaries, is a leading provider of financial guarantee products and specialized financial services. MBIA provides innovative and cost-effective products and services that meet the credit enhancement, financial and investment needs of its public- and private-sector clients worldwide. MBIA manages its activities primarily through three principal business operations: insurance, investment management services and municipal services. The Company's reportable segments within its business operations are determined based on the way management assesses the performance and resource requirements of such operations.

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The insurance operations provide an unconditional and irrevocable guarantee of the payment of principal and interest on insured obligations when due. MBIA issues financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, bonds backed by publicly or privately funded public-purpose projects, bonds issued by sovereign and sub-sovereign entities, obligations collateralized by diverse pools of corporate loans and credit default swaps and pools of corporate and asset-backed bonds, both in the new issue and secondary markets. The Company views its insurance operations as a reportable segment. This segment includes all activities related to global credit enhancement services provided principally by MBIA Insurance Corporation and its subsidiaries (MBIA Corp.).

The Company's investment management services operations provide an array of products and services to the public, not-for-profit and corporate sectors. Such products and services are provided primarily through wholly owned subsidiaries of MBIA Asset Management, LLC (MBIA-AML) and include cash management, discretionary asset management and fund administration services and investment agreement, medium-term note and commercial paper programs related to the origination of assets for investment purposes. The investment management services operations reportable segments are comprised of asset/liability products, which include investment agreements and medium-term notes (MTNs) not related to the conduit programs, advisory services and conduits. During the second quarter of 2004, the Company completed the sale of the assets of 1838 Investment Advisors, LLC, the Company's equity advisory services segment. This segment is reported as a discontinued operation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MBIA Inc. and Subsidiaries

The Company's municipal services operations provide revenue enhancement services and products to public-sector clients nationwide consisting of discovery, audit, collections/recovery and information services through MBIA MuniServices and its wholly owned subsidiaries. Additionally, the municipal services operations include Capital Asset Holdings GP, Inc. and certain affiliated entities, a servicer of delinquent tax certificates. The Company views its municipal services operations as a reportable segment.

The Company's corporate operations include investment income, interest expense and general expenses that relate to general corporate activities and not to one of the Company's three principal business operations. The Company views its corporate operations as a reportable segment.

Reportable segment results are presented net of material intersegment transactions. Transactions between the Company's segments are executed at an arm's length basis, as established by management. The following table summarizes the Company's continuing operations for the three and nine months ended September 30, 2005 and 2004:

In thousands	Three months ended September 30, 2005				
	Insurance	Investment Management Services	Municipal Services	Corporate	Total
Revenues ^(a)	\$ 336,036	\$ 225,671	\$ 5,611	\$ 3,411	\$ 570,729
Net realized gains (losses)	(7,526)	1,284	(51)	226	(6,067)
Net gains (losses) on derivative instruments and foreign exchange	2,485	41,607	64		44,156
Total revenues	330,995	268,562	5,624	3,637	608,818
Interest expense		184,397		22,080	206,477
Operating expenses	76,810	18,341	5,321	81,391	181,863
Total expenses	76,810	202,738	5,321	103,471	388,340
Income (loss) before taxes	\$ 254,185	\$ 65,824	\$ 303	\$ (99,834)	\$ 220,478
Identifiable assets ^(b)	\$ 12,530,174	\$ 21,892,776	\$ 23,244	\$ 483,866	\$ 34,930,060

Restated

In thousands	Three months ended September 30, 2004				
	Insurance	Investment Management Services	Municipal Services	Corporate	Total

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Revenues ^(a)	\$ 334,513	\$ 142,323	\$ 8,245	\$ 1,934	\$ 487,015
Net realized gains (losses)	(416)	378	(48)	390	304
Net gains (losses) on derivative instruments and foreign exchange	1,897	(14,324)			(12,427)
Total revenues	335,994	128,377	8,197	2,324	474,892
Interest expense		106,431		17,798	124,229
Operating expenses	65,616	19,620	7,633	4,174	97,043
Total expenses	65,616	126,051	7,633	21,972	221,272
Income (loss) before taxes	\$ 270,378	\$ 2,326	\$ 564	\$ (19,648)	\$ 253,620
Identifiable assets ^(b)	\$ 11,979,738	\$ 18,377,639	\$ 25,771	\$ 478,123	\$ 30,861,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

Nine months ended September 30, 2005					
In thousands	Insurance	Investment Management Services	Municipal Services	Corporate	Total
Revenues ^(a)	\$ 1,011,053	\$ 618,449	\$ 16,545	\$ 17,114	\$ 1,663,161
Net realized gains (losses)	(6,319)	3,000	(136)	(1,301)	(4,756)
Net gains (losses) on derivative instruments and foreign exchange	415	41,633	200		42,248
Total revenues	1,005,149	663,082	16,609	15,813	1,700,653
Interest expense		500,979		66,141	567,120
Operating expenses	216,407	51,808	15,834	92,470	376,519
Total expenses	216,407	552,787	15,834	158,611	943,639
Income (loss) before taxes	\$ 788,742	\$ 110,295	\$ 775	\$ (142,798)	\$ 757,014
Identifiable assets ^(b)	\$ 12,530,174	\$ 21,892,776	\$ 23,244	\$ 483,866	\$ 34,930,060
Restated					
Nine months ended September 30, 2004					
In thousands	Insurance	Investment Management Services	Municipal Services	Corporate	Total
Revenues ^(a)	\$ 1,022,513	\$ 390,039	\$ 19,956	\$ 6,511	\$ 1,439,019
Net realized gains (losses)	62,812	(2,565)	(90)	(186)	59,971
Net gains (losses) on derivative instruments and foreign exchange	3,167	(14,373)			(11,206)
Total revenues	1,088,492	373,101	19,866	6,325	1,487,784
Interest expense		289,904		53,343	343,247
Operating expenses	200,619	56,964	19,013	14,134	290,730
Total expenses	200,619	346,868	19,013	67,477	633,977
Income (loss) before taxes	\$ 887,873	\$ 26,233	\$ 853	\$ (61,152)	\$ 853,807
Identifiable assets ^(b)	\$ 11,979,738	\$ 18,377,639	\$ 25,771	\$ 478,123	\$ 30,861,271

(a) Represents the sum of net premiums earned, net investment income, advisory fees, investment management fees and other fees.

- (b) At September 30, 2005, there were no assets associated with the Company's discontinued operations. At September 30, 2004, identifiable assets related to the Company's discontinued operations were \$5 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

The following table summarizes the segments within the investment management services operations for the three and nine months ended September 30, 2005 and 2004:

In thousands	Three months ended September 30, 2005				
	Asset/ Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues ^(a)	\$ 161,605	\$ 14,413	\$ 53,521	\$ (3,868)	\$ 225,671
Net realized gains (losses)	1,283	1			1,284
Net gains (losses) on derivative instruments and foreign exchange	32,214	118	9,275		41,607
Total revenues	195,102	14,532	62,796	(3,868)	268,562
Interest expense	137,915		46,482		184,397
Operating expenses	9,361	8,919	3,892	(3,831)	18,341
Total expenses	147,276	8,919	50,374	(3,831)	202,738
Income (loss) before taxes	\$ 47,826	\$ 5,613	\$ 12,422	\$ (37)	\$ 65,824
Identifiable assets	\$ 16,416,602	\$ 63,017	\$ 5,772,639	\$ (359,482)	\$ 21,892,776
	Restated				
In thousands	Three months ended September 30, 2004				
	Asset/ Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues ^(a)	\$ 101,606	\$ 12,829	\$ 28,284	\$ (396)	\$ 142,323
Net realized gains (losses)	372	6			378
Net gains (losses) on derivative instruments and foreign exchange	(7,936)	(17)	(6,371)		(14,324)
Total revenues	94,042	12,818	21,913	(396)	128,377
Interest expense	84,936		21,495		106,431
Operating expenses	6,716	8,622	4,678	(396)	19,620
Total expenses	91,652	8,622	26,173	(396)	126,051

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Income (loss) before taxes	\$ 2,390	\$ 4,196	\$ (4,260)	\$ 0	\$ 2,326
Identifiable assets	\$ 12,486,580	\$ 62,041	\$ 6,080,688	\$ (251,670)	\$ 18,377,639

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries