Covanta Energy Corporation

Address:
40 Lane Road
Fairfield, New Jersey 07004
U.S.A.

Telephone: (973) 882-9000
Toll Free: (866) 268-2682
Fax: (973) 882-7234
http://www.covantaenergy.com

Statistics:

Wholly Owned Subsidiary of Danielson Holding Corporation
Incorporated: 1939
Employees: 2,400
Sales: $790.5 million (2003)
NAIC: 561790 Other Services to Buildings and Dwellings; 221119 Other Electric Power Generation

Company Perspectives:

Our mission is to generate powerful partnerships by safely and efficiently operating facilities to the highest performance standards, while fostering long-term reliability and always putting client services in the forefront.

Key Dates:

1939: Ogden gets its start as a public utility holding company.
1948: The firm registers as an investment company.
1952: W.A. Case & Son Manufacturing Co. is acquired.
1955: Luria Brothers is purchased.
1983: The company acquires the North American rights to the Martin GmbH system of incineration.
1986: Ogden Projects completes its first waste-to-energy plant.
1991: The company acquires complete control over ERC Environmental and Energy Services.
1999: Ogden announces that it will sell its entertainment and aviation businesses.
2001: The company changes its name to Covanta Energy Corporation.
2002: Covanta files for Chapter 11 bankruptcy protection.
2004: Danielson Holding Corporation acquires Covanta.

Company History:

Covanta Energy Corporation develops and operates waste-to-energy (WTE) power projects and also owns and operates independent power facilities across the United States and in Asia and Europe. Overall, Covanta facilities generate over 2,000 megawatts (MW) of electricity. Its WTE facilities convert over 30,000 tons of municipal solid waste into renewable energy each day. The company--known as Ogden Corporation until 2001--adopted is current moniker after selling off its entertainment and aviation assets to focus on its energy operations. Covanta filed for Chapter 11 bankruptcy protection in 2002 and was acquired by Danielson Holding Corporation in March 2004.

Origins

The original activities of Ogden Corporation bore little resemblance to the company that existed at the start of the new century. In its first half-century of existence, Ogden Corporation was, successively, a public utility holding company, an investment company, a manufacturing company operating through diverse subsidiaries, and a major service company. Ogden Corporation began its history as a public utility holding company in 1939. In 1948, the company registered with the Securities and Exchange Commission (SEC) as an investment company. Ogden acquired W.A. Case & Son Manufacturing Company in 1952, an action that decisively altered the status of the corporation, as the SEC ruled that Ogden had ceased to be an investment company. Thereafter, Ogden operated as a manufacturing company and followed the emerging trend to create conglomerates. In the following decades, Ogden became what one observer called a mini-conglomerate, accumulating such diverse holdings as the Suffolk Downs Race Track, Better Built Machinery, and Wilson Foods.

Diversification and Restructuring in the 1970s-80s

Ogden's most significant corporate acquisition may have been the purchase of Luria Brothers, a scrap processor, in 1955. This transaction brought Ralph E. Ablon into the employ of Ogden Corporation. Ablon had begun his career with Luria Brothers in 1939. In 1948, he was named executive vice-president; he became president of Luria Brothers after its purchase in 1955. Seven years later, Ablon became chairman and chief executive officer of Ogden Corporation. He presided over the company during decades of expansion as a conglomerate, then re-structured the company in the 1980s. His son Richard succeeded him as chief executive officer in 1991, while the senior Ablon remained chairman.

The weaknesses of the conglomerate as a form of business organization had become apparent by the end of the 1970s. Large corporations had accumulated more businesses than they could understand or effectively manage. The 1980s saw widespread reorganizations in American corporations as managers sought to regain a clear sense of identity and a coherent strategy for the future. Ralph Ablon believed that the economy would shift toward a service orientation, and in 1981 he set forth plans for a major reorganization of Ogden Corporation that would fully embrace the service economy. As he later explained, "We looked at what kind of world we would live in and the ideal company for the balance of the century. We discovered that everything we had didn't fit and we had almost nothing we needed to become a total services company." Ablon began the transformation of Ogden with the purchase of Allied Maintenance Corporation, a well-established firm that provided Ogden with a firm base for its expansion into the service sector. Between 1981 and 1987, Ogden virtually re-created itself. In 1987, only 5 percent of income came from businesses that Ogden had owned in 1981. By 1989, Ogden enjoyed annual sales of more than $1 billion.

Ogden's restructuring eliminated many capital-intensive operations that could damage the company in slow economic times. Its new service orientation provided a measure of security even in uncertain economic situations. In the wake of the Wall Street crash of 1987, one financial analyst praised Ogden for its management and stability. "They represent the highest quality in terms of balance sheet, market liquidity, cash availability and earnings stability." Ogden continued to benefit from that stability during the recession of the early 1990s.

Ogden's decision to focus on the service sector still provided an enormous range of action. Ogden Entertainment provided a good example of the diversity of Ogden activity, providing any combination of "concession food service, merchandise, maintenance, janitorial [service], security, parking, total facility management services and concert promotions" to its customers. Ogden Entertainment Services counted among its clients dozens of stadiums, convention centers, and other entertainment venues in North and South America. Clients included Rich Stadium in Buffalo, New York, the Capital Centre Arena in Landover, Maryland, the Rosemont Horizon, near Chicago, Illinois, the Anaheim Stadium in Anaheim, California, and the Sports Palace in Mexico City. In addition, in 1991 Ogden Entertainment was awarded a contract to manage a soccer stadium in London.

Ogden Industrial Services offered a variety of personnel, maintenance, and warehouse services to clients that included many Fortune 500 companies such as IBM, Exxon, and Dow Chemical. The company also worked in conjunction with Ogden projects to provide services to its waste-to-energy plants. Ogden Industrial, like other Ogden subsidiaries, benefited from the desire of other companies to cut overhead expenses and made its profit by offering services more cheaply than companies could afford to provide them for themselves. Among other enterprises, Ogden employees, for example, ran a waste-acid treatment plant for Kemira, Inc. As an independent contractor, Ogden could develop procedures that were not restricted by work rules stipulated in union contracts with Kemira. For example, a lower-paid maintenance employee could perform minor plumbing or mechanical repairs without calling in a more expensive tradesman. While contracting saved money for the customer and provided an additional source of income for Ogden, it caused unease among union members, who feared the threat to high-paying jobs and the possibility that contracting could become a tool to weaken unions. Responding to such concerns in 1987, an Ogden spokesman observed that contracting "is going to become even more widespread, because it is the only solution to saving what is left of America's smokestack industries."

Entering the Waste-to-Energy Market in the 1980s

Ogden Projects, through the activities of its subsidiary Ogden Martin Services, emerged as a leader in the waste-to-energy market. Ogden based its involvement on two developments of the 1970s: rising energy costs and the decreasing availability of landfill space. The

Environmental Protection Agency calculated that in 1971 the United States generated 113 megatons of municipal solid waste. Advocates of commercial re-use began to argue that waste should be viewed as an economic resource. Waste included materials that could be recycled or burned for fuel. The process of utilizing these resources was known as resource recovery. Scarcity provided opportunity for investment and profit. Citing "long term increases in refuse generation and disposal costs, decreased availability for all land uses, and greater demand for energy and material resources," Lisa M. Bithell, writing in the Journal of Resource Management and Technology in 1983, predicted that "centralized resource recovery will continue to play an important role in resource management and solid waste disposal."

Interest in waste-to-energy facilities, however, developed slowly in the United States. After European companies had spent decades working on recovery systems, some American engineers began to experiment with new technologies. Klaus S. Feindler, then president of Beaumont Environmental, criticized American efforts in 1983. Writing in the Journal of Resource Management and Technology, he pointed out that the western European market neared saturation in waste recovery facilities. He calculated that one facility per million of population existed in western Europe while barely 0.2 facilities per million existed in the United States, noting that this combination of an open American market and experienced European companies provided an opportunity for both groups. American preoccupation with experimental systems indicated "a lack of appreciation for the simpler and proven European technology, perhaps because of a preoccupation with space age technology." Ogden, committed to approaches that contained costs, did not make that mistake. In 1983, Ogden acquired the North American rights to the Martin GmbH system of incineration, the most widely used technology.

Ogden Projects completed its first waste-to-energy plant in 1986. In 1992, the company operated 21 plants and had eight additional plants either under construction or awarded. Its 21 plants had the capacity to process 20,675 tons of waste per day. These figures included the acquisition of Blount Energy Resource Corporation, a transaction that brought two operational plants to Ogden. Ogden's rapid growth reflected its reputation for helping local governments address a pressing problem. Herbert Florsdorf, executive director of the Lancaster County (Pennsylvania) Solid Waste Management Authority, expressed relief when Ogden opened its Lancaster County facility in 1991. "Last year," he told Ogden officials, "when we looked at our landfill, we saw 12 acres of potential environmental problems, a risk to our future. Now we see 12 acres of resources." While the company was best known for waste-to-energy operations, Ogden offered a full range of waste disposal services, including recycling.

Not all of Ogden's new operations met with success. In 1986, Ogden began to market a new service to deal with hazardous waste. The group, Ogden Environmental Services, used mobile units to clean up hazardous waste on-site. The company hoped to eliminate the expense and political controversy involved in programs that required extensive transportation of dangerous materials. The enterprise, which offered technology that was useful for a wide range of problems, drew an enthusiastic response from the investment community. John Kaweske, manager of the Financial Industrial Income Fund, told Barron's that prospects for the new technology were excellent. He rated this effort alongside the waste-to-energy business as a reason to look favorably on the long-term prospects of Ogden Corporation. Counter to all expectations, in 1990 the unit endured a loss of almost $4 million on revenues of $6 million. Ralph Ablon ruefully told Business Week in 1989: "Companies with hazardous waste problems are disinclined to spend money, and they will find ways to avoid it." In 1991, Ogden discontinued the on-site remediation business.

Ogden renamed that troubled subsidiary Ogden Waste Treatment Services and developed an approach closer to the model that had succeeded so well in its waste-to-energy operations. The new strategy emphasized permanent facilities "targeting permanent regional hazardous waste treatment and disposal facilities." Such plants encouraged long-term relationships with municipalities. Ogden hoped to become identified as a valued problem solver in this field. The company planned a large thermal treatment plant in Houston and hoped that the new effort would allow this part of its business to prosper.

During the early 1990s, Ogden continued to strengthen its position in environmental services. In 1991, the company acquired complete control over ERC Environmental and Energy Services, which became Ogden Environmental and Energy Services. This purchase was one of the first important actions taken by R. Richard Ablon after he became chief executive officer. The acquisition of this successful consulting and engineering concern supported the position of Ogden's waste-to-energy operations and paved the way for further expansion. In 1991, Ogden Environmental and Energy Services undertook a major environmental testing operation for the Department of Defense, analyzing conditions at naval bases in the Pacific. Ogden hoped that this contract would lead to further business in the Pacific.

During this time period, prospects for Ogden remained good. While some of its subsidiaries, such as Ogden Aviation Services, were dependent on a single industry for their success, the ability to offer a wide range of essential services allowed Ogden Services Corporation to provide a stable base for corporate planning. The future of Ogden Projects depended in part on the development of environmental legislation in the United States. Ogden paid close attention to environmental concerns, and the research expertise of Ogden Environmental and Energy Services meant that Ogden was well positioned to anticipate future environmental needs and business opportunities.

Changes in the 1990s and Beyond

Throughout most of the 1990s, Ogden continued to make strategic purchases and secure lucrative contracts that strengthened its position as one of the largest service companies in the world. It was involved in a host of diverse activities. In 1993, it opened Arrowhead Pond--home to the NHL's Mighty Ducks. The Ogden aviation arm expanded as well, moving into Latin America by offering ground service in Chile, Venezuela, Peru, and Brazil. The company landed a contract to manage the observation deck at the World Trade Center in New York City in 1995 and also acquired a 50 percent interest in Metropolitan Entertainment Inc. and Firehole Entertainment Corporation.

Ogden began to redefine its business scope in the mid-1990s and reorganized itself into three main business segments: aviation, energy services, and entertainment. While the company shuttered unrelated businesses, it continued to expand its core units. In 1999, Wet'n Wild Inc. and several other water parks were purchased.

During this process, Ogden's stock price faltered because it continued to be viewed as a conglomerate. The company finally decided in early 1999 to split its entertainment and aviation business into one publicly traded company while its energy holdings would be spun off. By September, however, plans had changed. Ablon resigned and was replaced by Scott Mackin. Under Mackin's direction, the company announced it would sell its entertainment and aviation holdings in order to focus solely on its energy business.

Ogden entered the new century with additional changes on the horizon. Aramark Corporation purchased its entertainment division and its theme and waterparks were sold to Alfa Holdings SA. Its aviation ground and fueling business, along with its energy engineering operations, were also divested. To mark its transformation into a pure play energy company, Ogden changed its name to Covanta Energy Corporation in 2001.

Despite its restructuring over the past several years, Covanta posted losses from 1999 through 2002. Its exposure to the faltering energy market in California left it struggling to shore up profits. The company's financial situation went from bad to worse when it defaulted on a $4.6 million interest payment in March 2002. In April, Covanta was forced to file for Chapter 11 bankruptcy protection. Its geothermal assets were sold in December 2003.

The company toyed with several reorganization plans but eventually accepted a buyout bid from Danielson Holding Co. The $30 million deal, which included Covanta's energy and water-related businesses, was completed in March 2004. Covanta emerged from bankruptcy that month. Covanta CEO Anthony J. Orlando commented on the transaction in a March 2004 company press release. "We are very pleased to have concluded Covanta's reorganization and are now focused on the continued success of our waste-to-energy business. The plan approved by the court maximizes creditor recovery and affords the company a solid capital structure. In addition, it enables us to embark on a dynamic partnership with the Danielson team." Orlando went on to claim, "By combining our complementary skill sets, we will position Covanta to do what it does best--provide our clients with world class, reliable service." Indeed, Covanta management was optimistic that the problems of the past were well behind it. Only time would tell, however, if Covanta would achieve success in the years to come.

Principal Subsidiaries: 8309 Tujunga Avenue Corporation; AMOR 14 Corporation; Bal-Sam India Holdings Ltd.; Burney Mountain Power; Covanta Acquisition, Inc.; Covanta Alexandria/Arlington, Inc.; Covanta Babylon, Inc.; Covanta Bangladesh Operating Ltd.; Covanta Bessemer, Inc.; Covanta Bristol, Inc.; Covanta Chinese Investments Ltd.; Covanta Cunningham Environmental Support, Inc.; Covanta Energy Americas, Inc.; Covanta Energy Asia Pacific Ltd.; Covanta Energy Construction, Inc.; Covanta Energy Europe Ltd.; Covanta Energy Group, Inc.; Covanta Energy International, Inc.; Covanta Geothermal Operations, Inc.; Covanta Waste to Energy Asia Investments; Covanta Water Holdings, Inc.

Principal Competitors: The AES Corporation; Calpine Corporation; Wheelabrator Technologies Inc.

Further Reading:

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Source: International Directory of Company Histories, Vol.64. St. James Press, 2004.