UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	)	Chapter 11
	)	
	)	Case Nos. 02-40826 (CB), et al.
OGDEN NEW YORK SERVICES, INC., et al.,	)	
	)	(Jointly Administered)
Debtors and Debtors In Possession.	)	
	)	

AMENDED DISCLOSURE STATEMENT WITH RESPECT TO AMENDED PLAN OF REORGANIZATION OF COVANTA LAKE II, INC. UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

Dated: October 20, 2004

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AMENDED DISCLOSURE STATEMENT WITH RESPECT TO PLAN OF REORGANIZATION OF COVANTA LAKE II, INC. UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

I. INTRODUCTION

Covanta Lake II, Inc., successor-in-interest to Covanta Lake, Inc. ("Covanta Lake" or the "Reorganizing Debtor"; upon the Effective Date, the "Reorganized Debtor") submits this amended disclosure statement pursuant to section 1125 of the Bankruptcy Code (the "Disclosure Statement"), for use in the solicitation of votes on the Amended Plan of Reorganization of Covanta Lake II, Inc. Under Chapter 11 of the Bankruptcy Code that was filed with the Court on October 21 , 2004 (together with any subsequent amendments, the "Plan"), a copy of which is attached hereto as Exhibit A.

This Disclosure Statement sets forth certain information regarding the Reorganizing Debtor's prepetition history, significant events that have occurred during its bankruptcy case (the "Chapter 11 Case") and the jointly administrated bankruptcy cases (together with the Chapter 11 Case, the "Consolidated Chapter 11 Cases") of its affiliated debtors (the "Debtors"; together with Danielson (defined below) and each Danielson subsidiary or affiliate in which Danielson holds or owns a controlling interest, other than the Reorganizing Debtor, the "Reorganizing Debtor Affiliates"), and the anticipated reorganization, operations and financing of the Reorganizing Debtor.

This Disclosure Statement also describes the terms and provisions of the Plan, including certain alternatives to the Plan, certain effects of confirmation of the Plan, certain risk factors associated with the Plan, and the manner in which distributions will be made under the Plan. In addition, this Disclosure Statement discusses the confirmation process and the voting procedures that holders of Claims must follow for their votes to be counted.

FOR A DESCRIPTION OF THE PLAN AND VARIOUS RISKS AND OTHER FACTORS PERTAINING TO THE PLAN AS THEY RELATE TO HOLDERS OF CLAIMS AND EQUITY INTERESTS, PLEASE SEE ARTICLE VII (SUMMARY OF THE PLAN) AND ARTICLE VIII (CERTAIN RISKS TO BE CONSIDERED).

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATED TO THE PLAN, CERTAIN EVENTS IN THE CONSOLIDATED CHAPTER 11 CASES, AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE REORGANIZING DEBTOR BELIEVES THAT SUCH SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE REORGANIZING DEBTOR'S MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE REORGANIZING DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND APPENDICES HERETO IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT, REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

ALL CREDITORS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. SUMMARIES OF THE PLAN AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, OTHER EXHIBITS ANNEXED OR REFERRED TO IN THE PLAN, RESPECTIVELY, AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH 11 U.S.C. § 1125 AND RULE 3016(b) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE (THE "BANKRUPTCY RULES") AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER LAWS GOVERNING DISCLOSURE OUTSIDE THE CONTEXT OF TITLE 11 OF THE UNITED STATES CODE (THE "BANKRUPTCY CODE"). THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SEC APPROVED OR DISAPPROVED OF THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT AND APPENDICES HERETO WILL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION, OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT WILL NOT BE ADMISSIBLE IN ANY NONBANKRUPTCY PROCEEDING NOR WILL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE REORGANIZATION AS TO HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN THE REORGANIZING DEBTOR.

NO PARTY IS AUTHORIZED TO PROVIDE TO ANY OTHER PARTY ANY INFORMATION CONCERNING THE PLAN OTHER THAN THE CONTENTS OF THIS DISCLOSURE STATEMENT. THE REORGANIZING DEBTOR HAS NOT AUTHORIZED ANY REPRESENTATIONS CONCERNING IT OR THE VALUE OF ITS PROPERTY OTHER THAN THOSE SET FORTH IN THIS DISCLOSURE STATEMENT. HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD NOT RELY ON ANY INFORMATION, REPRESENTATIONS OR INDUCEMENTS MADE TO OBTAIN YOUR ACCEPTANCE OF THE PLAN THAT ARE OTHER THAN, OR INCONSISTENT WITH, THE INFORMATION CONTAINED HEREIN AND IN THE PLAN.

ALTHOUGH THE REORGANIZING DEBTOR HAS USED ITS BEST EFFORTS TO ENSURE THE ACCURACY OF THE FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT, THE FINANCIAL INFORMATION CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THIS DISCLOSURE STATEMENT HAS NOT BEEN AUDITED, EXCEPT, TO THE EXTENT INDICATED, THE FINANCIAL STATEMENTS ARE INCLUDED IN THE ANNUAL REPORT ON FORM 10-K OF COVANTA ENERGY CORPORATION ("COVANTA").

THE PROJECTIONS PROVIDED IN THIS DISCLOSURE STATEMENT HAVE BEEN PREPARED BY THE REORGANIZING DEBTOR'S MANAGEMENT. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED REASONABLE BY MANAGEMENT AT THE TIME THEY WERE MADE, MAY NOT BE ACHIEVED AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, INDUSTRY, REGULATORY, MARKET AND FINANCIAL UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH WILL BE BEYOND THE REORGANIZED DEBTOR'S CONTROL. THE REORGANIZING DEBTOR CAUTIONS THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE PROJECTIONS OR TO ITS ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIALLY ADVERSE OR MATERIALLY BENEFICIAL MANNER. THE PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR.

SEE ARTICLE VIII OF THIS DISCLOSURE STATEMENT, "RISK FACTORS," FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH A DECISION BY A HOLDER OF AN IMPAIRED CLAIM TO ACCEPT THE PLAN.

II. BANKRUPTCY PLAN VOTING INSTRUCTIONS AND PROCEDURES

A. Notice to Holders of Claims

This Disclosure Statement is being transmitted to certain holders of Claims for the purpose of soliciting votes on the Plan and to others for informational purposes. The purpose of this Disclosure Statement is to provide adequate information to enable the holder of a Claim to make a reasonably informed decision prior to exercising the right to vote to accept or reject the Plan.

By order entered on October 21, 2004 (Docket No. 4306) (the "Disclosure Statement Order"), the Court approved this Disclosure Statement as containing information of a kind and in sufficient and adequate detail to enable holders of Claims that are entitled to vote on the Plan to make an informed judgment with respect to acceptance or rejection of the Plan. THE COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF THE PLAN BY THE COURT.

ALL HOLDERS OF CLAIMS ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS APPENDICES CAREFULLY AND IN THEIR ENTIRETY, AND IF NECESSARY TO CONSULT WITH COUNSEL, BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR TO REJECT THE PLAN. This Disclosure Statement contains important information about the Plan, considerations pertinent to acceptance or rejection of the Plan and developments concerning the Consolidated Chapter 11 Cases.

THIS DISCLOSURE STATEMENT AND THE OTHER MATERIALS INCLUDED IN THE SOLICITATION PACKAGE ARE THE ONLY DOCUMENTS AUTHORIZED BY THE COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN. No solicitation of votes may be made except after distribution of this Disclosure Statement and no person has been authorized to distribute any information concerning the Reorganizing Debtor or the Plan other than the information contained herein.

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD-LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL, FUTURE RESULTS. Except with respect to the projections set forth in Exhibit B attached hereto and except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof and that may have a material impact on the information contained in this Disclosure Statement. The Reorganizing Debtor does not intend to update the projections subsequent to the date of this Disclosure Statement; thus, the Projections will not reflect the impact of any subsequent events not already accounted for in the assumptions underlying the Projections. Further, the Reorganizing Debtor does not anticipate that any amendments or supplements to this Disclosure Statement will be distributed to reflect such occurrences. Accordingly, the delivery of this Disclosure Statement does not under any circumstance imply that the information herein is correct or complete as of any time subsequent to the date hereof.

EXCEPT WHERE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT AND HAS NOT BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

B. Voting Record Date

The record date for determining which holders of Claims are entitled to vote on the Plan is October 20, 2004 (the "Voting Record Date").

C. Solicitation Package

This Disclosure Statement has been prepared with, among other things, copies of (1) the Plan (Exhibit A); (2) the Projected Financial Information (the "Projections") (Exhibit B); (3) the Liquidation Analysis of the

Reorganizing Debtor (the "Liquidation Analysis") (Exhibit C); (4) the notice of, among other things, the time for submitting Ballots to accept or reject the Plan, the date, time and place of the Confirmation Hearing, and the time for filing objections to the confirmation of the Plan (the "Confirmation Hearing Notice"); and (5) if you are entitled to vote, one or more ballots to be used by you in voting to accept or to reject the Plan.

Depending on the Class to which you belong under the Plan, you may receive this Disclosure Statement (along with the Plan and, as applicable, certain of the exhibits hereto described above). Holders of Claims in Subclasses 3A and 3B and Class 4 under the Plan will receive a ballot for voting on this Plan (along with the Plan and this Disclosure Statement). In addition, all parties on the Reorganizing Debtor's most recent notice list filed with the Court will receive this Disclosure Statement (along with the Plan).

Subject to the limitations provided in the Disclosure Statement Order, the Confirmation Hearing Notice will be sent to all known holders of Claims against or Equity Interests in the Reorganizing Debtor's bankruptcy estate (the "Estate") as of the Voting Record Date, as well as to all parties on the Reorganizing Debtor's most recent notice list filed with the Court.

D. General Voting Procedures, Ballots, and Voting Deadline

If you are entitled to vote on the Plan, after carefully reviewing the Plan, this Disclosure Statement and the voting instructions accompanying your Ballot, please indicate your acceptance or rejection of the Plan by checking the appropriate box on the enclosed Ballot. Please complete and sign your original Ballot (copies will not be accepted) and return it in the envelope provided. You must provide all of the information requested by the appropriate Ballot(s). Failure to do so may result in the disqualification of your vote on such Ballot(s). The description of the voting procedures contained in this Disclosure Statement represents a summary of the voting procedures approved by the Court and is qualified in its entirety by the Court-approved voting instructions accompanying each Ballot.

Each Ballot has been coded to reflect the Class of Claims it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot(s) sent to you with this Disclosure Statement.

IN ORDER FOR YOUR VOTE WITH RESPECT TO THE PLAN TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ON THE BALLOT AND ACTUALLY RECEIVED NO LATER THAN NOVEMBER 24, 2004, AT 4:00 P.M. (PREVAILING EASTERN TIME) (THE "VOTING DEADLINE") BY BANKRUPTCY SERVICES, LLC, 757 THIRD AVENUE, THIRD FLOOR, NEW YORK, NEW YORK 10017 (THE "BALLOTING AGENT"). BALLOTS RECEIVED AFTER SUCH TIME WILL NOT BE COUNTED, EXCEPT AS OTHERWISE PERMITTED BY ORDER OF THE COURT. BALLOTS SHOULD NOT BE DELIVERED DIRECTLY TO THE REORGANIZING DEBTOR, THE COURT, OR COUNSEL TO THE REORGANIZING DEBTOR.

E. Voting Procedures for Unknown Holders

With respect to all holders of impaired Claims against the Reorganizing Debtor's Estate who are entitled to vote on the Plan, but that cannot be identified or located by the Reorganizing Debtor, the Reorganizing Debtor will publish notice of the Confirmation Hearing in the Wall Street Journal (National Edition) once no later than 15 business days after entry of the Disclosure Statement Order. With respect to holders entitled to vote under the Plan, upon being contacted by holders who previously could not be identified or located, the Reorganizing Debtor will promptly provide each such holder with copies of this Disclosure Statement (and relevant exhibits thereto) and a ballot, as appropriate, after such holder has adequately evidenced its Claim in the Reorganizing Debtor's Estate.

F. Questions About Voting Procedures

If (1) you have any questions about (a) the procedure for voting your Claim, (b) the packet of materials that you have received, or (c) the amount of your Claim or (2) you wish to obtain, at your own expense, unless otherwise

specifically required by Bankruptcy Rule 3017(d), an additional copy of the Plan, this Disclosure Statement or any appendices or exhibits to such documents please contact:

Bankruptcy Services, LLC
757 Third Ave, Third Floor
New York, NY 10017
Telephone: (646) 282-2500
Facsimile: (646) 282-2501

NO INQUIRIES CONCERNING VOTING PROCEDURES SHOULD BE DIRECTED TO COUNSEL TO THE REORGANIZING DEBTOR, THE UNITED STATES TRUSTEE OR ANY OTHER PARTY.

FOR FURTHER INFORMATION AND INSTRUCTION ON VOTING TO ACCEPT OR REJECT THE PLAN, SEE ARTICLE XII (VOTING REQUIREMENTS).

G. Tabulation of Votes and Voting Objection Procedures

Votes on the Plan will be counted in accordance with either (i) the Reorganizing Debtor's schedules (as amended) with respect to Claims as to which no proofs of claim have been filed, or (ii) a proof of claim filed in these cases, provided that a vote in respect of a Claim that is subject to an objection seeking to, or order granting an objection seeking to, (a) disallow or reduce a Claim for voting purposes, (b) disallow a Claim, (c) reduce the amount of a Claim, and (d) reallocate and transfer a proof of claim from the case of one of the Debtors to another Debtor's case (collectively, the "Claims Objections"), shall be counted in accordance with the treatment provided in such Claims Objection or as otherwise provided by the Court. If such an objection is timely filed, the Ballot for the holder of such proof of claim shall be counted in accordance with a Claims Objection, unless temporarily allowed in a different manner by the Court after notice and hearing. Any party seeking temporary allowance of a Claim for voting purposes in a manner different than as stated in a Claims Objection is required to file with the Court a motion, with evidence in support thereof, seeking temporary allowance of such Claim pursuant to Bankruptcy Rule 3018(a) ("Rule 3018(a) Motion") on or before November 10, 2004, at 4:00 p.m. (prevailing Eastern Time) (the "Rule 3018(a) Motion Deadline"). Furthermore, any holder of a Claim that is scheduled as zero, disputed, unliquidated or contingent in the Schedules who wishes to vote on the Plan must file a Rule 3018(a) Motion on or prior to the Rule 3018(a) Motion Deadline. A Rule 3018(a) Motion must be served on counsel to the Reorganizing Debtor so as to be received by the Rule 3018(a) Motion Deadline.

H. Confirmation Hearing and Deadline for Objections to Confirmation

Pursuant to section 1128 of the Bankruptcy Code and Bankruptcy Rule 3017(c), the Court has scheduled the Confirmation Hearing for December 1, 2004, at 2:00 p.m. (prevailing Eastern Time). The Confirmation Hearing will be held before the Honorable Cornelius Blackshear, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Southern District of New York (the "Court"), Alexander Hamilton Custom House, One Bowling Green, New York, NY 10004-1408. The Confirmation Hearing may be adjourned from time to time by the Court without prior notice except for the announcement of the adjournment date made at the confirmation hearing or at any subsequently adjourned hearing.

The Court has established that the discovery cut-off date relating to the Plan is November 24, 2004, at 4:00 p.m. (prevailing Eastern Time).

Pursuant to the Disclosure Statement Order, objections, if any, to confirmation of the Plan must be filed with the Court and served so that they are RECEIVED on or before November 19, 2004, at 4:00 p.m. (prevailing Eastern Time) (the "Confirmation Objection Deadline") by the parties listed below. Objections, if any, to confirmation of the Plan must be served on the following parties:

Counsel for the Reorganizing Debtor

Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, NY 10006
Attn: James L. Bromley, Esq.

and

Jenner & Block LLP
One IBM Plaza
Chicago, IL 60611-7603
Attn: Vincent E. Lazar, Esq.

Office of the United States Trustee

Office of the United States Trustee
US Department of Justice
Southern District of New York
33 Whitehall Street, 21st Floor
New York, NY 10004
Attn: Brian Masumoto, Esq.

Responses or objections, if any, to confirmation of the Plan: (a) shall be in writing; (b) shall state the name and address of the objector and its interest in the Reorganizing Debtor; (c) shall state, if appropriate, the amount and nature of the objector's Claim or Equity Interest; (d) shall state the grounds for the responses or objections and the legal basis therefore; (e) shall reference with specificity the text of the Plan to which the responses or objections are made, and (f) shall provide proposed language changes or insertions to the Plan to resolve the responses or objections. If a response or objection to the confirmation of the Plan is not timely filed and served before the Confirmation Objection Deadline, the responding or objecting party shall be barred from objecting to confirmation of the Plan and be precluded from being heard at the Confirmation Hearing.

III. HISTORY OF THE REORGANIZING DEBTOR'S BUSINESS OPERATIONS

A. Overview of Reorganizing Debtor's Business Operations

Covanta Lake is a wholly-owned indirect subsidiary of Covanta. On April 1, 2002 (the "First Petition Date" or, hereafter with respect to Covanta Lake, Inc. ("Covanta Lake I") and the Reorganizing Debtor, the "Petition Date"), Covanta and 123 of its domestic subsidiaries or affiliates, including Covanta Lake I which subsequently merged into Covanta Lake, filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Court. On December 16, 2002 (the "Second Petition Date"), June 6, 2003 (the "Third Petition Date") and October 29, 2003 (the "Fourth Petition Date") thirty-two (32) additional subsidiaries filed their chapter 11 petitions for relief. On February 24, 2004 (the "Fifth Petition Date"), Covanta Lake II, Inc. filed its chapter 11 petition for relief. The bankruptcy cases of the Debtors have been jointly administered under the caption "In re Ogden New York Services, Inc., et al., Case Nos. 02-40826 (CB), et al."

The sole business of the Reorganizing Debtor relates to a waste-to-energy facility located in Okahumpa, Lake County, Florida (together with the 15-acre site upon which it is situated, the "Facility") that began operations in 1991. Prior to the commencement of the Consolidated Chapter 11 Cases, a predecessor to Covanta Lake entered into a contract with Lake County, Florida (the "County") to design, construct and operate the Facility (the "Service Agreement"). In the Service Agreement, the County agreed to pay to Covanta Lake certain service and other fees for processing waste delivered to the Facility.

Under the Service Agreement, the County agreed to cause to be delivered to the Facility acceptable waste in a guaranteed minimum annual amount, and to pay to the Reorganizing Debtor a service fee, which generally includes: (i) a debt service component equal to the amount the Reorganizing Debtor is obligated to pay the Indenture

Trustee under the Loan Agreement (described below), (ii) an operation and maintenance charge, (iii) pass-through costs, including certain taxes, fees, assessments, insurance premiums, and other items, and (iv) a percentage of the revenue received from the sale of electricity generated by the Facility.

The construction of the Facility was financed by the issuance of $70,000,000 of federally tax-exempt private activity bonds (the "Series 1988A Bonds") and $9,000,000 of federally taxable private activity bonds (the "Series 1988B Bonds" and, together with the Series 1998A Bonds, the "1988 Bonds") under a certain Indenture of Trust (as amended and supplemented, the "Original Indenture") dated as of November 1, 1988 between the County and Southeast Bank National Association (the predecessor-in-interest to Wachovia Bank, National Association, f/k/a First Union Bank, herein denoted the "Indenture Trustee"), together with an equity contribution from Covanta. Pursuant to a loan agreement by and between the County and Covanta Lake I, dated as of November 1, 1988 (as amended and supplemented, the "Loan Agreement"), the County loaned Covanta Lake I the funds raised by the issuance of the 1988 Bonds to finance the construction of the Facility. The 1988 Bonds were subsequently refinanced and replaced with Series 1993A and 1993B bonds. The Series 1993B Bonds have been retired, so only the Series 1993A Bonds (the "Bonds"; holders of the Bonds are denoted the "Bondholders") remain outstanding.

Pursuant to a Mortgage and Security Agreement dated as of November 1, 1988 (the "Mortgage and Security Agreement"), the Reorganizing Debtor mortgaged to the County and granted to the County a security interest in the Facility, the Facility site, the Service Agreement, certain of the Facility's revenues, and certain other property. The County has assigned its interests in the Mortgage and Security Agreement to the Indenture Trustee as security for payment of the Bonds, and also has assigned its interest in the Loan Agreement to the Indenture Trustee.

In addition, pursuant to a guaranty (the "Parent Guaranty") dated as of November 1, 1988, Covanta guaranteed the Reorganizing Debtor's performance under the Service Agreement. The guarantee does not apply to the Loan Agreement or the Reorganizing Debtor's obligations under the Mortgage and Security Agreement. Upon its emergence from bankruptcy in March 2004, Covanta rejected the Parent Guaranty and its obligations thereunder.

Also prior to the commencement of the Consolidated Chapter 11 Cases, a predecessor to Covanta Lake I entered into a contract with Mr. F. Browne Gregg ("Gregg") and others (the "Gregg Contract"), pursuant to which Covanta Lake acquired the right to the Facility and certain related assets and to operate the Facility under the Service Agreement. Covanta Lake I paid Gregg $6,000,000 at the time it entered into the Gregg Contract, and through the Petition Date had paid Gregg more than $4,000,000 in additional amounts pursuant to the Gregg Contract. Gregg's compensation under the Gregg Contract was to be calculated under a set of formulae. The Gregg Contract provides that it terminated upon the termination of the Service Agreement. Covanta guaranteed Covanta Lake I's performance under the Gregg Contract.

Beginning in 1998, Covanta Lake I and the County commenced negotiations to modify their obligations under the Service Agreement. Those negotiations were not fruitful and, in October 2000, the County filed a lawsuit in the Circuit Court for Lake County, Florida against Covanta Lake I seeking a declaration, inter alia, that the Service Agreement was void as being in violation of Florida law (the "County Prepetition Litigation") and seeking recovery of all amounts previously paid by the County to Covanta Lake I. The County Prepetition Litigation was stayed by operation of law upon the filing of Covanta Lake I's bankruptcy petition on the First Petition Date.

Although the County Prepetition Litigation was stayed upon Covanta Lake I's bankruptcy filing, the resolution of the Service Agreement disputes was and remains critical to the survival of the Reorganizing Debtor, particularly because, as a result of those disputes, Covanta Lake I was receiving insufficient amounts from the County to operate profitably. On June 20, 2003, the Reorganizing Debtor commenced an adversary proceeding against the County (the "Adversary Proceeding"), Adv. Pro. No. 03-4382, alleging that the County had breached the Service Agreement and owed the Estate more than $8,000,000. Covanta Lake I also asked the Court in the Adversary Proceeding to declare the Service Agreement to be a valid and binding contract and to disallow all of the County's proofs of claim, which total more than $81,000,000.

After the commencement of the Adversary Proceeding, Covanta Lake I and the County engaged in negotiations in an effort to resolve the Service Agreement and other disputes. The parties agreed to settle their disputes to avoid the continued expense, uncertainty, and delay of litigation pursuant to a settlement agreement to be entered into by the Reorganizing Debtor and the County (part or all of which may be incorporated into and made

part of the WDA (defined below), the "Settlement Agreement"). Accordingly, the Reorganizing Debtor developed the Plan in order to implement the Settlement Agreement and thereby maximize the value of its Estate for the benefit of creditors and other parties-in-interest. Pursuant to the Settlement Agreement and the Plan, the Reorganizing Debtor will terminate the Service Agreement and enter into a Waste Disposal and Electricity Generating Agreement with the County (the "WDA") as of the Effective Date. Following the Effective Date the Reorganized Debtor will continue operating the Facility, but pursuant to the WDA. For a more complete description of the Settlement Agreement, see Section III.B below.

On August 8, 2002, Gregg filed a proof of claim against the then-Covanta Lake I bankruptcy estate (now the Estate), and Gregg subsequently filed amendments and other restatements of that proof of claim (as amended and restated, the "Alleged Gregg Claim"). The Alleged Gregg Claim asserted that Gregg was entitled to various present and future payments under the Gregg Contract, including payments in the event the Reorganizing Debtor and the County terminated the Service Agreement. On October 1, 2003, Covanta Lake I and Covanta filed their joint objection (Docket No. 2263) seeking the disallowance of the Alleged Gregg Claim. The Court held a three-day trial in November 2003 and, on August 18, 2004, issued a Memorandum Opinion and Order Sustaining Covanta Lake's Objection to the Second Amended Proof of Claim of F. Browne Gregg (Docket No. 4168), sustaining the joint objection and disallowing the Alleged Gregg Claim against Covanta and Covanta Lake I in its entirety.

While Covanta Lake I, Gregg and the County were embroiled in litigation regarding the Gregg Contract and the Service Agreement, Covanta and certain of its affiliated debtors (not including Covanta Lake I) filed with the Court a second plan of reorganization and second plan of liquidation (collectively, the "Second Plans") (Docket Nos. 3101 and 3100, respectively), and on January 9 and January 26, 2004, those same debtors filed with the Court revised versions of the Second Plans (Docket Nos. 3194 and 3191 and 3311 and 3312, respectively). On January 14, 2004, the Court entered an Order (Docket No. 3274) approving the disclosure statement describing the Second Plans and setting a hearing on confirmation of the Second Plans for March 3, 2004. On March 5, 2004, the Court entered orders confirming the Second Plans (Docket Nos. 3598 and 3600). On March 10, 2004, the Second Plans were substantially consummated and became effective. A summary of certain material provisions of the Second Plans is set forth in Section VI below. Subsequent to the confirmation of the Second Plans, certain of the other Debtors (Covanta Tampa Bay, Inc., and Covanta Tampa Construction, Inc.) filed with the Court their joint plan of reorganization (the "Tampa Plan"). On July 16, 2004, the Court entered its order confirming the Tampa Plan and the Tampa Plan subsequently was substantially consummated and became effective. Confirmation and consummation of the Second Plans and the Tampa Plan did not involve the Reorganizing Debtor or its Estate, as Covanta Lake remained a debtor-in-possession (together with three other debtors whose businesses relate to a Warren County, New Jersey waste-to-energy facility, the "Remaining Debtors").

Prior to confirmation of the Second Plans, and in order to (among other things) provide the Reorganizing Debtor with an opportunity to reorganize by avoiding a potential post-March 2004 triggering of a substantial tax liability in the event that the Service Agreement were to be terminated or the Facility were to be abandoned by Covanta Lake after confirmation of the Second Plans. Covanta Lake I merged with Covanta Lake, and Covanta Lake succeeded to all of Covanta Lake I's business operations and liabilities, which transactions triggered certain tax liabilities for the Reorganizing Debtor and Covanta, and thereby provided the parties with additional time to negotiate and confirm a plan of reorganization. A description of the merger is set forth in Article VI.C.6(d) below.

B. The Settlement Agreement Embodied in the Plan

The Plan is premised substantially on the Settlement Agreement, a copy of which will be filed with the Court as part of the Plan Supplement. Attached to the Plan as Exhibit A is a term sheet (the "Settlement Term Sheet") executed by the Reorganizing Debtor and the County describing the parameters of the Settlement Agreement to be executed by the parties. The following is a summary of the events leading up to, and the material terms of, the Settlement Agreement.

On October 10, 2000, the County filed the County Prepetition Litigation, which sought a declaration that the Service Agreement was void because it was unconstitutional and against public policy. In essence, the County alleged that it had lacked authority under Florida law to enter into the Service Agreement. Alternatively, the County alleged that Covanta Lake was in breach of the Service Agreement in that it had allegedly overcharged the County thereunder by more than $6,000,000. The County thereafter refused to remit certain portions of the fees to which

Covanta Lake was entitled under the Service Agreement. Upon the First Petition Date, the County Prepetition Litigation was stayed by operation of section 362 of the Bankruptcy Code.

The payments owed to Covanta Lake I under the Service Agreement provide it with the vast majority of its revenues. The County's challenge to and refusal to pay Covanta Lake all of the fees set out in the Service Agreement therefore had a materially negative impact on Covanta Lake I's financial performance. Accordingly, on June 20, 2003, Covanta Lake I commenced the Adversary Proceeding alleging that the County had breached the Service Agreement and owed the Estate more than $8,000,000.

Covanta Lake also asked the Court in the Adversary Proceeding to disallow all of the County's proofs of claim lodged against the Debtors, which total more than $81,000,000 (the "County Proofs of Claim"). The unsecured County Proofs of Claim include a September 30, 2002 claim alleging that the County was entitled to recover more than $80,000,000 for payments the County made under the Service Agreement. In addition, the Adversary Proceeding sought disallowance of an August 8, 2002 proof of claim alleging that the Debtors are additionally indebted to the County for a variety of unpaid taxes totaling more than $1,100,000.

Following extensive negotiations, the parties agreed to settle their disputes to avoid the continued expense, uncertainty, and delay of litigation. The Settlement Agreement will provide, among other things, that following confirmation of the Plan, the County and the Reorganizing Debtor will terminate the Service Agreement and enter into a new agreement — the WDA — which will govern the parties' relationship going forward.

The settlement also contemplates that the County will refund, satisfy, and retire the Bonds as soon as practicable following the Effective Date (the "Bond Refunding"). As part of and in order to facilitate the Bond Refunding, the Reorganized Debtor will enter into certain agreements, pledges and other documents (the "New Financing Agreements") pursuant to which the Reorganized Debtor will grant liens on certain of its assets, and commit to pay certain future obligations. In connection therewith, it is contemplated that the Mortgage and Security Agreement will be assigned by the Indenture Trustee to the County and either modified, cancelled or delivered to a new lender as security for repayment of the amounts advanced under the New Financing Agreements.

Specifically, it is contemplated that the Settlement Agreement will provide that: (a) the County shall immediately pay the Reorganizing Debtor all undisputed amounts due under the Service Agreement and all property taxes which have accrued and which remain unsatisfied, including all interest and penalty charges, and that the Reorganizing Debtor will then satisfy such outstanding taxes and charges; (b) the County shall pay the Reorganizing Debtor the sum of $100,000 per month for each month from September, 2003 through the date of the closing of the Settlement Agreement (the "Closing Date"); (c) pursuant to the WDA, the County shall pay the Reorganizing Debtor or the Reorganized Debtor three payments of $850,000 each as reimbursement for certain capital expenses; (d) the County's claim for property taxes shall be withdrawn upon the payment of the taxes set forth in (a) above; (e) the Reorganized Debtor shall execute the New Financing Agreements and Covanta will execute an agreement with the County guaranteeing certain of the Reorganized Debtor's obligations under the WDA up to a total of $10,000,000 and containing the terms and conditions specified in the Settlement Term Sheet (the "New Parent Guarantee"); (f) pursuant to the WDA, the County shall be subject to a "put-or-pay" obligation to provide 163,000 tons of acceptable waste per year to the Facility, pro-rated for the first calendar year if necessary; (g) certain of the fees to be paid to the Reorganized Debtor under the WDA (formulae for all fees are set forth in the WDA) shall escalate on an annual basis in relation to the rate of inflation for the prior 12-month period; (h) all outstanding claims and disputes between the County and the Reorganizing Debtor or the Reorganizing Debtor Affiliates, including, but not limited to, the County Prepetition Litigation, the County Proofs of Claim, and the Adversary Proceeding, will be settled under the terms of the Settlement Agreement and the parties will release all monetary claims each has or may have against the other as of the Closing Date; (i) the County agrees that the Reorganized Debtor is not to be deemed a public agency; (j) the County agrees that it is lawful and not unconstitutional to make payments to the Reorganized Debtor under the WDA; (k) the Reorganized Debtor will make various categories of records available to the County in order to monitor performance under the WDA; (l) the County will obtain the consents of the Bondholders and the Indenture Trustee, if any, required to implement the WDA, the Plan, the Bond Refunding and the New Parent Guarantee; (m) the County shall be responsible for the payment of passthrough costs such as: (1) costs arising under any tax compliance agreements with the County, (2) sales, use and discriminatory taxes, (3) costs of increased environmental testing, (4) incremental costs relating to the provision of service at other-than-agreed hours, (5) utility consumption, (6) Indenture Trustee fees and financing costs, (7) ash residue disposal

costs, and (8) other costs; and (n) the County shall be responsible for capital and cost increases relating to changes in law, Force Majeure, or extracontractual County requests.

The Reorganizing Debtor contemplates that the New Parent Guarantee may be terminable if the Plan is reversed on appeal, and that the New Parent Guarantee may require that Covanta cause another subsidiary to operate and maintain the Facility for the County in such an event. The Settlement Agreement, the WDA and the New Parent Guarantee will be included in a supplemental appendix to the Plan (the "Plan Supplement") containing certain of the agreements and other documents to be executed or performed in connection with the consummation of the Plan (collectively, the "Plan Documents"). The Plan Supplement will be filed with the Court at least 5 days prior to the last date for voting on confirmation of the Plan.

The Closing Date shall not occur unless and until certain conditions, including the following conditions, are satisfied: (1) the County arranges for all appropriate consents of the Bondholders and the Indenture Trustee; (2) the Court approves a stipulation by and between Covanta Lake and the County wherein the parties agree that the Service Agreement, The Settlement Agreement, and the WDA are each constitutional and legal, and that the County had and continues to have the authority to enter into the WDA, the Settlement Agreement and the Service Agreement; (3) the Gregg Contract is terminated on terms satisfactory to the Reorganizing Debtor; (4) the Plan is confirmed; and (5) the Bond Refunding shall be irrevocable.

The Reorganizing Debtor believes that the Settlement Agreement is the best way to avoid the continued expense, uncertainty, and delay of litigation and to ensure the viability of the Reorganized Debtor, which necessarily must work closely with the County in the future. The Plan conforms to the requirements and agreements set forth in the Settlement Agreement and the Settlement Agreement is the underlying basis for the Plan.

IV. CAPITAL STRUCTURE OF AND CLAIMS AGAINST THE REORGANIZING DEBTOR

The Reorganizing Debtor's capital structure consists of the following:

A. DIP Financing Facility

On March 3, 2004, the Court entered an interim order (Docket No. 3592), and on March 24, 2004, the Court entered a final order (Docket No. 3678), approving a Post-Petition Credit Agreement (the "DIP Financing Agreement") between the Reorganizing Debtor, as borrower, and Covanta, as lender (the "DIP Lender"), pursuant to which Covanta agreed to provide post-petition financing of up to $1 million to the Reorganizing Debtor to fund the Reorganizing Debtor's continuing operations as a debtor-in-possession (the "DIP Financing Facility"). Covanta Lake estimates that, as of the Effective Date, there will be outstanding indebtedness under the DIP Financing Facility of between $750,000 and $1,000,000. On the Effective Date, all of the Reorganizing Debtor's obligations under the DIP Financing Agreement shall automatically terminate and be cancelled, which termination and cancellation shall be deemed to be a capital contribution by the DIP Lender to the Reorganized Debtor.

B. Covanta Administrative Expense Claim

The Covanta Administrative Expense Claim consists of the Administrative Expense Claim of Covanta (or any subsidiary of Covanta) for funds advanced and services provided to the Reorganizing Debtor during the pendency of the Reorganizing Debtor's Chapter 11 Case, not including any Claims arising under the DIP Financing Facility, which Covanta Administrative Expense Claim shall be deemed Allowed on the Confirmation Date in the amount of $7,100,000. On the Effective Date, the Covanta Administrative Expense Claim shall automatically terminate and be cancelled, which termination and cancellation shall be deemed to be a capital contribution by Covanta to the Reorganized Debtor.

C. Other Administrative Claims

The Reorganizing Debtor estimates that other allowed Administrative Expense Claims (other than administrative priority tax claims) will aggregate up to $1,000.000, consisting of approximately $800,000 of Professional Expenses and $200,000 of trade Administrative Claims incurred in the ordinary course of the

Reorganizing Debtor's business. In addition, Covanta Lake believes that the aggregate Allowed County Assessor Claim for postpetition real property taxes, which shall be paid in full with funds received by the Reorganizing Debtor pursuant to the Settlement Agreement, will total approximately $3,920,000 (the "County Administrative Tax Claim").

D. Secured Bondholder Claims

The Reorganizing Debtor estimates that there are approximately $53,250,000 of Secured Bondholder Claims, consisting of the secured and unsecured claims of Bondholders and the Indenture Trustee. Under the Settlement Agreement, the Bonds will be redeemed (with unpaid interest, if any, accrued since the Petition Date) and retired on the Effective Date or as soon thereafter as is practicable, using the proceeds of new financing, in full satisfaction of the Secured Bondholder Claims.

E. Priority Tax Claims

The Reorganizing Debtor estimates that the County holds approximately $1,300,000 of Priority Tax Claims (the "County Priority Tax Claim"). Under the Settlement Agreement, Covanta Lake will pay these Claims in full using funds it will receive pursuant to the Settlement Agreement.

F. Priority Non-Tax Claims

The Reorganizing Debtor believes there are no accrued and unpaid Priority Non-Tax Claims.

G. Other County Claims

As set forth in Section III.B. above, the County filed County Proofs of Claim in an amount in excess of $80,000,000. Other than with respect to the County Administrative Tax Claim and the County Priority Tax Claim described above, the Reorganizing Debtor disputes the County Proofs of Claim as filed and these disputed County Proofs of Claim are separately classified. The County will waive the County Proofs of Claim pursuant to the Settlement Agreement.

H. General Unsecured Claims

The Reorganizing Debtor estimates that there are approximately $300,000 of General Unsecured Claims (excluding Intercompany Claims), consisting primarily of the Claims of parties who provided goods and services in connection with the operation of the Facility. This does not include any Alleged Gregg Claims, which have been disallowed by the Court.

I. Intercompany Claims

Intercompany Claims consist of Unsecured Claims against the Reorganizing Debtor asserted by Covanta or any Affiliate (as defined in the Plan) of the Reorganizing Debtor. The Reorganizing Debtor's books and records reflect approximately $18,000,000 of pre-petition Intercompany Claims against the Reorganizing Debtor by Covanta and its affiliates. This amount is in addition to, and exclusive of, the Covanta Administrative Expense Claims.

J. Equity

Covanta indirectly owns 75% of the outstanding Equity Interests in and to the Reorganizing Debtor, and Danielson Holding Company ("Danielson"), Covanta's parent company, owns 25% of the outstanding Equity Interests in and to the Reorganizing Debtor.

V. CORPORATE STRUCTURE OF THE REORGANIZING DEBTOR

A. The Debtors' Corporate Structure

Covanta is the parent holding company of 155 subsidiaries or affiliates that are or have been Debtors. Of the entities that have filed as Debtors, 79 were reorganized pursuant to the Second Reorganization Plan, and 64 were liquidated pursuant to the Second Liquidation Plan. In addition, four Debtors were sold as part of the Debtors' sale of their aviation fueling assets and four other Debtors were sold as part of the Debtors' sale of their geothermal power production business and are no longer Debtors. Two others were reorganized pursuant to the Tampa Plan. Three Debtors whose businesses relate to a waste-to energy facility located in Warren County, New Jersey will remain in bankruptcy and will attempt to subsequently consummate a restructuring transaction. Finally, the Reorganizing Debtor will be reorganized pursuant to this Plan.

B. Management of the Reorganizing Debtor

The current directors and officers of the Reorganizing Debtor consist of highly capable and seasoned professionals with substantial experience. The following contains brief background descriptions and lists the directors and officers of the Reorganizing Debtor as of September 1, 2004:

1. The Reorganizing Debtor's Directors

Anthony J. Orlando was appointed a Director of Covanta and the Reorganizing Debtor effective March 10, 2004. He was named President and Chief Executive Officer of Covanta and the Reorganizing Debtor in November 2003. From March 2003 until November 2003 Mr. Orlando served as Senior Vice President, Business and Financial Management of Covanta and the Reorganizing Debtor. From January 2001 until March 2003, Mr. Orlando served as Covanta and the Reorganizing Debtor's Senior Vice President, Waste to Energy. Previously he served as Executive Vice President of Covanta Energy Group, Inc., a Covanta subsidiary. Mr. Orlando joined Covanta in 1987.

John M. Klett was appointed a Director of the Reorganizing Debtor effective March 10, 2004. He was named Senior Vice President, Domestic Operations of Covanta and the Reorganizing Debtor in March 2003. Prior thereto he served as Executive Vice President of Covanta Waste to Energy, Inc. for more than ten years, during which time he was responsible for all Covanta Waste to Energy, Inc. facility operations and maintenance. Mr. Klett joined Covanta in 1986.

Timothy J. Simpson was appointed a Director of the Reorganizing Debtor effective March 10, 2004. He was named Senior Vice President, General Counsel and Secretary of Covanta and the Reorganizing Debtor as of March 10, 2004. Prior thereto he served as Vice President, Associate General Counsel and Assistant Secretary of Covanta and the Reorganizing Debtor since June 2001. Prior thereto he served as Senior Vice President, Associate General Counsel and Assistant Secretary of Covanta Energy Group, Inc., a Covanta subsidiary. Mr. Simpson joined Covanta in 1992.

These directors will continue in their positions as directors of the Reorganized Debtor on and after the Effective Date of the Plan.

2. The Reorganizing Debtor's Senior Officers

Anthony J. Orlando:	President and Chief Executive Officer
Craig D. Abolt	Senior Vice President, Chief Financial Officer
John M. Klett:	Senior Vice President, Domestic Operations
Seth Myones:	Senior Vice President, Business Management
Scott W. Whitney:	Senior Vice President, Business Development
Timothy J. Simpson:	Senior Vice President, General Counsel and Secretary
Louis M. Walters:	Vice President and Treasurer

Anthony J. Orlando was named President and Chief Executive Officer of Covanta and the Reorganizing Debtor in November 2003.

Craig D. Abolt was named Senior Vice President and Chief Financial Officer of Covanta and the Reorganizing Debtor in June 2004. Prior thereto, he served as chief financial officer of DIRECTV Latin America, a majority-owned subsidiary of Hughes Electronics Corporation. In this position, he had financial and operational responsibilities for the technically sophisticated multi-national DTG television and multimedia organization with consolidated revenues of approximately $600 million. From 1991 to 2001, Mr. Abolt was employed by Walt Disney Company in several executive finance positions.

John M. Klett was named Senior Vice President, Domestic Operations of Covanta and the Reorganizing Debtor in March 2003.

Seth Myones was named Senior Vice President, Business Management of Covanta and the Reorganizing Debtor as of March 10, 2004. Prior thereto he served as Vice President, Business Management, of Covanta Waste to Energy, Inc., a Covanta subsidiary, since September 2001. From 1994 through September 2001, Mr. Myones served as Vice President of several subsidiaries in Covanta's' WTE business. Mr. Myones joined Covanta in 1989.

Scott W. Whitney was named Senior Vice President, Business Development of Covanta and the Reorganizing Debtor as of March 10, 2004. Previously he served as Vice President, Business Development for Covanta Energy Group, Inc., a Covanta subsidiary. Mr. Whitney joined Covanta in 1987.

Timothy J. Simpson was named Senior Vice President, General Counsel and Secretary of Covanta and the Reorganizing Debtor as of March 10, 2004.

Louis M. Walters was named Vice President and Treasurer of Covanta and the Reorganizing Debtor in 2001. Mr. Walters served as Treasurer of Covanta Energy Group, Inc. from January 2000 to 2001. Mr. Walters joined Covanta in 2000.

These officers will continue in their respective positions on and after the Effective Date of the Plan.

VI. THE CONSOLIDATED CHAPTER 11 CASES

A. Overview

On April 1, 2002, Covanta and 123 of its domestic subsidiaries or affiliates (including Covanta Lake I) filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Court. On December 16, 2002, June 6, 2003, October 29, 2003, and February 24, 2004, thirty-two (32) additional subsidiaries (including Covanta Lake II, Inc.) filed their chapter 11 petitions for relief under the Bankruptcy Code. Eight (8) subsidiaries that had filed petitions on the First Petition Date have been sold as part of Covanta's disposition of assets during the bankruptcy cases and are no longer owned by the Company. The bankruptcy cases of the Debtors are jointly administered under the caption "In re Ogden New York Services, Inc., et al., Case Nos. 02-40826 (CB), et al." Plans of reorganization or liquidation have been confirmed with respect to all of the Debtors, other than the Remaining Debtors.

B. Confirmation of Second Plans

On December 2, 2003, Covanta and Danielson entered into an Investment and Purchase Agreement, which provided that Danielson would purchase 100% of the equity in Covanta for approximately $30 million as part of a plan of reorganization. Further, as part of the Second Reorganization Plan, Danielson and certain of Covanta's secured lenders agreed to provide new revolving credit and letter of credit facilities for Covanta's domestic and international operations, and Danielson further agreed to execute and consummate a tax sharing agreement between Danielson and reorganized Covanta pursuant to which Covanta's share of Danielson's consolidated group tax liability for taxable years ending after consummation of the transaction will be computed taking into account net

operating losses of Danielson, and Danielson will have an obligation to indemnify and hold harmless Covanta for certain excess tax liability.

As noted above, on March 5, 2004, the Court entered orders confirming the Second Plans and on March 10, 2004, the Second Plans were substantially consummated and became effective. Confirmation and consummation of the Second Plans did not involve the Reorganizing Debtor or its Estate.

The Second Reorganization Plan provided for, among other things, the following distributions: (i) Covanta's secured lenders and its 9.25% debenture holders received the cash available for distribution after payment by the Debtors of certain exit costs and the establishment of reserves required under the Reorganization Plan, as well as new High Yield Notes issued by Covanta and guaranteed by certain of its subsidiaries (but not Covanta Lake) which are not contractually prohibited from incurring or guaranteeing additional debt; (ii) holders of allowed unsecured claims against Covanta's reorganized operating subsidiaries received unsecured notes in a principal amount equal to the amount of their allowed unsecured claims with a stated maturity of 8 years; and (iii) holders of allowed unsecured claims against Covanta or certain of its holding company subsidiaries received or will receive a pro rata share of $4 million in principal amount of unsecured notes, a participation interest equal to 5% of the first $80 million in net proceeds received in connection with the sale or other disposition certain subsidiaries, and the recoveries, if any, from avoidance actions not waived under the plan that might be brought on behalf of Covanta and its subsidiaries. Additionally, the Reorganization Plan incorporates the terms of a settlement of litigation that had been commenced during the Debtors' cases by the Creditors' Committee challenging the validity of the lien asserted on behalf of the holders of the 9.25% debentures (pursuant to that settlement, holders of general unsecured claims against Covanta became entitled to receive 12.5% of the value that would otherwise be distributable to the holders of 9.25% Debenture claims that are participating in the settlement.)

The Second Liquidation Plan provided for the complete liquidation of those Covanta subsidiaries that were designated as liquidating entities. Substantially all of the assets of these liquidating entities have already been sold. Under the Second Liquidation Plan, the creditors of the liquidating entities did not receive any distribution, other than holders of administrative expense claims against the liquidating entities that were incurred in the implementation of the Second Liquidation Plan and priority claims required to be paid under the Bankruptcy Code.

As a result of the consummation of the Second Plans, Covanta and the other Debtors that were the subject of the Second Reorganization Plan emerged from bankruptcy with a new debt structure. Domestic borrowers have two credit facilities; (i) a letter of credit facility for the issuance of a letter of credit in the amount up to $139 million required in connection with one waste-to-energy facility, and (ii) a junior letter of credit and liquidity facility, in the aggregate amount of $118 million, up to $10 million of which also is available for cash borrowings on a revolving basis and the balance for letters of credit. The domestic borrowers also have or will issue the High Yield Notes and the unsecured notes provided for in the Second Reorganization Plan. The High Yield Notes were issued in the initial principal amount of $205 million, which will accrete to $230 million at maturity in 7 years. Unsecured notes in a principal amount of $4 million were issued on the effective date of the Second Reorganization Plan, and Covanta expects to issue additional unsecured notes in a principal amount of between $20 and $24 million.

The foregoing is a very general description of the reorganizations and liquidations implemented under the Second Plans. For a more detailed description, please refer to the "Second Disclosure Statement with Respect to the Reorganizing Debtor's Second Joint Plan of Reorganization and Liquidating Debtors' Second Joint Plan of Liquidation Under Chapter 11 of the Bankruptcy Code" filed with the Court on January 14, 2004, as well as Covanta's 2003 annual report on Form 10-K filed with the SEC.

C. Significant Events During the Reorganizing Debtor's Bankruptcy Case

1. DIP Financing Facility

On March 3, 2004, the Court entered an interim order (Docket No. 3592), and on March 24, 2004, the Court entered a final order (Docket No. 3678), approving the DIP Financing Agreement and the DIP Financing Facility, between the Reorganizing Debtor, as borrower, and Covanta, as lender (the "DIP Lender") pursuant to which Covanta agreed to provide post-petition financing to the Reorganizing Debtor to fund the Reorganizing Debtor's continuing operations as debtors-in-possession in an amount up to $1 million. The Court's orders also

approved separate DIP facilities for the Remaining Debtors. The DIP Financing Facility expires on December 31, 2004.

2. Intercompany Agreements

On March 3, 2004, the Court entered an order (Docket No. 3590) approving certain intercompany agreements between the Reorganizing Debtor and Covanta, consisting of a Support Services Agreement, an Employee Cost Reimbursement Agreement, and a Tax Sharing/Allocation Agreement to facilitate the Reorganizing Debtor's continuing operations as debtor-in-possession. The Court's order also approved substantially identical intercompany agreements between Covanta and the other Remaining Debtors.

3. Assumption and Rejection

As a debtor in possession, the Reorganizing Debtor has the right, subject to Court approval and certain other limitations, to assume or to reject executory contracts and unexpired leases. Contracts or leases that are assumed may be assigned to a third party as provided under the Bankruptcy Code.

The treatment of contracts or leases that have not been assumed or rejected by order of the Court as of the date hereof, is discussed in Article VII of the Plan. On the Effective Date, all executory contracts and unexpired leases of the Reorganizing Debtor shall be deemed rejected other than those executory contracts or unexpired leases that are specifically designated as assumed on the Schedule of Assumed Contracts and Leases or as otherwise provided in Article VII of the Plan.

4. Creditors' Committee

On April 9, 2002 the United States Trustee for the Southern District of New York appointed a Creditors' Committee for the Debtors' cases in accordance with the applicable provisions of the Bankruptcy Code. The Creditors' Committee was dissolved (except for certain limited purposes not applicable to the Reorganizing Debtor) pursuant to the Court's Order confirming the Second Plans.

5. Exclusivity

Pursuant to an order entered on March 27, 2003 (Docket No. 1391), the Court extended the Original Debtors' exclusivity period during which the Debtors may file a plan of reorganization (the "Exclusivity Period") through July 31, 2003 and the exclusive right to solicit acceptances thereto through September 23, 2003. On July 16, 2003 the Court entered an order (Docket No. 1746), extending the Exclusivity Period to and including August 14, 2003 with the exclusive right to solicit acceptances thereto through September 23, 2003. At a hearing before the Court on August 13, 2003, the Court extended the Exclusivity Period to and including September 4, 2003. On September 8, 2003, the Court entered an order (Docket No. 2055) extending the Exclusivity Period to and including September 10, 2003. On September 19, 2003, the Court entered an order (Docket No. 2109) extending the Exclusivity Period to and including December 8, 2003, with the exclusive right to solicit acceptances thereto through January 7, 2004. On December 4, 2003, the Court entered an order (Docket No. 2927) extending the Exclusivity Period for the Debtors to and including February 23, 2004, with the exclusive right to solicit acceptances thereto through March 24, 2004. On February 18, 2004, the Court entered an order (Docket No. 3453) extending the Exclusivity Period to and including June 21, 2004, with the exclusive right to solicit acceptances thereto through July 21, 2004. On July 14, 2004, the Court entered an order (Docket No. 4066) extending the Exclusivity Period to and including October 18, 2004, with the exclusive right to solicit acceptances thereto through November 19, 2004. On October 21, 2004, the Court entered an order (Docket No. 4302) extending the Exclusivity Period to and including February 15, 2005, with the exclusive right to solicit acceptances thereto through April 18, 2005. Thus, the Exclusivity Period remains in effect for Covanta Lake through April 18, 2005.

6. Summary of Claims Process, Bar Dates and Claims Filed

(a) Schedules and Statements of Financial Affairs

On June 14, 2002 the Original Debtors (including Covanta Lake I) filed with the Court their Original Schedules setting forth, among other things, the assets and liabilities of the Original Debtors as shown by their books and records, subject to the assumptions contained in certain notes filed in connection therewith. On November 22, 2002, the Original Debtors filed their First Amended Schedules with the Court (Docket No. 1107). On December 11, 2002, the Original Debtors filed their Second Amended Schedules with the Court (Docket No. 1146). On August 24 and 25, 2003, the Debtors filed their Third Amended Schedules (Docket Nos. 1886-2006), in order to (i) reclassify the claims of a number of scheduled creditors by transferring those creditors' claims from one Debtor's schedules to the applicable schedule for a different Debtor's case, (ii) reflect that certain schedule creditors whose claims were listed in the Original Schedules as contingent, unliquidated and/or disputed are no longer contingent, unliquidated or disputed, and (iii) add additional creditors. On March 25, 2004, certain of the Debtors filed their Fourth Amended Schedules (Docket Nos. 3688-3702), in order to properly categorize certain claims previously listed as undisputed. Pursuant to Court order (Docket No. 3537) entered at the commencement of Covanta Lake's case, the Schedules filed by Covanta Lake I are deemed to have been filed in Covanta Lake's case.

(b) Claims Bar Dates

On June 26, 2002, the Court entered the General Bar Date Order establishing August 9, 2002 as the General Bar Date in the Consolidated Chapter 11 Cases of the Original Debtors and approved the form and manner of notice to be provided with respect of the General Bar Date, and set deadlines for the Debtors to mail and publish notices of the General Bar Date. In accordance with the General Bar Date Order, on or before June 28, 2002, the Debtors' notice agent, Bankruptcy Services L.L.C. (the "Notice Agent"), gave notice of the General Bar Date by mailing to all scheduled creditors the notice of the General Bar Date approved by the Court and a proof of claim form substantially similar to Official Form No. 10. In addition, the Original Debtors published notice of the General Bar Date in the Wall Street Journal and USA Today on August 11, 2002.

Pursuant to Court order entered on March 1, 2004, the bar dates for the Debtors that filed their Chapter 11 Cases on the First Petition Date, including Covanta Lake I, apply to the Reorganizing Debtor's Chapter 11 Case. Pursuant to the Plan, an Administrative Claims Bar Date will be established as set forth in Section VII.B.1.(a)(iv) below.

(c) Claims Administration

Prior to the commencement of these cases, the Reorganizing Debtor maintained, in the ordinary course of business, books and records that reflected, among other things, the Reorganizing Debtor's liabilities and the amounts thereof owed to its creditors. The Reorganizing Debtor has conducted a review of the proofs of claim filed in its Chapter 11 Case, including any supporting documentation, the Claims set forth therein, and the Reorganizing Debtor's books and records to determine the validity of the Claims asserted against the Reorganizing Debtor. Based on these reviews, the Reorganizing Debtor determined that certain Claims asserted against the Reorganizing Debtor are objectionable.

The Reorganizing Debtor has objected, or is preparing to object, to certain Claims filed in its Chapter 11 Case. BECAUSE THE DEADLINE UNDER THE PLAN FOR OBJECTING TO CLAIMS IS AFTER THE DATE BY WHICH OBJECTIONS TO CONFIRMATION OF THE PLAN MUST BE FILED, CREDITORS SHOULD NOT RELY ON THE ABSENCE OF AN OBJECTION TO THEIR PROOF OF CLAIM IN DETERMINING WHETHER TO OBJECT TO THE PLAN, OR ANY INDICATION THAT THE REORGANIZING DEBTOR OR OTHER PARTY IN INTEREST WILL NOT OBJECT TO THE AMOUNT, PRIORITY, SECURITY OR ALLOWABILITY OF SUCH CLAIM.

(d) Merger

Prior to confirmation of the Second Plans, and in order (among other things) to provide the Reorganizing Debtor with an opportunity to reorganize by avoiding a potential triggering of a substantial tax liability following consummation of the Second Plans in the event that the Service Agreement were to be terminated or the Facility were to be abandoned by Covanta Lake after confirmation of the Second Plans, on February 11, 2004 the Court entered an order (Docket No. 3421) authorizing Covanta Lake I to merge with Covanta Lake, a newly-formed Covanta subsidiary, following which 25% of its shares of common stock were sold to Danielson. Following entry of that order, Covanta Lake I merged with Covanta Lake pursuant to Articles of Merger, and Covanta Lake succeeded to all of Covanta Lake I's business operations and liabilities. On February 24, 2004, Covanta Lake II, Inc. commenced its Chapter 11 Case, and on March 1, 2004 the Court entered an Order (Docket No. 3537) deeming all claims filed against Covanta Lake I to have been filed against Covanta Lake, directing that numerous orders entered in the Consolidated Chapter 11 Cases be made applicable to the Reorganizing Debtor's (including Covanta Lake II, Inc.) Chapter 11 Case, and ordering the joint administration of Covanta Lake's Chapter 11 Case with the Consolidated Chapter 11 Cases.

VII. SUMMARY OF THE PLAN

THIS SECTION CONTAINS A SUMMARY OF THE STRUCTURE OF, CLASSIFICATION AND TREATMENT OF CLAIMS AGAINST AND EQUITY INTERESTS IN AND IMPLEMENTATION OF THE PLAN, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN, WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT, AND TO THE EXHIBITS ATTACHED THERETO OR REFERRED TO THEREIN. CAPITALIZED TERMS NOT DEFINED HEREIN SHALL HAVE THE MEANINGS SET FORTH IN THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT INCLUDE SUMMARIES OF THE PROVISIONS CONTAINED IN THE PLAN AND IN DOCUMENTS REFERRED TO THEREIN. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE PRECISE OR COMPLETE STATEMENTS OF ALL THE TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO THEREIN, AND REFERENCE IS MADE TO THE PLAN AND TO SUCH DOCUMENTS FOR THE FULL AND COMPLETE STATEMENTS OF SUCH TERMS AND PROVISIONS.

THE PLAN ITSELF AND THE DOCUMENTS REFERRED TO THEREIN, WHICH ARE OR WILL HAVE BEEN FILED WITH THE COURT, WILL CONTROL THE TREATMENT OF CREDITORS AND HOLDERS OF EQUITY INTERESTS UNDER THE PLAN AND WILL, UPON THE EFFECTIVE DATE OF THE PLAN, BE BINDING UPON HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN THE REORGANIZING DEBTORS AND OTHER PARTIES IN INTEREST, REGARDLESS OF WHETHER OR HOW THEY HAVE VOTED ON THE PLAN.

A. Overall Structure of the Plan

The Reorganizing Debtor has formulated the Plan to facilitate the successful resolution of its Chapter 11 Case.

The overriding purpose of the Plan is to enable the Reorganizing Debtor to implement the Settlement Agreement, and emerge from chapter 11 for purposes of operating the Facility.

If the Plan is confirmed by the Court and consummated, Classes of Claims against and Equity Interests in the Reorganizing Debtor will receive the treatment described in the Plan. A description of the Claims and Equity Interests included in each Class of Claims and Equity Interests, the treatment of those Classes under the Plan, the property (if any) to be distributed to holders of Allowed Claims in those Classes under the Plan appears below.

The amounts and forms of distributions under the Plan are based upon, among other things, the requirements of applicable law and the Reorganizing Debtor's assessment of the Reorganized Debtor's ability to achieve the goals set forth in the Projections.

B. Classification and Treatment of Claims and Equity Interests

Section 1122 of the Bankruptcy Code requires that a plan of reorganization classify the claims of a Debtor's creditors and the interests of its equity holders. The Bankruptcy Code also provides that, except for certain claims classified for administrative convenience, a plan of reorganization may place a claim of a creditor or an interest of an equity holder in a particular class only if such claim or interest is substantially similar to the other claims or interests in such class.

The Bankruptcy Code also requires that a plan of reorganization provide the same treatment for each claim or interest of a particular class unless the holder of a particular claim or interest agrees to a less favorable treatment of its claim or interest. The Reorganizing Debtor believes that it has complied with such standard. If the Court finds otherwise, however, it could deny confirmation of the Plan if the holders affected do not consent to the treatment afforded them under the Plan.

The Plan classifies Claims and Equity Interests in the following Classes.

Class	**Plan**	**Estimated Claim Amount**	**Estimated Recovery**
Class 1	Allowed Priority Non-Tax Claims, which consist of all Claims that are entitled to priority under section 507(a) of the Bankruptcy Code, other than an Administrative Expense Claim or a Priority Tax Claim.	$0.00	100%
Class 2	Allowed Secured Bondholder Claims.	$53,200,000	100%
Subclass 3A	Allowed Unsecured Claims, which consists of any Claims that are not Secured Bondholder Claims, Administrative Expense Claims, Priority Tax Claims, Priority Non-Tax Claims, Intercompany Claims, or County Claims.	$300,000	100%
Subclass 3B	Allowed Intercompany Claims, which consists of any unsecured Claims against the Reorganizing Debtor asserted by any Person that is an affiliate of the Reorganizing Debtor.	$18,000,000	0%
Class 4	County Claims, which consist of the claims filed by or on behalf of Lake County, Florida and/or its representatives, other than the County Administrative Tax Claim and the County Priority Tax Claim.	$81,000,000 (disputed)	N/A
Class 5	Allowed Equity Interests, which consists of Covanta and its Affiliates' Equity Interests in the Reorganizing Debtor.	N/A	N/A

The Reorganizing Debtor believes that is has classified all Claims and Equity Interests in compliance with the requirements of section 1122 of the Bankruptcy Code. If a holder of a Claim or Equity Interest challenges such classification of Claims or Equity Interests and the Court finds that a different classification is required for the Plan to be confirmed, the Reorganizing Debtor, to the extent permitted by the Court, intends to make such modifications to the classifications of Claims or Equity Interests under the Plan to provide for whatever classification might be required by the Court for confirmation. UNLESS SUCH MODIFICATION OF CLASSIFICATION ADVERSELY AFFECTS THE TREATMENT OF A HOLDER OF A CLAIM OR EQUITY INTEREST AND REQUIRES RESOLICITATION, ACCEPTANCE OF THE PLAN BY ANY HOLDER OF A CLAIM OR EQUITY INTEREST PURSUANT TO THIS SOLICITATION WILL BE DEEMED TO BE A CONSENT TO THE PLAN'S TREATMENT OF SUCH HOLDER OF A CLAIM OR EQUITY INTEREST, RESPECTIVELY, REGARDLESS OF THE CLASS OF WHICH SUCH HOLDER IS ULTIMATELY DEEMED TO BE A MEMBER.

1. Treatment of Unclassified Claims

(a) Administrative Expense Claims Generally

Administrative Expense Claims consist primarily of the costs and expenses of administration of the Reorganizing Debtor's Chapter 11 Case. Subject to the provisions of the Plan, they include, but are not limited to, the cost of operating the Reorganizing Debtor's businesses since the Petition Date, the outstanding unpaid fees and expenses of the professionals retained by the Reorganizing Debtor as approved by the Court (the "Retained Professionals") and the payments necessary to cure prepetition defaults on unexpired leases and executory contracts that are being assumed under the Plan ("Cure"). All payments to professionals for compensation and reimbursement of expenses will be made in accordance with the procedures established by the Bankruptcy Code and the Bankruptcy Rules and are subject to approval of the Court as reasonable.

All Administrative Expense Claims are subject to the Administrative Expense Claim Bar Date (defined in subsection (iv) below), except for the following limited claims: (a) United States Trustee Claims; (b) postpetition trade liabilities incurred and payable in the ordinary course of business by the Reorganizing Debtor; or (c) fees and expenses incurred by (i) Retained Professionals, (ii) persons employed by the Reorganizing Debtor or serving as independent contractors to the Reorganizing Debtor in connection with its reorganization efforts, (iii) Bankruptcy Services, LLC, and (iv) the Indenture Trustee and its counsel; (d) the Covanta Administrative Claims, and (e) the DIP Financing Facility Claims. To the extent that the Administrative Expense Claim Bar Date applies, failure to file a timely request for payment of an Administrative Expense Claim prior to the Administrative Expense Claim Bar Date shall result in the Administrative Expense Claim being forever barred and discharged. All Retained Professionals and other entities seeking an award by the Court of compensation for services rendered or reimbursement of expenses incurred through and including the Effective Date under subsections 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code (excluding those professionals retained pursuant to the Court's April 2, 2003 Order Authorizing Employment and Compensation of Professionals Utilized in the Ordinary Course of Business who are not seeking compensation in excess of $30,000 for any month) must file a timely request for payment on or before the date that is specified in the Plan. Any such request for payment of compensation for services rendered or reimbursement of expenses incurred that is not filed by the applicable deadline shall be barred.

The Reorganizing Debtor believes that the proceeds of the Settlement Agreement will be sufficient to enable it to pay all Allowed Administrative Expense Claims and any professional fees that remain unpaid as of the Effective Date at such time(s) as provided in the Plan. Moreover, the Reorganizing Debtor believes that the aggregate amount of Administrative Expense Claims that may become Allowed after the Effective Date will not exceed the Reorganizing Debtor's ability to pay such Claims when they are Allowed and/or otherwise become due.

(i) Administrative Expense Claims

Subject to Section 2.2 of the Plan, (a) except to the extent that the Reorganizing Debtor and a holder of an Allowed Administrative Expense Claim agree to less favorable treatment and except as set forth in Section 2.3 and 2.5 of the Plan, the Reorganizing Debtor shall pay to each holder of an Allowed Administrative Expense Claim, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Administrative Expense Claim, Cash in an amount equal to such Allowed Administrative Expense Claim on the Effective Date, provided that any such liabilities not incurred in the ordinary course of business were approved and authorized by a Final Order of the Court; provided, however, that (i) Allowed Administrative Expense Claims representing trade liabilities incurred in the ordinary course of business by the Reorganizing Debtor, as debtor in possession, may be paid by the Reorganizing Debtor in the ordinary course of business, consistent with past practice and in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions, and (ii) the Covanta Administrative Expense Claim and the DIP Financing Facility Claims shall be cancelled on the Effective Date and treated as a capital contribution to the Reorganized Debtor by Covanta. To the extent that the Administrative Expense Claim Bar Date applies, failure to file a timely request for payment of an Administrative Expense Claim prior to the Administrative Expense Claim Bar Date shall result in the Administrative Expense Claim being forever barred and discharged. The Reorganizing Debtor estimates that Allowed Administrative Expense Claims (exclusive of the Covanta Administrative Expense Claim, the DIP Financing Facility Claim, and the Lake County Administrative Tax Claim) will aggregate less than $1.0 million.

(ii) DIP Financing Facility Claims

The Reorganizing Debtor estimates that as of December, 2004, there will be an outstanding balance under the DIP Financing Facility of between $750,000 and $1,000,000. Subject to Section 2.5 of the Plan, on the Effective Date, the DIP Financing Agreement shall automatically terminate and all DIP Financing Facility Claims shall be released and cancelled, which release and cancellation shall be deemed to be a capital contribution by the DIP Lender to the Reorganized Debtor.

(iii) Intercompany Administrative Expense Claim

The Reorganizing Debtor estimates that the Intercompany Administrative Expense Claims are approximately $7.1 million. Subject to Sections 2.2 and 2.6 of the Plan, on the Effective Date, the Intercompany Administrative Expense Claims shall automatically terminate and be cancelled, which termination and cancellation shall be deemed to be a capital contribution by the applicable entity to the Reorganized Debtor.

(iv) Administrative Expense Claim Bar Date

Administrative Expense Claims must be filed with the Court and served on counsel for the Reorganizing Debtor prior to the Administrative Expense Claim Bar Date, which is the earlier of (i) October 20, 2004, and (ii) thirty (30) days following the Effective Date. The Administrative Expense Claim Bar Date applies to all holders of Administrative Expense Claims except for holders of the following limited types of claims: (a) United States Trustee Claims; (b) postpetition trade liabilities incurred and payable in the ordinary course of business by the Reorganizing Debtor; and (c) fees and expenses incurred by (i) Retained Professionals; (ii) Persons employed by the Reorganizing Debtor or serving as independent contractors to the Reorganizing Debtor in connection with its reorganization efforts, including, without limitation, the Balloting Agent; and (iii) the Indenture Trustee and its counsel.

(v) Administrative Claims for Compensation and Reimbursement

All Retained Professionals, or Persons employed by the Reorganizing Debtor or serving as independent contractors to the Reorganizing Debtor or any other Persons seeking an award by the Court of compensation for services rendered or reimbursement of expenses incurred through and including the Effective Date under subsections 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code (excluding those professionals retained pursuant to the Court's April 2, 2003 Order Authorizing Employment and Compensation of Professionals Utilized in the Ordinary Course of Business who are not seeking compensation in excess of $30,000 for any month) must file and serve on counsel for the Reorganizing Debtor and as otherwise required by the Court and Bankruptcy Code their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred on or before the deadline imposed by the Plan. All such Allowed Administrative Expense Claims (excluding any County Claims) shall be paid in full as provided in the Plan, or upon such terms as may be mutually agreed upon between the holder of such an Allowed Administrative Expense Claim and the Reorganizing Debtor.

The Reorganizing Debtor does not expect that any Retained Professionals or other professionals to other parties in interest in the Chapter 11 Case will seek compensation for services rendered, reimbursement of expenses incurred, award of success fees, and payments on "substantial contribution" Claims under subsections 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code. Nevertheless, any Person who requests compensation or expense reimbursement for a substantial contribution Claim must file an application with the clerk of the Court, on or before the applicable Administrative Expense Claim Bar Date, and serve such application on counsel for the Reorganizing Debtor and as otherwise required by the Court and the Bankruptcy Code on or before such date.

(b) Priority Tax Claims

Priority Tax Claims are those tax Claims entitled to priority pursuant to section 507(a)(8) of the Bankruptcy Code. Priority Tax Claims will be treated under the Plan as follows:

(i) Tax Claims Solely Against Reorganizing Debtor

Each holder of an Allowed Priority Tax Claim that may be asserted solely against the Reorganizing Debtor will receive in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Priority Tax Claim, Cash in an amount equal to the unpaid portion of such Allowed Priority Tax Claim on or as soon as practical after the later of: (i) thirty (30) days after the Effective Date, or (ii) thirty (30) days after the date on which such Priority Tax Claim becomes Allowed.

(ii) Tax Claims For Which Covanta Also Is Liable

Each Allowed Priority Tax Claim for which Covanta is liable in addition to the Reorganizing Debtor (including but not limited to Priority Tax Claims arising by virtue of one or more Reorganizing Debtor's status as a member of a consolidated tax group or group under common control with Covanta) will be treated in accordance with the provisions of the Second Reorganization Plan filed in the Consolidated Chapter 11 Cases and confirmed by order of the Court entered on March 5, 2004, in full satisfaction, settlement, release, and discharge of such Allowed Priority Tax Claim.

2. Unimpaired Classes of Claims and Interests

The Classes listed below are Unimpaired by the Plan.

Class 1: Priority Non-Tax Claims
Class 2: Allowed Secured Bondholder Claims
Class 5: Equity Interests

3. Impaired Classes of Claims

The Classes listed below are Impaired by the Plan.

Subclass 3A: Allowed Unsecured Claims
Subclass 3B: Allowed Intercompany Claims
Class 4: Allowed County Claims

4. Treatment of Classified Claims

Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of classes of Claims against and Equity Interests in the Reorganizing Debtor. All Claims and Equity Interests, except Administrative Expense Claims and Priority Tax Claims, are placed in the Classes set forth below. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims of the kinds specified in sections 507(a)(1) and 507(a)(8) of the Bankruptcy Code have not been classified, and their treatment is set forth in Article II of the Plan.

A Claim or Equity Interest is placed in a particular Class only to the extent that the Claim or Equity Interest falls within the description of that Class and is classified in other Classes to the extent that any portion of the Claim or Equity Interest falls within the description of such other Classes. A Claim or Equity Interest is also placed in a particular Class only for the purpose of voting on, and receiving distributions pursuant to, the Plan only to the extent that such Claim or Equity Interest is an Allowed Claim or an Allowed Equity Interest in that Class and such Claim or Equity Interest has not been paid, released or otherwise settled prior to the Effective Date.

(a) Unimpaired Classes of Claims under the Plan.

(i) Class 1 – Allowed Priority Non-Tax Claims. In full settlement, release and discharge of its Class 1 Claim, each holder of an Allowed Claim in Class 1 shall receive Cash in an amount equal to such Allowed Class 1 Claim on the Preliminary Distribution Date. The Reorganizing Debtor believes that there will be no Allowed Priority Non-Tax claims.

(ii) Class 2 – Allowed Secured Bondholder Claims. On the Effective Date, all Allowed Secured Bondholder Claims shall be irrevocably entitled to be paid via a cash payment fully satisfying all obligations under the Bonds (including unpaid interest, if any, accruing since the Petition Date, and all trustee fees, legal fees and expenses (including the cost with notices) of the Indenture Trustee entitled to be paid under the terms of the Indenture), such payment to be made as soon as practicable thereafter pursuant to the Bond Refunding arranged by the County and all Bondholder Claims and liens against the Reorganizing Debtor and its property shall be deemed satisfied, released and terminated. All Allowed Secured Bondholder Claims will be satisfied on of after the Effective Date under the Bond Refinancing.

(iii) Class 5 – Allowed Equity Interests. On and after the Effective Date, in consideration of, *inter alia,* the DIP Lender's termination and forgiveness of the DIP Financing Facility Claim, the consent of holders of Intercompany Administrative Claims to the extinguishment of the Intercompany Administrative Claims, the provision by Covanta of the New Parent Guarantee, and the provision by Covanta of the Claims Payment Guarantee, each holder of an Equity Interest shall retain such Equity Interest as an Equity Interest in the Reorganized Debtor, together with all rights pertaining thereto.

(b) Impaired Classes of Claims under the Plan.

(i) Subclass 3A – Allowed Unsecured Claims. The holders of Subclass 3A Claims shall receive their Pro Rata Share of $325,000 (the "Unsecured Creditor Distribution") calculated based on the amount of their Allowed Subclass 3A Claim. The Reorganizing Debtor estimates that, assuming presently disputed Unsecured Claims are disallowed, Allowed Unsecured Claims will be paid in full. In addition, on the Effective Date, Covanta shall execute a guarantee (the "Claims Payment Guarantee") in favor of the Disbursing Agent, for the benefit of holders of disputed Subclass 3A Claims, guaranteeing that in the event that the Disbursing Agent makes one or more Preliminary Distributions and an insufficient portion of the Unsecured Creditor Distribution remains (after making such Preliminary Distributions) to provide a Pro Rata Share on any disputed Unsecured Claim that becomes an Allowed Subclass 3A Claim after such Preliminary Distribution (each, a "Late Allowed Claim"), Covanta shall deliver to the Disbursing Agent for distribution to holders of any such Late Allowed Claims an amount equal to the distribution the holder of such Late Allowed Claim would have been entitled to receive had such Late Allowed Claim been Allowed at the time of the Preliminary Distribution; provided that Covanta's aggregate liability under the Claims Payment Guarantee shall in no event exceed $325,000. No holders of Allowed Subclass 3A Claims shall be required to return or refund any excess distribution received as a result of a Preliminary Distribution.

(ii) Subclass 3B – Allowed Intercompany Claims. After final determination of all Disputed Class 3A Claims, in the event the Unsecured Creditor Distribution is sufficient to pay all Subclass 3A Claims the Allowed amounts of such Claims in full, holders of Subclass 3B Intercompany Claims shall receive Distributions on the applicable Distribution Dates, after all Allowed Subclass 3A Unsecured Claims have been paid in full, equal to their Pro Rata Class Share of the Unsecured Creditor Distribution remaining after paying all Allowed Subclass 3A Unsecured Claims, calculated based on the amount of their Allowed Subclass 3B Claim. The Reorganizing Debtor estimate that Allowed Intercompany Claims aggregate approximately $18 million. The votes of holders of Subclass 3A and Subclass 3B Claims shall be counted together as a single class, but the Balloting Agent shall separately identify the number and amount of votes case for and against the Plan in each subclass.

(iii) Class 4 – County Claims. The County has agreed to the treatment of all Class 4 Claims pursuant to the terms of the Settlement Agreement. Except as specifically provided for under the Settlement Agreement, all Class 4 Claims other than the County Administrative Tax Claim and the County Priority Tax Claim shall be deemed disallowed, settled, and waived in consideration for the Reorganizing Debtor and Covanta entering into the Settlement Agreement, the WDA and related undertakings, and no Cash distribution will be made to holders of Class 4 Claims.

C. Confirmability, Modification and Severability of the Plan

The confirmation requirements of section 1129 of the Bankruptcy Code must be satisfied separately with respect to each Reorganizing Debtor.

Subject to the provisions of Section 12.7 of the Plan, the Reorganizing Debtor reserves the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, to amend or modify the Plan at any time prior to the entry of the Confirmation Order.

After the entry of the Confirmation Order, the Reorganizing Debtor may, upon order of the Court, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code and the Plan, or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan. A holder of an Allowed Claim or Allowed Equity Interest that is deemed to have accepted the Plan shall be deemed to have accepted the Plan as modified if the proposed modification does not materially and adversely change the treatment of the Claim or Equity Interest of such holder.

If, prior to the Confirmation Date, any term or provision of the Plan is determined by the Court to be invalid, void or unenforceable, the Court will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision will then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired or invalidated by such holding alteration or interpretation. The Confirmation Order will constitute a judicial interpretation that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the forgoing, is valid and enforceable pursuant to its terms.

D. Implementation of the Plan

1. Funding of the Plan

On the Closing Date (as defined in the Settlement Agreement) the Effective Date shall occur. As a result, on the Effective Date, Covanta and the Reorganizing Debtor (as applicable) shall, inter alia (i) execute the Settlement Agreement and any related agreements required to implement the releases contemplated by the Settlement Agreement, (ii) execute the WDA and related agreements; and (iii) execute the New Financing Agreements and the New Parent Guarantee. In consideration thereof, and pursuant to the terms of the Settlement Agreement, on the Effective Date the County shall (i) pay to the Reorganizing Debtor funds required to be paid under the Settlement Agreement, from which the obligations of the Reorganizing Debtor under the Plan will be funded, (ii) execute the WDA and related agreements, (iii) commence the Bond Refunding in order to satisfy the Class 2 Secured Bondholder Claims, and (iv) grant the releases to the Reorganizing Debtor and the Reorganizing Debtor Affiliates contemplated by the Settlement Agreement.

2. Service Agreement.

On the Effective Date, the Service Agreement shall be deemed terminated, with no claims arising as a result of such termination.

3. Mortgage.

On the Effective Date (unless required under the Bond Refunding to take place on a different date, in which case on the earliest date permitted under the Bond Refunding), the Mortgage and shall be assigned by the Indenture Trustee to the County or its designee, or treated as otherwise required under the New Financing Agreements.

4. Loan Agreement.

On the Effective Date (unless required under the Bond Refunding to take place on a different date, in which case on the earliest date permitted under the Bond Refunding), the Loan Agreement shall be amended, modified or terminated, or treated as otherwise required under the New Financing Agreements.

5. Effective Date Payments

Substantially all of the Cash necessary for the Reorganized Debtor to make payments pursuant to the Plan will be obtained from the proceeds of the Settlement Agreement received from the County on the Effective Date, or the replacement financing facility contemplated by the Settlement Agreement.

6. Continued Corporate Existence

The Reorganized Debtor will continue to exist after the Effective Date as a corporate entity, with all the powers of a corporation under applicable law and pursuant to the certificate of incorporation and bylaws in effect prior to the Effective Date, except to the extent such certificate of incorporation and bylaws are amended pursuant to the Plan.

7. Revesting of Corporate Assets

The Reorganized Debtor shall be revested with the assets of the Estate (except for leases and executing contracts that have not yet been assumed or rejected, which shall only be deemed vested if and when they are assumed) on the Effective Date.

8. Directors and Officers of Reorganized Debtor

(a) On the Effective Date, the operation of the Reorganized Debtor shall become the general responsibility of its boards of directors who shall, thereafter, have the responsibility for the overall management, control and operation of the Reorganized Debtor.

(b) The officers and directors of the Reorganized Debtor that are in office immediately before the Effective Date shall continue to serve immediately after the Effective Date in their respective capacities. Such persons shall be deemed elected pursuant to the Confirmation Order, and such elections shall be effective on and after the Effective Date, without any requirement of further action by stockholders or other owners of the Reorganized Debtor.

9. Certificate of Incorporation and Bylaws

The certificates of incorporation and bylaws of the Reorganized Debtor will be amended as may be required in order that they are consistent with the provisions of the Plan and the Bankruptcy Code. On the Effective Date, the Reorganized Debtor is authorized to, and shall, without the need for any further corporate action, adopt and, as applicable, file its amended organizational documents with the Florida Secretary of State. The amended organizational documents shall prohibit the issuance of nonvoting equity securities, to the extent required by sections 1123(a) and (b) of the Bankruptcy Code, subject to further amendment as permitted by applicable law. Any modification to the certificate of incorporation of the Reorganizing Debtor as originally filed may be filed after the Confirmation Date and may become effective on or prior to the Effective Date.

10. Corporate Action

Each of the matters provided for under the Plan involving the corporate structure of the Reorganizing Debtor or corporate action to be taken by or required of the Reorganizing Debtor will, as of the Effective Date, as the case may be, be deemed to have occurred and be effective as provided in the Plan, and will be authorized and approved and, to the extent taken prior to the Effective Date, ratified in all respects without any requirement of further action by stockholders, creditors, or directors of the Reorganizing Debtor or the Reorganized Debtor.

11. Exclusivity Period

The Reorganizing Debtor will retain the exclusive right to amend or modify the Plan, and to solicit acceptances of any amendments to or modifications of the Plan, through and until the Effective Date.

E. Distributions and Disputed Claims Under the Plan

1. Timing of Distributions

Except as otherwise provided for in the Plan or ordered by the Court, distributions of Cash will be made by the Reorganizing Debtor or the Reorganized Debtor to the holders of Allowed Administrative Expense Claims, Priority Tax Claims, Priority Non-Tax Claims, Secured Bondholder Claims, and Unsecured Claims, and to the extent sufficient funds remain to the holders of Intercompany Claims. After payment of all Allowed Claims entitled to be paid in Cash under the Plan, any remaining Cash of the Reorganized Debtor may be distributed to the holders of Equity Interests in the Reorganized Debtor. In the event that any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but shall be deemed to have been completed as of the initial due date.

2. Disbursing Agent

The Reorganized Debtor, Covanta and such other Persons as may be selected by the Reorganized Debtor and approved by the Court shall act as Disbursing Agents under the Plan. A Disbursing Agent shall not be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Court, and, in the event that a Disbursing Agent is so otherwise ordered, the costs and expenses that are directly related to procuring any such bond or surety shall be borne by the Reorganized Debtor.

The Disbursing Agent shall be empowered to (i) effect all actions and execute all agreements, instruments and other documents necessary to perform its duties under the Plan, (ii) hold Distributions prior to any Distribution Date with respect thereto, (iii) make all Distributions contemplated by the Plan and in accordance with the terms thereof, (iv) employ professionals to represent it with respect to its responsibilities, and (v) exercise such other powers as may be vested in the Disbursing Agent by order of the Court, pursuant to the Plan, pursuant to such other agreement as may be entered into in connection with the implementation and consummation of the Plan or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions of the Plan.

3. Surrender of Securities or Instruments

As a condition to receiving any Distribution under the Plan, (x) each holder of an Allowed Claim represented by a certificated instrument or note must surrender such instrument or note held by it to the Disbursing Agent or its designee, unless such certificated instrument or note is being reinstated or being left unimpaired under the Plan and (y) each holder of an Allowed Claim that is party to a settlement incorporated in the Plan or otherwise implemented thereby shall have performed its obligations thereunder either immediately prior to or contemporaneous with such Distribution. Any holder of such instrument or note that fails to (i) surrender such instrument or note or (ii) execute and deliver an affidavit of loss and/or indemnity reasonably satisfactory to the Disbursing Agent or furnish a bond in form, substance and amount reasonably satisfactory to the Disbursing Agent before the first anniversary of the Effective Date, shall be deemed to have forfeited all rights and Claims and may not participate in any Distribution under the Plan in respect of such Claim. Any other holder of an Allowed Claim who fails to take such action as reasonably required by the Disbursing Agent or its designee to receive its Distribution under the Plan before the first anniversary of the Effective Date, or such earlier time as otherwise provided for in the Plan, may not participate in any Distribution under the Plan in respect of such Claim. Any Distribution forfeited under the Plan shall become property of the Reorganized Debtor.

4. Delivery of Distributions

Distributions to holders of Allowed Claims shall be made at the Distribution Address unless superseded by writing notifying the Reorganizing Debtor or the Reorganized Debtor of a change of address. If any holder's Distribution is returned as undeliverable, no further Distributions to such holder shall be made unless and until the Reorganizing Debtor or Reorganized Debtor is notified of such holder's then-current address, at which time all missed Distributions shall be made to such holder, without interest, on or before one hundred and twenty (120) days after the date such undeliverable Distribution was initially made. After such date, all unclaimed property shall, in

the Reorganized Debtor's discretion, be used to satisfy the costs of administering and fully consummating the Plan or become property of the Reorganized Debtor, and the holder of any such Claim shall not be entitled to any other or further distribution under the Plan on account of such Claim.

5. De Minimis Distributions and Fractional Distributions

Unless a written request addressed to the Reorganized Debtor or Disbursing Agent is received within one hundred and twenty (120) days after the Effective Date, the Disbursing Agent or such other entity designated by the Reorganized Debtor as a Disbursing Agent on or after the Effective Date will not be required to distribute Cash to the holder of an Allowed Claim if the amount of Cash to be distributed on any Distribution Date under the Plan on account of such Claim is less than $50. Any holder of an Allowed Claim on account of which the amount of Cash to be distributed is less than $50 will have its Claim for such Distribution discharged and will be forever barred from asserting any such Claim against the Reorganized Debtor or its property, unless such holders make a written request to receive such Distribution no later than one hundred and twenty (120) days after the Effective Date.

6. No Distribution Pending Allowance

Notwithstanding any other provision of the Plan, no Cash or other property shall be distributed under the Plan on account of any Disputed Claim, unless and until all objections to such Disputed Claim have been settled or withdrawn or have been determined by Final Order and the Disputed Claim, or some portion thereof, has become an Allowed Claim.

7. Resolution of Disputed Claims.

Unless otherwise ordered by the Court after notice and a hearing, on the Effective Date the Reorganized Debtor shall have the exclusive right to make and file objections to Claims and shall serve a copy of each objection upon the holder of the Claim to which the objection is made as soon as practicable, but in no event later than the Claims Objection Deadline, consisting of one hundred and twenty (120) days after the Effective Date; provided, however, that such period may be extended from time to time by the Court without further notice to parties in interest. The foregoing deadline for filing objections to Claims shall not apply to Claims for tort damages and, accordingly, no such deadline shall be imposed by the Plan. Notwithstanding any authority to the contrary, an objection to a Claim shall be deemed properly served on the holder thereof if the Reorganized Debtor effects service in any of the following manners: (i) in accordance with Rule 4 of the Federal Rules of Civil Procedure, as modified and made applicable by Bankruptcy Rule 7004; (ii) by first class mail, postage prepaid, on the signatory on the proof of claim or interest or other representative identified in the proof of claim or interest or any attachment thereto; or (iii) by first class mail, postage, on any counsel that has appeared on the holder's behalf in the Consolidated Chapter 11 Cases.

Except with respect to Administrative Expense Claims as to which the Administrative Expense Claim Bar Date does not apply or that is the subject of a settlement approved by the Court, Administrative Expense Claims must be filed with the Court and served on counsel for the Reorganized Debtor on or before the Administrative Expense Claim Bar Date. The Reorganized Debtor may make and file objections to any such Administrative Expense Claim and shall serve a copy of each objection upon the holder of the Claim to which the objection is made as soon as practicable, but in no event later than the Claims Objection Deadline, consisting of one hundred and eighty (180) days after the Effective Date. In the event the Reorganized Debtor files any such objection, the Court shall determine the Allowed amount of any such Administrative Expense Claim. Notwithstanding the foregoing, no request for payment of an Administrative Expense Claim need be filed with respect to an Administrative Expense Claim that is a trade payable paid or payable by the Reorganizing Debtor in the ordinary course of business.

8. Estimation of Certain Claims

The Reorganizing Debtor may, at any time, request that the Court estimate any contingent, unliquidated or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code, regardless of whether the Reorganizing Debtor previously objected to such Claim or whether the Court has ruled on any such objection, and the Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim. In the event

that the Court estimates any Disputed Claim, that estimated amount may constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Court. If the estimated amount constitutes a maximum limitation on such Claim, the Reorganizing Debtor may elect to pursue a supplemental proceeding to object to any ultimate payment of such Claim. All of the aforementioned Claims objection, estimation and resolution procedures are cumulative and not necessary exclusive of one another.

9. Allowance of Certain Claims

(a) Professional Claims and Substantial Contribution Claims

(i) Under the Plan, all Retained Professionals and other entities seeking an award by the Court of compensation for services rendered or reimbursement of expenses incurred through and including the Effective Date under subsections 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code (excluding those professionals retained pursuant to the Court's April 2, 2003 Order Authorizing Employment and Compensation of Professionals Utilized in the Ordinary Course of Business who are not seeking compensation in excess of $30,000 for any month) must file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses no later than forty-five (45) days after the Effective Date. Subject to the Court determination that any such Claim is Allowed, the Reorganizing Debtor shall pay in full any such Allowed Administrative Expense Claims on the Distribution Date, or upon such other less favorable terms as may be mutually agreed upon between the holder of such an Allowed Administrative Expense Claim and the Reorganizing Debtor or Reorganized Debtor and approved by the Court after notice and a hearing. Any request for payment of an Administrative Expense Claim of the type which is not filed by the applicable deadline shall be barred.

(ii) All other requests for payment of an Administrative Expense Claim (other than as set forth above) that are subject to the Administrative Expense Claim Bar Date, including any Substantial Contribution Claim, must be filed with the Court and served on counsel for the Reorganizing Debtor and as otherwise required by the Court and Bankruptcy Code on or before the Administrative Expense Bar Date. Unless the Reorganizing Debtor or any other party in interest in the Chapter 11 Case objects to an Administrative Expense Claim by the Claims Objection Deadline, such Administrative Expense Claim shall be deemed Allowed in the amount filed. In the event that the Reorganizing Debtor or any other party in interest in the Chapter 11 Case objects to an Administrative Expense Claim, the Court shall determine the Allowed amount of such Administrative Expense Claim. Notwithstanding the foregoing, no request for payment of an Administrative Expense Claim need be filed with respect to an Administrative Expense Claim that is a trade payable incurred and payable by the Reorganizing Debtor in the ordinary course of business.

(b) DIP Financing Facility Claims

On the Effective Date, the DIP Financing Agreement will be terminated and the DIP Financing Facility Claims will be terminated and cancelled and no distribution in cash or otherwise will be made thereon.

(c) Covanta Administrative Expense Claim

On the Effective Date, the Covanta Administrative Expense Claim shall be terminated and cancelled and no Cash payment will be made thereon.

(d) Claims Payment Guarantee.

(i) In order to facilitate the prompt distribution of the Unsecured Creditor Distribution to holders of Allowed Subclass 3A Claims, the Disbursing Agent may estimate, in its reasonable business judgment and after consultation with Covanta and the Reorganized Debtor, the amount of Subclass 3A Claims that eventually will be Allowed, and based upon that estimate may make Preliminary Distributions to holders of Allowed Subclass 3A Claims. On the Effective Date, Covanta shall execute the Claims Payment Guarantee in favor of the Disbursing Agent, for the benefit of holders of disputed Subclass 3A Claims, guaranteeing that in the event that the Disbursing Agent makes one or more Preliminary Distributions and an insufficient portion of the

Unsecured Creditor Distribution remains (after making such Preliminary Distributions) to provide a Pro Rata Share on any disputed Unsecured Claim that becomes a Late Allowed Claim, Covanta shall deliver to the Disbursing Agent for distribution to holders of any such Late Allowed Claims an amount equal to the distribution the holder of such Late Allowed Claim would have been entitled to receive had such Late Allowed Claim been Allowed at the time of the Preliminary Distribution; provided that Covanta's aggregate liability under the Claims Payment Guarantee shall in no event exceed $325,000. No holders of Allowed Subclass 3A Claims shall be required to return or refund any excess distribution received as a result of a Preliminary Distribution.

F. Treatment of Executory Contracts and Unexpired Leases; Bar Date for Rejection Damage Claims

1. General Treatment

(a) On the Effective Date all executory contracts and unexpired leases to which the Reorganizing Debtor is a party shall be deemed rejected, except for any executory contract or unexpired lease that (i) has been previously assumed or rejected pursuant to a Final Order of the Court, (ii) is specifically designated as a contract or lease on the Schedule of Assumed Contracts and Leases, as may be amended, (iii) is the subject of a separate motion to assume or reject filed under section 365 of the Bankruptcy Code by the Reorganizing Debtor prior to the Confirmation Hearing, or (iv) is specifically treated in the Plan. The Reorganizing Debtor expressly reserves the right to add or remove executory contracts and unexpired leases to or from the Schedule of Assumed Contracts and Leases at any time prior to the Effective Date. The listing of a document on the Schedule of Assumed Contracts and Leases shall not constitute an admission that such document is an executory contract or unexpired lease or that the Reorganizing Debtor has any liability thereunder.

(b) Each executory contract and unexpired lease listed or to be listed on the Schedule of Assumed Contracts and Leases (the "Contract Schedule") shall include modifications, amendments, supplements, restatements or other agreements, including guarantees thereof, made directly or indirectly by the Reorganizing Debtor in any agreement, instrument or other document that in any manner affects such executory contract or unexpired lease, without regard to whether such agreement, instrument or other document is listed on the Contract Schedule. The mere listing of a document on the Contract Schedule shall not constitute an admission by the Reorganizing Debtor that such document is an executory contract or unexpired lease or that the Reorganizing Debtor has any liability thereunder.

2. Cure of Defaults

Except to the extent that (i) a different treatment has been agreed to by the nondebtor party or parties to any executory contract or unexpired lease to be assumed pursuant to Section 7.1 of the Plan, or (ii) any executory contract or unexpired lease shall have been assumed pursuant to an order of the Court, which order shall have approved the cure amounts with respect thereto, the Reorganizing Debtor shall, pursuant to the provisions of sections 1123(a)(5)(G) and 1123(b)(2) of the Bankruptcy Code and consistent with the requirements of section 365 of the Bankruptcy Code, within thirty (30) days after the Confirmation Date, file with the Court and serve a pleading listing the cure amounts of all executory contracts or unexpired leases to be assumed, subject to the Reorganizing Debtor's right to amend any such pleading at any time prior to thirty (30) days after the Confirmation Date. The parties to such executory contracts or unexpired leases to be assumed by the Reorganizing Debtor shall have fifteen (15) days from service of any such pleading to object to the cure amounts listed by the Reorganizing Debtor. Service of such pleading shall be sufficient if served on the other party to the contract or lease at the address indicated on (i) the contract or lease, (ii) any proof of claim filed by such other party in respect of such contract or lease, or (iii) the Reorganizing Debtor's books and records, including the Schedules; provided, however, that if a pleading served by the Reorganizing Debtor to one of the foregoing addresses is promptly returned as undeliverable, the Reorganizing Debtor shall attempt re-service of the pleading on an alternative address, if any, from the above listed sources. If any objections are filed, the Court shall hold a hearing. Any party failing to object to the proposed cure amount fifteen days following service of the proposed cure amount by the Reorganizing Debtor shall be forever barred from asserting, collecting, or seeking to collect any amounts in excess of the proposed cure amount against the Reorganizing Debtor or the Reorganized Debtor. Notwithstanding the foregoing or anything in Section 7.2 of the Plan, at all times through the date that is five (5) Business Days after the Court enters an order resolving and

fixing the amount of a disputed cure amount, the Reorganizing Debtor shall have the right to reject such executory contract or unexpired lease.

3. Approval of Assumption of Certain Executory Contracts

Subject to Sections 7.1 and 7.2 of the Plan, the executory contracts and unexpired leases on the Schedule of Assumed Contracts and Leases shall be assumed by the Reorganized Debtor as of the Effective Date, except as may otherwise be ordered by the Court.

4. Gregg Contract

On the Effective Date, upon the effectiveness of the WDA and the termination of the Service Agreement, the Gregg Contract shall be deemed terminated by the Reorganizing Debtor and the Reorganized Debtor without any further notice, action or order, with no claim against or liability of the Reorganizing Debtor or Reorganized Debtor arising by virtue of such termination; provided, however, that consistent with the Court's Memorandum Decision And Order Sustaining Covanta Lake's Objection To The Second Amended Proof Of Claim Of F. Browne Gregg, dated August 18, 2004, the Reorganizing Debtor shall remain liable for any unpaid post-petition amounts owed to Gregg under the Gregg Contract, if any, relating to all post-petition periods preceding the termination of the Service Agreement.

5. Approval of Rejection of Executory Contracts and Unexpired Leases

Entry of the Confirmation Order shall constitute the approval, pursuant to section 365(a) of the Bankruptcy Code, of the rejection of any executory contracts and unexpired leases to be rejected as and to the extent provided in Section 7.1 of the Plan.

6. Bar Date for Filing Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Plan

Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan must be filed with the Court no later than the later of (i) twenty (20) days after the Effective Date and (ii) thirty (30) days after the entry of an order rejecting such executory contract or lease. Any Claims not filed within such time period will be forever barred from assertion against the Reorganizing Debtor, the Reorganized Debtor or the Estate.

7. Deemed Consents and Deemed Compliance with Respect to Executory Agreements

(a) Unless a counterparty to an executory contract, unexpired lease, license or permit objects to the Reorganizing Debtor's assumption thereof in writing on or before seven (7) days prior to the Confirmation Hearing, then, unless such executory contract, unexpired lease, license or permit has been rejected by the Reorganizing Debtor or will be rejected by operation of the Plan, the Reorganized Debtor or any assignee of executory contracts and unexpired leases assumed by the Reorganizing Debtor shall enjoy all the rights and benefits under each such executory contract, unexpired lease, license and permit without the necessity of obtaining such counterparty's written consent to assumption or retention of such rights and benefits.

(b) To the extent that any executory contract or unexpired lease contains a contractual provision that would require the Reorganizing Debtor to satisfy any financial criteria or meet any financial condition measured by reference to the Reorganizing Debtor's most recent annual audited financial statements, then upon the assumption of any such executory contract or unexpired lease the Reorganized Debtor shall be deemed to be and to remain in compliance with any such contractual provision regarding financial criteria or financial condition (other than contractual requirements to satisfy a minimum rating from rating agencies) for the period through one year after the Effective Date, and thereafter such financial criteria or financial condition shall be measured by reference to the most recent annual audited financial statements of the assignee of such executory contract or unexpired lease.

8. The Reorganizing Debtor's Reservation of Rights Under Insurance Policies and Bonds

Nothing in the Plan or included in any settlement referenced in the Plan shall diminish or otherwise affect the enforceability by beneficiaries of (i) any insurance policies that may cover Claims against, or through, the Reorganizing Debtor, or (ii) any bonds issued to assure the performance of any of, or through, the Reorganizing Debtor, nor shall anything contained in the Plan constitute or be deemed to constitute a waiver of any Cause of Action that the Reorganizing Debtor or any entity may hold against any insurers or issuers of bonds under any such policies of insurance or bonds. To the extent any insurance policy or bond is deemed to be an executory contract, such insurance policy or bond shall be deemed assumed in accordance with Article VII of the Plan.

9. Survival of Reorganizing Debtor's Corporate Indemnities

Any obligations of the Reorganizing Debtor pursuant to its corporate charters and bylaws or agreements entered into any time prior to the Effective Date, to indemnify any officer, director or employee of the Reorganizing Debtor, but only if and to the extent, in each case, such party served in such capacity on or after the First Petition Date and prior to the Confirmation Date (the "Specified Personnel"), with respect to all present and future actions, suits and proceedings against the Reorganizing Debtor or such Specified Personnel, based upon any act or omission for or on behalf of the Reorganizing Debtor, shall not be discharged or impaired by confirmation of the Plan. Such obligations shall be deemed and treated as executory contracts to be assumed by the Reorganizing Debtor pursuant to the Plan and deemed to be included on the Schedule of Assumed Contracts and Leases (to the extent not otherwise assumed), and shall continue as obligations of the Reorganized Debtor. To the extent the Reorganizing Debtor is entitled to assert a Claim against Specified Personnel (whether directly or derivatively) and such Specified Personnel is entitled to indemnification, such Claim against Specified Personnel is released, waived and discharged.

G. Effect of Confirmation

1. Revesting of Assets

Upon the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, except for leases and executory contracts that have not yet been assumed or rejected (which leases and contracts shall be deemed vested when and if assumed), all property of the Reorganizing Debtor's Estate shall vest in the Reorganized Debtor free and clear of all Claims, Liens, encumbrances, charges and other interests, except as provided in the Plan and in the Settlement Agreement. The Reorganized Debtor may operate its business and may use, acquire and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the Bankruptcy Code, except as provided in the Plan.

2. Discharge under the Plan

Except as otherwise provided in the Plan or in the Confirmation Order, the rights afforded in the Plan and the entitlement to receive payments and distributions to be made thereunder shall discharge all existing Claims of any kind, nature or description whatsoever against or in the Reorganized Debtor or any of its assets or properties to the fullest extent permitted by section 1141 of the Bankruptcy Code. Except as provided in the Plan, on the Effective Date, all existing Claims against the Reorganizing Debtor shall be, and shall be deemed to be, discharged or canceled and each holder (as well as trustees and agents on behalf of all such holders) of a Claim shall be precluded and enjoined from asserting against the Reorganized Debtor, or any of its assets or properties, any Claim based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Confirmation Date, whether or not (i) such holder has filed a Proof of Claim, (ii) a Claim based on such Claim is Allowed, or (iii) the holder of the Claim has accepted the Plan.

3. Releases under the Plan

As of the Effective Date, the Reorganized Debtor, on behalf of itself and its Estate, shall be deemed to release unconditionally all claims, obligations, suits, judgments, damages, rights, causes of action, and liabilities whatsoever, against the Reorganizing Debtor Affiliates, their respective present or former officers, directors, employees, partners, members, advisors, attorneys, financial advisors, accountants, investment

bankers and other professionals, in each case whether known or unknown, foreseen or unforeseen, existing or thereafter arising, in law, equity or otherwise, based in whole or in part upon actions taken with respect to any omission, transaction, event, or other occurrence taking place on or prior to the Effective Date in any way relating to the Reorganizing Debtor, the Consolidated Chapter 11 Cases, and the Plan; provided that, the release granted pursuant to Section 10.10 of the Plan shall in no way effect or release the Claims arising prior to the respective Petition Dates, if any, of holders of the Debtors' public securities against parties other than the Reorganizing Debtor; and further provided that nothing in the Plan shall effect a release in favor of any Person other than the Reorganizing Debtor with respect to any debt owed to the United States Government or any regulatory agency thereof, any state, city or municipality for any liability of such Person arising under (i) the Internal Revenue Code, or any state, city or municipal tax code, (ii) the environmental laws of the United States, any state, city or municipality, (iii) any criminal laws of the United States, any state, city or municipality, or (iv) any liability arising under federal securities laws.

4. Exculpation

(a) **Notwithstanding anything in the Plan to the contrary, as of the Effective Date, none of (i) the Reorganizing Debtor, the Reorganized Debtor, the Reorganizing Debtor Affiliates or their respective principals, officers, directors and employees, (ii) the DIP Lender, (iii) the accountants, financial advisors, investment bankers, and attorneys for the Reorganizing Debtor, and (iv) the directors, officers, employees, partners, members, agents, representatives, accountants, financial advisors, investment bankers, attorneys, employees or affiliates for any of the persons or entities described in (i), (ii), and (iii) of Section 10.6(a) of the Plan shall have or incur any liability to any holder of a Claim or an Interest, or any other party in interest, or any of their respective agents, employees, representatives, financial advisors, attorneys, or affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of the commencement or conduct of the Consolidated Chapter 11 Cases; formulating, negotiating, consummating or implementing the Plan or the Plan Documents; the pursuit of confirmation of the Plan; or the confirmation, consummation or administration of the Plan or the property to be distributed under the Plan, except for their gross negligence or willful misconduct, and in all respects shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.**

(b) **Notwithstanding any other provision of the Plan, no holder of a Claim or Interest, no other party in interest, none of their respective agents, employees, representatives, financial advisors, attorneys, or affiliates, and no successors or assigns of the foregoing, shall have any right of action against the Reorganizing Debtor, the Reorganized Debtor, the Reorganizing Debtor Affiliates, the DIP Lender, nor any of their respective present or former members, officers, directors, employees, advisors or attorneys, for any omission in the negotiation or implementation of the Plan, the pursuit of confirmation of the Plan, the confirmation, consummation or administration of the Plan or the property to be distributed thereunder, except for gross negligence or willful misconduct.**

(c) **Nothing in Section 10.6 of the Plan shall (i) be construed to exculpate any entity from liability with respect to an act or omission to the extent that such act or omission is determined by a Final Order to have constituted fraud, gross negligence, willful misconduct, criminal conduct or misuse of confidential information that causes damages, or (ii) to the extent applicable, limit the liability of the professionals representing the Reorganizing Debtor to their respective clients pursuant to DR 6-102 of the New York Code of Professional Responsibility.**

5. Injunction under the Plan

Upon the Effective Date, and except as otherwise provided in the Plan or in the Confirmation Order, all persons who have held, hold, or may hold Claims against the Reorganizing Debtor, and all other parties in interest in the Consolidated Chapter 11 Cases, along with their respective present or former employees, agents, officers, directors or principals, shall be permanently enjoined on and after the Effective Date from directly or indirectly (i) commencing or continuing in any manner any action or other proceeding of any kind to collect or recover any property on account of any such Claim against the Reorganizing Debtor or Person entitled to exculpation under Section 10.6 of the Plan, (ii) enforcing, attaching, collecting or recovering by any manner or means of any judgment, award, decree, or order to collect or recover any property on account of

any such Claim against the Reorganizing Debtor, (iii) creating, perfecting, or enforcing any encumbrance of any kind against the Reorganized Debtor, on account of such Claim, (iv) except for recoupment, asserting any right of setoff or subrogation of any kind against any obligation due the Reorganized Debtor or against the property or interests in property of the Reorganized Debtor on account of any such Claim, (v) commencing or continuing any action against the Reorganized Debtor or the Reorganizing Debtor Affiliates in any manner or forum in respect of such Claim that does not comply or is inconsistent with the Plan, and (vi) taking any actions to interfere with the implementation or consummation of the Plan; provided that nothing in the Plan shall prohibit any holder of a Claim from prosecuting a properly completed and filed proof of claim in the Chapter 11 Case. In no event shall the Reorganizing Debtor, the Reorganizing Debtor Affiliates or any Person entitled to exculpation under Section 10.6 of the Plan have any liability or obligation for any Claim against the Reorganized Debtor arising prior to the Effective Date, other than in accordance with the provisions of the Plan. In addition, except as otherwise provided in the Plan or the Confirmation Order, on and after the Effective Date, any individual, firm, corporation, limited liability company, partnership, company, trust or other entity, including any successor of such entity, shall be permanently enjoined from commencing or continuing in any manner, any litigation against the Reorganized Debtor or any Person entitled to exculpation under Section 10.6 of the Plan on account of or in respect of any matter subject to the exculpation provision set forth in Section 10.6 of the Plan, including, without limitation, in respect of the Reorganizing Debtor's prepetition liabilities or other liabilities satisfied pursuant to the Plan. By directly or indirectly accepting Distributions pursuant to the Plan, each holder of an Allowed Claim receiving Distributions pursuant to the Plan will be deemed to have specifically consented to the injunctions set forth in Section 10.6 of the Plan.

6. Release Granted by Reorganizing Debtor

As of the Effective Date, the Reorganized Debtor, on behalf of itself and its Estate, shall be deemed to release unconditionally all claims, obligations, suits, judgments, damages, rights, causes of action, and liabilities whatsoever, against the Reorganizing Debtor Affiliates and their respective officers, directors, employees, partners, members, affiliates, advisors, attorneys, financial advisors, accountants, investment bankers and other professionals, whether known or unknown, foreseen or unforeseen, existing or thereafter arising, in law, equity or otherwise, based in whole or in part upon actions taken in their respective capacities described above with respect to any omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Reorganizing Debtor, the Consolidated Chapter 11 Cases, or the Plan.

7. Release of the County

In consideration of the terms and provisions of the Settlement Agreement, and except for those obligations arising from and as provided for in the Settlement Agreement, WDA and related agreements, as of the Effective Date, the Reorganizing Debtor, Covanta, and any person claiming through or against any of the foregoing or any property of the foregoing, shall be deemed to release unconditionally all claims, obligations, suits, judgments, damages, rights, causes of action, and liabilities whatsoever, against the County, and its officers, directors, employees, partners, members, affiliates, advisors, attorneys, financial advisors, accountants, investment bankers and other professionals, whether known or unknown, foreseen or unforeseen, existing or thereafter arising, in law, equity or otherwise, based in whole or in part upon actions or events taken or taking place on or prior to the Effective Date and in any way relating to the Reorganizing Debtor, the Consolidated Chapter 11 Cases, or the Plan.

8. Reservation of Rights of the Estates

As to the Reorganized Debtor, all claims or Causes of Action, cross-claims and counterclaims of the Reorganizing Debtor of any kind or nature whatsoever, against third parties arising before the Confirmation Date (as defined herein) shall be preserved for the benefit of the Reorganized Debtor, except for such claims or Causes of Action, cross-claims and counterclaims of the Reorganizing Debtor which have been released under the Plan, the Settlement Agreement or pursuant to a Final Order.

H. Miscellaneous Matters

1. Setoffs

The Reorganized Debtor may, in accordance with the provisions of the Plan, section 553 of the Bankruptcy Code and applicable non-bankruptcy law, set off against any Allowed Claim and the Distributions to be made pursuant to the Plan on account of such Allowed Claim (before any Distribution is made on account of such Allowed Claim), the Claims, rights and causes of action of any nature that the Reorganizing Debtor or Reorganized Debtor may hold against the holder of such Allowed Claim; provided, however, that neither the failure to effect such a setoff nor the allowance of any Claim under the Plan shall constitute a waiver or release by the Reorganizing Debtor of any such Claims, rights and causes of action that the Reorganizing Debtor or Reorganized Debtor may possess against such holder; and provided, further that any Claims of the Reorganizing Debtor arising before the First Petition Date shall only be setoff against Claims against the Reorganizing Debtor arising before the First Petition Date.

2. Management of the Reorganized Debtors

The identity of any new nominee to serve on the Board of Directors of the Reorganized Debtor shall be announced ten (10) days prior to the Confirmation Hearing; if no such announcement is filed, the directors (as identified herein) shall continue to serve in such positions. In addition, in accordance with section 1129(a)(5) of the Bankruptcy Code, the Reorganizing Debtor shall disclose the identity and affiliations of any new individuals proposed to serve, after the Effective Date, as an officer of the Reorganized Debtor; if no such disclosure is filed, the officers currently serving as officers of the Reorganizing Debtors (as identified herein) shall continue to serve in such positions. The officers and directors receive no compensation directly from the Reorganizing Debtor or the Reorganized Debtor, but do receive compensation from Covanta for serving in the same or similar positions for Covanta and other Affiliates; the compensation Covanta's senior officers receive for serving in such positions is disclosed in Covanta's annual report on Form 10-K filed with the SEC. Such persons shall be deemed elected or appointed, as the case may be, pursuant to the Confirmation Order, and such elections or appointments, as the case may be, shall be effective on or after the Effective Date, without any requirement of further action by stockholders, other owners or directors of the Reorganized Debtor.

3. Payment of Statutory Fees

All fees payable pursuant to section 1930 of title 28 of the United States Code shall be paid through the entry of a final decree closing these cases.

As provided in the Plan, unless relieved of any of these obligations by further order of the Court, the Reorganizing Debtor and the Reorganized Debtor shall be responsible for the timely payment of fees incurred pursuant to 28 U.S.C. § 1930(a)(6), and after the Confirmation Date, such entities shall file with the Court and serve on the United States Trustee a quarterly disbursement report for each quarter, or portion thereof, until a final decree closing the Consolidated Chapter 11 Cases has been entered, or the cases dismissed or converted to another chapter, in a format prescribed by and provided by the United States Trustee.

VIII. CERTAIN RISK FACTORS TO BE CONSIDERED

The holder of a Claim against the Reorganizing Debtor should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference herein), before deciding whether to vote to accept or to reject the Plan. These factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

A. General Considerations

The formulation of a reorganization plan is the principal purpose of a chapter 11 case. The Plan sets forth the means for satisfying the holders of Claims against and Equity Interests in the Reorganizing Debtor. Certain

Claims may receive partial distributions pursuant to the Plan, and in some instances, no distributions at all. See Section VII(B) "Classification and Treatment of Claims and Equity Interests," above. The reorganization of the Reorganizing Debtor's business and operations under the Plan avoids the potentially adverse impact of a liquidation on the holders of Claims and Equity Interests.

B. Certain Bankruptcy Considerations

The Reorganizing Debtor is a party to various contractual arrangements under which the commencement of the Chapter 11 Case and the other transactions contemplated by the Plan could, subject to the Reorganizing Debtor's rights and powers under the Bankruptcy Code (and in particular, sections 105, 362 and 365 of the Bankruptcy Code) (i) result in a breach, violation, default or conflict, (ii) give other parties thereto rights of termination or cancellation, or (iii) have other adverse consequences for the Reorganizing Debtor. The magnitude of any such adverse consequences may depend upon, among other factors, the diligence and vigor with which other parties to such contracts may seek to assert any such rights and pursue any such remedies in respect of such matters, and the ability of the Reorganizing Debtor to resolve such matters on acceptable terms through negotiations with such other parties or otherwise. The Reorganizing Debtor does not believe that any material enforceable breach of or default under any such agreement has occurred.

There can be no assurance that the requisite acceptances to confirm the Plan will be obtained. Even if the requisite acceptances are received, there can be no assurance that the Court will confirm the Plan. A non-accepting creditor or equity security holder of the Reorganizing Debtor might challenge the adequacy of this Disclosure Statement or the balloting procedures and results as not being in compliance with the Bankruptcy Code and/or Bankruptcy Rules. Although the Court has determined that this Disclosure Statement and the balloting procedures are appropriate, the Court could still decline to confirm the Plan if it were to find that any of the statutory requirements for confirmation had not been met. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, a finding by the Court that the confirmation of the Plan is not likely to be followed by a liquidation or a need for further financial reorganization and that the value of distributions to non-accepting holders of claims and interests within a particular class under the Plan will not be less than the value of distributions such holders would receive if the Reorganizing Debtor were liquidated under Chapter 7 of the Bankruptcy Code. While there can be no assurance that the Court will conclude that these requirements have been met, the Reorganizing Debtor believes that the Plan will not be followed by a need for further financial reorganization and that non-accepting holders within each class under the Plan will receive distributions at least as great as would be received following a liquidation pursuant to Chapter 7 of the Bankruptcy Code when taking into consideration all administrative claims and costs associated with any such Chapter 7 case. See Article X(A) (Feasibility of the Plan and the Best Interests Test).

The confirmation and consummation of the Plan are also subject to certain conditions. If the Plan, or a plan determined not to require resolicitation of any Classes of Claims or Equity Interests by the Court, were not to be confirmed, it is unclear whether the restructuring could be implemented and what distribution holders of Claims and Equity Interests ultimately would receive with respect to their Claims and Equity Interests. If an alternative reorganization could not be agreed to, it is possible that the Reorganizing Debtor would have to liquidate its assets, in which case it is likely that holders of Claims would receive substantially less than the treatment they will receive pursuant to the Plan. If a complete liquidation or protracted reorganization were to occur, there is a risk that there would be little, if any, value available for distribution to the holders of Claims and Equity Interests. See Exhibit C attached to this Disclosure Statement for a hypothetical liquidation valuation analysis of the Reorganizing Debtor.

The continuation of the Chapter 11 Case, particularly if the Plan (and the Settlement Agreement) is not approved or confirmed in the timeframe currently contemplated, could further adversely affect the Reorganizing Debtor's operations. If confirmation and consummation of the Plan do not occur expeditiously, the Chapter 11 Case could result in, among other things, increased costs for professional fees and similar expenses.

C. Inherent Uncertainty of Financial Projections

The Projections attached as Exhibit B to this Disclosure Statement cover the Reorganized Debtor's operations through December 31, 2007**.** These Projections are based on numerous assumptions including the timing, confirmation and consummation of the Plan in accordance with its terms, the anticipated future performance of the

Reorganized Debtor, general business and economic conditions, the resolution of certain litigation and other matters, many of which are beyond the control of the Reorganized Debtor and some or all of which may not materialize. In addition, unanticipated events and circumstances occurring subsequent to the date that this Disclosure Statement was approved by the Court may affect the actual financial results of the Reorganized Debtor's operations. These variations may be material and may adversely affect the ability of the Reorganized Debtor to make payments with respect to post-Effective Date indebtedness. Because the actual results achieved throughout the periods covered by the Projections may vary from the projected results, the Projections should not be relied upon as a guaranty, representation or other assurance of the actual results that will occur.

Except with respect to the Projections and except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof and that may have a material impact on the information contained in this Disclosure Statement. The Reorganizing Debtor does not intend to update the Projections; thus, the Projections will not reflect the impact of any subsequent events not already accounted for in the assumptions underlying the Projections.

D. Claims Estimations

The Reorganizing Debtor's estimates of what distributions certain Classes of creditors will receive under the Plan may depend on numerous assumptions concerning the ultimate amount of Allowed Claims in certain Classes.

There can be no assurance that the estimated Claim amounts set forth herein and in the exhibits hereto are correct, and the actual Allowed amounts of Claims probably will differ from the estimates. Moreover, the estimated amounts are subject to numerous risks, uncertainties and assumptions. Should several of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the actual Allowed amounts of Claims may materially vary from those estimated herein.

E. Dependence on Covanta.

Like Covanta's other subsidiaries, the Reorganizing Debtor relies heavily upon Covanta and its Affiliates to provide it with employees, management services, intellectual property, technical personnel and support, treasury and cash management systems, short-term liquidity, insurance, special waste services, and legal, risk management, human resources, tax, environmental compliance and other support. If Covanta and its Affiliates were to cease providing the Reorganized Debtor with such services, there can be no assurance that Covanta Lake could operate on its own.

F. Environmental Regulations

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

IX. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A summary description of certain material United States federal income tax consequences of the Plan is provided below. This description is for informational purposes only and, due to a lack of definitive judicial or

administrative authority or interpretation, substantial uncertainties exist with respect to various tax consequences of the Plan as discussed herein. Only the principal United States federal income tax consequences of the Plan to the Reorganizing Debtor and to holders of Claims who are entitled to vote or to accept or reject the Plan are described below. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan. No rulings or determinations of the Internal Revenue Service (the "IRS") or any other tax authorities have been sought or obtained with respect to any tax consequences of the Plan, and the discussion below is not binding upon the IRS or such other authorities. No representations are being made regarding the particular tax consequences of the confirmation and consummation of the Plan to any holder of a Claim. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position from any discussed herein.

The discussion of United States federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury Regulations, judicial authorities, published positions of the IRS and other applicable authorities, all as in effect on the date of this document and all of which are subject to change or differing interpretations (possibly with retroactive effect).

The following discussion does not address foreign, state or local tax consequences of the Plan, nor does it purport to address the United States federal income tax consequences of the Plan to special classes of taxpayers. Furthermore, the following discussion does not address United States federal taxes other than income taxes.

In addition, a substantial amount of time may elapse between the confirmation date and the receipt of a final distribution under the Plan. Events subsequent to the date of this Disclosure Statement, such as additional tax legislation, court decisions, or administrative changes, could affect the federal income tax consequences of the Plan and the transactions contemplated thereunder.

EACH HOLDER IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE UNITED STATES FEDERAL, STATE AND LOCAL AND ANY FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

A. Certain Consequences to the Reorganizing Debtor Relating to Confirmation of the Second Plans

Upon the implementation of the Second Reorganization Plan on March 10, 2004, pursuant to which all of the equity interests in Covanta were issued to Danielson, the Reorganizing Debtor became a member of the consolidated group of which Danielson is the common parent. Pursuant to a tax sharing agreement entered into on or about March 10, 2004, between Covanta and Danielson (the "Tax Sharing Agreement") in connection with the confirmation of the Second Plans, Danielson has agreed to indemnify and hold harmless Covanta for the excess in any taxable year of the actual tax liability of Covanta and its subsidiaries, including the Reorganizing Debtor, over their liability as computed under the Tax Sharing Agreement. The Tax Sharing Agreement assumes that $571 million of net operating loss carryforwards ("NOLs"), reduced over time by the expiration of certain NOLs and by income generated by certain Danielson entities, are available to offset the future taxable income of Reorganized Covanta and its subsidiaries. However, in the event the NOLs are not available, and Danielson does not have the ability to pay all or a portion of the consolidated group's tax liability, the Reorganized Debtor may suffer material adverse consequences since the Reorganized Debtor may be held jointly and severally liable for such tax liability.

Detailed disclosure of the consequences of the Confirmation of the Second Plans, including a description of the Tax Sharing Agreement, and the consequences of an "ownership change" as defined in section 382 of the Tax Code, of Danielson can be found in the section XI "Certain United States Federal Income Tax Consequences of the Reorganization Plan" in the Second Disclosure Statement relating to the Second Reorganization Plan.

B. Federal Income Tax Consequences to the Holders of Claims of the Reorganizing Debtor

The following is a summary of the principal United States federal income tax consequences of the Plan that may be relevant to a beneficial holder of an Allowed Claim that is a citizen or resident of the United States or a domestic corporation or otherwise subject to United States federal income tax on a net income basis in respect of the Claim (a "Holder"). The discussion does not deal with special classes of Holders, such as dealers in securities or

currencies, banks, financial institutions, insurance companies, tax-exempt organizations, persons holding Claims as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction or persons that have a functional currency other than the U.S. dollar. Moreover, this summary does not address the United States federal estate and gift tax or alternative minimum tax consequences of the Plan.

Under the Plan, Holders of Allowed Class 2 Claims will receive cash in full payment of all of the County's obligations associated with the redemption of the Bonds, and holders of Allowed Subclass 3A Claims will receive a Pro Rata Share of the Unsecured Creditor Distribution in exchange for their claims. These exchanges likely will be fully taxable transactions to such Holders.

The tax consequences of any exchange of Cash or other consideration on an Allowed Claim to any specific Holder will differ and will depend on factors specific to each such Holder, including but not limited to: (i) whether the Holder's Allowed Claim constitutes a claim for principal or interest, (ii) the origin of the Allowed Claim, (iii) the type of consideration received in exchange for the Allowed Claim, (iv) whether the Holder reports income on the accrual or cash basis method, and (v) whether the Holder has taken a bad debt deduction or otherwise recognized a loss with respect to the Allowed Claim. However, as a general matter, Holders of Allowed Claims will recognize gain or loss in an amount equal to the difference between the amount realized on the exchange and their adjusted tax basis in the Allowed Claims tendered upon the consummation of the Plan. Any such gain or loss will constitute ordinary income or loss unless such Allowed Claim is a capital asset. If the Allowed Claim is a capital asset, and it has been held for more than one year, such Holder will realize long-term capital gain or loss (except with respect to amounts attributable to market discount and amounts received attributable to accrued but unpaid interest, which will constitute ordinary income).

A Holder's adjusted tax basis in an Allowed Claim generally will equal the amount paid for such Allowed Claim, increased by the amount of any market discount previously taken into account by the Holder and reduced by the amount of any amortizable bond premium previously amortized by the Holder with respect to the Allowed Claim. The amount realized in the exchange will be the amount of Cash received (other than amounts received attributable to accrued interest, which will be taxed as such).

In general, if a Holder acquired the Allowed Claim with market discount, any gain realized by a Holder will be treated as ordinary income to the extent of the portion of the market discount that has accrued while such Allowed Claims were held by the Holder, unless the Holder has elected to include market discount in income currently as it accrues.

Holders of Allowed Claims should consult their tax advisors regarding the proper treatment for United States federal income tax purposes of the distributions to be received under the Plan on account of such Allowed Claims.

C. Backup Withholding and Information Reporting

In general, information reporting requirements may apply to payments on account of Allowed Claims under the Plan within the United States if you are not a corporation. To avoid the imposition of backup withholding on such payments, a Holder should complete an IRS Form W-9 (which can be obtained at the website of the IRS at www.irs.gov) and either (i) provide its correct taxpayer identification number ("TIN"), which is a Holder's social security number for an individual Holder, and certain other information, or (ii) establish a basis for an exemption from backup withholding. Certain Holders (including, among others, corporations, individual retirement accounts and certain foreign persons) are exempt from these backup withholding and information reporting requirements, but may be required to establish their entitlement to an exemption. If the Disbursing Agent is not provided with the correct TIN or an adequate basis for exemption, a Holder may be subject to a backup withholding tax on payments received in respect of the Allowed Claims. If backup withholding results in an overpayment of taxes, a refund or credit may be obtained, provided that the required information is provided to the IRS.

X. FEASIBILITY OF THE PLAN AND THE BEST INTERESTS TEST

A. Feasibility of the Plan

To confirm the Plan, the Court must find that confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Reorganized Debtor, unless and to the extent liquidation is contemplated by the Plan. This requirement is imposed by section 1129(a)(11) of the Bankruptcy Code and is referred to as the "feasibility" requirement. The Reorganizing Debtor believes that it will be able to timely perform all obligations described in the Plan, and, therefore, that the Plan is feasible.

To demonstrate the feasibility of the Plan, the Reorganizing Debtor has prepared financial Projections through December 31, 2007**,** as set forth in Exhibit B attached to this Disclosure Statement. The Projections indicate that the Reorganized Debtor should have sufficient cash flow to fund its operations. Accordingly, the Reorganizing Debtor believes that the Plan satisfies the feasibility requirement of section 1129(a)(11) of the Bankruptcy Code. As noted in the Projections, however, the Reorganizing Debtor cautions that no representations can be made as to the accuracy of the Projections or as to the Reorganized Debtor's ability to achieve the projected results. Many of the assumptions upon which the Projections are based are subject to uncertainties outside the control of the Reorganized Debtor. Some assumptions inevitably will not materialize, and events and circumstances occurring after the date on which the Projections were prepared may be different from those assumed or may be unanticipated, and may adversely affect the Reorganized Debtor's financial results. Therefore, the actual results may vary from the projected results and the variations may be material and adverse. See Article VII, for a discussion of certain risk factors that may affect financial feasibility of the Plan.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, THE PRACTICES RECOGNIZED TO BE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, OR THE RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION REGARDING PROJECTIONS. FURTHERMORE, THE PROJECTIONS HAVE NOT BEEN AUDITED BY THE REORGANIZING DEBTOR'S INDEPENDENT ACCOUNTANTS. ALTHOUGH PRESENTED WITH NUMERICAL SPECIFICITY, THE PROJECTIONS ARE BASED UPON A VARIETY OF ASSUMPTIONS, SOME OF WHICH IN THE PAST HAVE NOT BEEN ACHIEVED AND WHICH MAY NOT BE REALIZED IN THE FUTURE, AND ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE REORGANIZED DEBTOR. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY THE REORGANIZED DEBTOR, OR ANY OTHER PERSON, THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE PRESENTED IN THE PROJECTIONS.

B. Acceptance of the Plan

As a condition to confirmation, the Bankruptcy Code requires that each Class of Impaired Claims and Equity Interests vote to accept the Plan, except under certain circumstances.

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of claims in that class, but for that purpose counts only those who actually vote to accept or to reject the Plan. Thus, a Class of Claims will have voted to accept a plan only if two-thirds in amount and a majority in number actually voting cast their Ballots in favor of acceptance. Under section 1126(d) of the Bankruptcy Code, a Class of Equity Interests has accepted a plan if holders of such Equity Interests holding at least two-thirds in amount actually voting have voted to accept a plan.

C. Best Interests Test

Even if a plan is accepted by each class of holders of claims and interests, the Bankruptcy Code requires a Court to determine that the plan is in the "best interests" of all holders of claims and interests that are impaired by

the plan and that have not accepted the plan. The "best interests" test, as set forth in section 1129(a)(7) of the Bankruptcy Code, requires a Court to find either that (i) all members of an impaired class of claims or interests have accepted the plan or (ii) the plan will provide a member who has not accepted the plan with a recovery of property of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated under chapter 7 of the Bankruptcy Code.

To calculate the probable distribution to members of each impaired class of holders of claims and interests if the debtor were liquidated under chapter 7, a Court must first determine the aggregate dollar amount that would be generated from the Debtor's assets if its chapter 11 case were converted to a chapter 7 case under the Bankruptcy Code. This "liquidation value" would consist primarily of the proceeds from a forced sale of the Reorganizing Debtor's assets by a chapter 7 trustee.

The amount of liquidation value available to unsecured creditors would be reduced by the costs of liquidation under chapter 7 of the Bankruptcy Code, including the compensation of a trustee, as well as of counsel and other professionals retained by the trustee, asset disposition expenses, additional administrative claims and other wind-down expenses. The liquidation itself would trigger certain priority payments that otherwise would be due in the ordinary course of business. Those priority claims would be paid in full from the liquidation proceeds before the balance would be made available to pay general unsecured claims or to make any distribution in respect of equity interests. The liquidation also would prompt the rejection of a number of executory contracts and thereby create a significantly higher number of unsecured claims.

The foregoing types of claims and such other claims which may rise in the liquidation cases or result from the Chapter 11 Case would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay pre-petition claims.

Once the court ascertains the recoveries in liquidation of secured creditors and priority claimants, it must determine the probable distribution to general unsecured creditors and equity security holders from the remaining available proceeds in liquidation. If such probable distribution has a value greater than the distributions to be received by such creditors and equity security holders under a Debtor's plan, then such plan is not in the best interests of creditors and equity security holders.

D. Application of the Best Interests Test to the Liquidation Valuation Analysis of the Reorganizing Debtor

A Liquidation Valuation Analysis prepared with respect to the Reorganizing Debtor is attached as Exhibit C to this Disclosure Statement. The Reorganizing Debtor believes that any liquidation analysis is speculative. For example, the liquidation analysis necessarily contains an estimate of the amount of Claims that will ultimately become Allowed Claims. In preparing the Liquidation Valuation Analysis, the Reorganizing Debtor has projected an amount of Allowed Claims based upon a review of its scheduled claims. No order or finding has been entered by the Court estimating or otherwise fixing the amount of Claims at the projected amounts of Allowed Claims set forth in the Liquidation Valuation Analysis. The estimate of the amount of Allowed Claims set forth in the Liquidation Valuation Analysis should not be relied on for any other purpose, including, without limitation, any determination of the value of any distribution to be made on account of Allowed Claims and Interests under the Plan. In addition, as noted above, the valuation analysis of the Reorganizing Debtor also contains numerous estimates and assumptions.

Notwithstanding the difficulties in quantifying recoveries to creditors with precision, the Reorganizing Debtor believes that, (i) after taking into account the Liquidation Valuation Analysis and (ii) after consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the Chapter 11 Case, including: (a) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee; (b) the substantial increases in claims which would be satisfied on a priority basis or on parity with creditors in the Chapter 11 Case; (c) the lack of an agreement by Covanta to voluntarily terminate and forgive the Covanta Administrative Expense Claim and the DIP Financing Facility Claim against the Reorganizing Debtor's Estate; (d) the lack of any agreement by the holders of Intercompany Claims to voluntarily subordinate their Claims to other Unsecured Claims to the extent necessary to ensure full payment of such other Unsecured Claims; and (e) the significantly lower proceeds likely to be realized

from a liquidation of the Reorganizing Debtor's assets under a chapter 7 liquidation (given that the Reorganizing Debtor and its Estate will not receive and enjoy the benefits of the Settlement Agreement under a chapter 7 liquidation and given the risk that the Service Agreement will be terminated or declared void), the Plan meets the "best interests" test of section 1129(a)(7) of the Bankruptcy Code. The Reorganizing Debtor believes that the members of each impaired class will receive at least as much under the Plan as they would in a liquidation in a hypothetical chapter 7 case. Creditors will receive a better recovery through the distributions contemplated by the Plan because the continued operation of the Reorganizing Debtor as a going concern, rather than a forced liquidation, will provide additional value. In the event of liquidation, the aggregate amount of unsecured claims will no doubt increase significantly, and such claims will be subordinated to priority claims that will be created. Also, a chapter 7 liquidation would give rise to additional administrative claims. The resulting increase in both general unsecured and priority claims will no doubt decrease percentage recoveries to unsecured creditors. All of these factors lead to the conclusion that recoveries under the Plan would be at least as much as, and in many cases significantly greater than, the recoveries available in a chapter 7 liquidation.

E. Confirmation Without Acceptance of All Impaired Classes: The "Cramdown" Alternative

Section 1129(b) of the Bankruptcy Code provides that a plan can be confirmed even if it has not been accepted by all impaired classes, as long as at least one impaired class of Claims has accepted it. The Court may confirm the Plan at the request of the Reorganizing Debtor notwithstanding the Plan's rejection (or deemed rejection) by Impaired Classes as long as the Plan "does not discriminate unfairly" and is "fair and equitable" as to each Impaired Class that has not accepted the Plan. A plan does not discriminate unfairly within the meaning of the Bankruptcy Code if a dissenting class is treated equally with respect to other classes of equal rank.

A plan is fair and equitable as to a class of secured claims that rejects such plan if the plan provides (1)(a) that the holders of claims included in the rejecting class retain the liens securing those claims whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and (b) that each holder of a claim of such class receives on account of that claim deferred cash payments totaling at least the allowed amount of that claim, of a value, as of the effective date of the plan, of at least the value of the holder's interest in the estate's interest in such property; (2) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (1) or (2) of this paragraph; or (3) for the realization by such holders of the indubitable equivalent of such claims.

A plan is fair and equitable as to a class of unsecured claims which rejects a plan if the plan provides (1) for each holder of a claim included in the rejecting class to receive or retain on account of that claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim; or (2) that the holder of any claim or interest that is junior to the claims of such rejecting class will not receive or retain on account of such junior claim or interest any property at all (unless such interests are received or retained on account of "new value" provided by such holder).

A plan is fair and equitable as to a class of equity interests that rejects a plan if the plan provides (1) that each holder of an interest included in the rejecting class receive or retain on account of that interest property that has a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest; or (2) that the holder of any interest that is junior to the interest of such rejecting class will not receive or retain under the plan on account of such junior interest any property at all.

If and to the extent that any Class of Impaired Claims votes to reject the Plan, the Reorganizing Debtor shall seek confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code with respect to such Class(es).

F. Conditions to Confirmation and/or Consummation of the Plan

1. Conditions to Confirmation of the Plan

The following are conditions precedent to confirmation of the Plan. These conditions may be satisfied or waived by the Reorganizing Debtor in accordance with Article IX of the Plan:

(a) The entry of a Final Order finding that the Disclosure Statement contains adequate information pursuant to section 1125 of the Bankruptcy Code;

(b) The proposed Confirmation Order shall be in form and substance reasonably acceptable to the Reorganizing Debtor and Covanta;

(c) All entry of one or more Final Orders (which may include the Confirmation Order) approving the Settlement Agreement, the WDA, the Bond Refunding, the New Parent Guarantee and the Claims Payment Guarantee;

(d) all provisions, terms and conditions of the Plan are approved in the Confirmation Order.

2. Conditions Precedent to the Effective Date

Each of the following is a condition precedent to the occurrence of the Effective Date under the Plan, each of which may be satisfied or waived in accordance with Section 9.3 of the Plan:

(a) The Confirmation Order (i) shall have been entered by the Court and become a Final Order, (ii) be in form and substance satisfactory to the Reorganizing Debtor, and (iii) provide that the Reorganizing Debtor is authorized and directed to take all actions necessary or appropriate to enter into, implement and consummate the contracts, instruments, releases, leases, indentures and other agreements or documents created in connection with the Plan or the Settlement Agreement;

(b) receipt of the funds required to be paid by the County under the Settlement Agreement, as well as the executed Settlement Agreement, WDA and related agreements;

(c) all conditions precedent to the Bond Refunding shall have taken place on or before the Effective Date such that the Bond Refunding shall be irrevocable on or after the Effective Date;

(d) the County and Reorganizing Debtor shall have entered into, and the Court shall have entered, the stipulation provided for in the Settlement Agreement;

(e) the aggregate amount of asserted Administrative Expense Claims (not including the DIP Financing Facility Claims and the Covanta Administrative Expense Claim) not Disallowed by Final Order of the Court shall not exceed $1,000,000;

(f) Covanta's board of directors shall have authorized it to enter into the Claims Payment Guarantee and New Parent Guarantee; and

(g) the Reorganizing Debtor shall be authorized and directed to take all actions necessary or appropriate to enter into, implement and consummate the contracts, instruments, releases, and the agreements or documents created in connection with the Plan and the Settlement Agreement.

G. Waiver of Conditions to Confirmation and/or Consummation of the Plan

Except as otherwise provided for in the Settlement Agreement, the Reorganizing Debtor may waive any of the conditions set forth in Article IX of the Plan without leave of or notice to the Court and without any formal action other than proceeding with confirmation of the Plan or emerging from bankruptcy.

H. Retention of Jurisdiction

Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, the Court will retain exclusive jurisdiction of all matters arising under, arising out of, and related to, the Chapter 11 Case and the Plan, for, among other things, the following non-exclusive purposes:

(i) to determine the allowance or classification of Claims and to hear and determine any objections thereto;

(ii) to enforce the Claims Payment Guarantee;

(iii) in the event of a Preliminary Distribution, to determine the amount that any holder of an Late Allowed Claim is entitled to receive under this Plan as its Pro Rata Class Share of the Unsecured Creditor Distribution;

(iv) to hear and determine any motions for the assumption, assumption and assignment or rejection of executory contracts or unexpired leases, and the allowance of any Claims resulting therefrom;

(v) to determine any and all motions, adversary proceedings, applications, contested matters and other litigated matters in connection or associated with the Chapter 11 Case that may or should be pending in the Court on, or initiated after, the Effective Date;

(vi) to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, or vacated;

(vii) to issue such orders in aid of the execution, implementation and consummation of this Plan to the extent authorized by Section 1142 of the Bankruptcy Code or otherwise;

(viii) to construe and take any action to enforce this Plan or the Plan Documents;

(ix) to reconcile any inconsistency in any order of the Court, including, without limitation, the Confirmation Order;

(x) to modify the Plan pursuant to Section 1127 of the Bankruptcy Code, or to remedy any apparent non-material defect or omission in this Plan, or to reconcile any non-material inconsistency in the Plan so as to carry out its intent and purposes;

(xi) to hear and determine all applications for compensation and reimbursement of expenses of professionals under Sections 330, 331, and 503(b) of the Bankruptcy Code;

(xii) to determine any other requests for payment of Priority Tax Claims, Priority Non-Tax Claims or Administrative Expense Claims;

(xiii) to hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of this Plan;

(xiv) to consider and act on the compromise and settlement or payment of any Claim against the Reorganizing Debtor;

(xv) to recover all assets of the Reorganizing Debtor and property of the Estate, wherever located;

(xvi) to determine all questions and disputes regarding title to the assets of the Reorganizing Debtor or its Estate;

(xvii) to issue injunctions, enter and implement other orders or to take such other actions as may be necessary or appropriate to restrain interference by any entity with the consummation, implementation or enforcement of the Plan or the Confirmation Order;

(xviii) to remedy any breach or default occurring under this Plan;

(xix) to resolve and finally determine all disputes that may relate to, impact on or arise in connection with, this Plan;

(xx) to hear and determine matters concerning state, local, and federal taxes for any period of time, including, without limitation, pursuant to Sections 346, 505, 1129 and 1146 of the Bankruptcy Code (including any requests for expedited determinations under Section 505(b) of the Bankruptcy Code filed, or to be filed, with respect to tax returns for any and all taxable periods ending after each of the applicable Petition Dates through, and including, the Final Distribution Date);

(xxi) to determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(xxii) to hear any other matter consistent with the provisions of the Bankruptcy Code; and

(xxiii) to enter a final decree closing the Chapter 11 Case.

XI. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Reorganizing Debtor believes that the Plan presently affords holders of Claims the potential for the greatest realization on the Reorganizing Debtor's assets and, therefore, is in the best interests of such holders. As the Reorganizing Debtor has an obligation to seek to maximize recoveries for creditors generally, the Reorganizing Debtor will, consistent with its business judgment, and to the extent permitted by the Settlement Agreement, continue to consider alternative transactions that would permit recoveries to creditors greater than those expected under the Plan.

If the Plan is not confirmed, however, the theoretical alternatives include: (a) continuation of the pending Chapter 11 Case; (b) an alternative plan or plans of reorganization; or (c) liquidation of the Reorganizing Debtor under chapter 7 or chapter 11 of the Bankruptcy Code.

A. Continuation of the Bankruptcy Case

If the Reorganizing Debtor remains in chapter 11, it could continue to operate its business and manage its properties as a debtor in possession, but it would remain subject to the restrictions imposed by the Bankruptcy Code. It is not clear whether the Reorganizing Debtor could survive as a going concern in a further protracted Chapter 11 Case. The Reorganizing Debtor could have difficulty sustaining the high costs that may be caused if the Reorganizing Debtor remained a Chapter 11 debtor in possession, particularly after a failed plan. In addition, the DIP Financing Facility is currently due to expire by its terms on December 31, 2004, and as a result of continuing losses, the Reorganizing Debtor may not be able to obtain replacement DIP financing, particularly from a non-Affiliate.

Further, in the event the litigation with the County were to resume or Covanta was to cease providing management services, intellectual property, technical personnel and support, cash management systems, short-term

liquidity, and legal, environmental compliance and other support to the Reorganizing Debtor, the Reorganizing Debtor would have considerable difficulty sustaining its continued business operations. Finally, if the Settlement Agreement could not be implemented and the County were to prevail in its litigation with the Reorganizing Debtors, the Reorganizing Debtor likely would need to cease its business operations.

B. Alternative Plan of Reorganization

If the Plan is not confirmed, the Reorganizing Debtor, or, after the expiration of the Reorganizing Debtor's exclusive period in which to propose and solicit a reorganization plan, any other party in interest in the Chapter 11 Case, could propose a different plan or plans. Such a plan might involve either a reorganization and continuation of the Reorganizing Debtor's business, or an orderly liquidation of its assets, or a combination of both.

C. Liquidation Under Chapter 7 or Chapter 11

1. Liquidation of the Reorganizing Debtor under Chapter 7

If no plan is confirmed, the Reorganizing Debtor's Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code. In a chapter 7 case, a trustee would be appointed to liquidate the assets of the Reorganizing Debtor. It is impossible to predict precisely how the proceeds of the liquidation, if any, would be distributed to the respective holders of Claims against the Reorganizing Debtor.

However, the Reorganizing Debtor believes that creditors would lose the substantially higher going concern value if the Reorganizing Debtor was forced to liquidate. In addition, the Reorganizing Debtor believes that in liquidation under chapter 7, before creditors received any distribution, additional administrative expenses involved in the appointment of a trustee and attorneys, accountants and other professionals to assist the trustee would cause a substantial diminution in the value of the Estate. The assets available for distribution to creditors would be reduced by such additional expenses and by Claims, some of which would be entitled to priority, which would arise by reason of the liquidation and from the rejection of leases and other executory contracts in connection with the cessation of operations and the failure to realize the greater going concern value of the Reorganizing Debtor's assets. Additionally, if the Reorganizing Debtor's Chapter 11 Case is converted to chapter 7, it would no longer have the agreement of Covanta to voluntarily reduce the amount of Covanta's Administrative Expense Claim against the Reorganizing Debtor's Estate. Further, the Reorganizing Debtor would also no longer have the agreement of the holders of Intercompany Claims to voluntarily subordinate their Claims to other Unsecured Claims to the extent necessary to ensure full payment of such other Unsecured Claims. Further, the Reorganizing Debtor would not receive or enjoy the benefits of the Settlement Agreement and the Service Agreement could be terminated or deemed void. Finally, most of the Reorganizing Debtor's assets are pledged to secured creditors, and the Reorganizing Debtor's other creditors likely would receive no benefit from the liquidation of such property.

The Reorganizing Debtor's Liquidation Valuation Analysis is premised upon a hypothetical liquidation in a chapter 7 case and is attached as Exhibit C to this Disclosure Statement. In the analysis, the Reorganizing Debtor has taken into account the nature, status and underlying value of their assets, the ultimate realizable value of its assets, and the extent to which such assets are subject to liens and security interests.

The likely form of any liquidation would be the sale of individual assets. Based on this analysis, it is likely that a chapter 7 liquidation of the Reorganizing Debtor's assets would produce no value for distribution to creditors. Therefore, in the opinion of the Reorganizing Debtor, the recoveries projected to be available in a chapter 7 liquidation are not likely to afford holders of Claims and holders of Equity Interests as great a realization potential as does the Plan.

2. Liquidation of the Reorganizing Debtor under Chapter 11

The Reorganizing Debtor could be liquidated pursuant to a chapter 11 plan. In a liquidation under chapter 11, the Reorganizing Debtor's assets could be sold in an orderly fashion that may be conducted over a more extended period of time than in a liquidation under chapter 7. Thus, a chapter 11 liquidation might result in larger recoveries than a chapter 7 liquidation, but the potential delay in distributions could result in lower present values

received and higher administrative costs,. Because a trustee is not required in a chapter 11 case, expenses for professional fees could be lower than in a chapter 7 case, in which a trustee must be appointed. Any distribution to the holders of Claims and interests under a chapter 11 liquidation plan could potentially be delayed.

Additionally, if the Reorganizing Debtor were liquidated under chapter 11, it may no longer have the agreement of Covanta to voluntarily reduce the amount of Covanta's Administrative Expense Claim against the Reorganizing Debtor's Estate, or of the holders of Intercompany Claims to voluntarily subordinate their Claims to other Unsecured Claims, as noted above. The Reorganizing Debtor may also not receive or enjoy the benefits of the Settlement Agreement or even of the Service Agreement. For these reasons, the Reorganizing Debtor believes that the Liquidation Analysis applies to a situation where the Reorganizing Debtor is liquidated under Chapter 11 of the Bankruptcy Code.

XII. VOTING REQUIREMENTS

On October 20, 2004, the Court entered the Disclosure Statement Order, among other things, approving this Disclosure Statement, setting voting procedures and scheduling the Confirmation Hearing. A copy of the Confirmation Hearing Notice is enclosed with this Disclosure Statement. The Confirmation Hearing Notice sets forth in detail, among other things, the voting deadlines and objection deadlines with respect to the Plan. The Confirmation Hearing Notice and the instructions attached to the Ballots should be read in conjunction with this section of this Disclosure Statement.

If you have any questions about (i) the procedure for voting your Claim or with respect to the packet of materials that you have received, (ii) the amount of your Claim, or (iii) if you wish to obtain, at your own expense, unless otherwise specifically required by Bankruptcy Rule 3017(d), an additional copy of any of the Plan, this Disclosure Statement or any appendices or exhibits to such documents, please contact:

Bankruptcy Services, LLC
757 Third Avenue, 3rd Floor
New York, NY 10017

The Court may confirm the Plan only if it determines that the Plan complies with the technical requirements of chapter 11 of the Bankruptcy Code and that the disclosures by the Reorganizing Debtor concerning the Plan have been adequate and have included information concerning all payments made or promised by the Reorganizing Debtor in connection with the Plan and the Chapter 11 Case. In addition, the Court must determine that the Plan has been proposed in good faith and not by any means forbidden by law, and under Bankruptcy Rule 3020(b)(2), it may do so without receiving evidence if no objection is timely filed.

In particular, the Bankruptcy Code requires the Court to find, among other things, that (a) the Plan has been accepted by the requisite votes of all Classes of impaired Claims unless approval will be sought under section 1129(b) of the Bankruptcy Code in spite of the nonacceptance by one or more such Classes, (b) the Plan is "feasible," which means that there is a reasonable probability that the Reorganized Debtor will be able to perform its obligations under the Plan and continue to operate its businesses without further financial reorganization or liquidation, and (c) the Plan is in the "best interests" of all holders of Claims against and Equity Interests, which means that such holders will receive at least as much under the Plan as they would receive in a liquidation under chapter 7 of the Bankruptcy Code. The Court must find that all conditions mentioned above are met before it can confirm the Plan. Thus, even if all the Classes of Impaired Claims against the Reorganizing Debtor accept the Plan by the requisite votes, the Court must still make an independent finding that the Plan satisfies these requirements of the Bankruptcy Code, that the Plan is feasible, and that the Plan is in the best interests of the holders of Claims and Equity Interests against and in the Reorganizing Debtor.

ALL PERSONS ENTITLED TO VOTE ON THE PLAN MUST TIMELY SUBMIT THEIR BALLOT(S) TO THE BALLOTING AGENT ON OR PRIOR TO NOVEMBER 24, 2004, AT 4:00 P.M. (PREVAILING EASTERN TIME) TOGETHER WITH ANY OTHER DOCUMENTS REQUIRED BY SUCH BALLOT. THE REORGANIZING DEBTOR MAY, IN ITS SOLE DISCRETION, REJECT SUCH BALLOT AS INVALID AND, THEREFORE, DECLINE TO COUNT IT AS AN ACCEPTANCE OR REJECTION OF THE PLAN. IN NO

CASE SHOULD A BALLOT OR ANY OF THE CERTIFICATES BE DELIVERED TO THE REORGANIZING DEBTOR OR ANY OF ITS ADVISORS.

A. Parties in Interest Entitled to Vote on the Plan

Under section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be "impaired" under a plan unless (a) the plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof or (b) notwithstanding any legal right to an accelerated payment of such claim or interest, the plan cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default.

In general, a holder of a claim or interest may vote to accept or to reject a plan if (1) no party in interest has objected to allowance of such claim or interest, and (2) the claim or interest is impaired by the plan. If the holder of an impaired claim or impaired interest will not receive any distribution under the plan in respect of such claim or interest, the Bankruptcy Code deems such holder to have rejected the plan. If the claim or interest is not impaired, the Bankruptcy Code deems that the holder of such claim or interest has accepted the plan and the plan proponent need not solicit such holder's vote.

Except for holders of Claims in Class 1 (Priority Non-Tax Claims), Class 2 (Secured Bondholder Claims) and Equity Interests in Class 5 (which Classes are "unimpaired" and, therefore, are conclusively deemed to accept the Plan), the holder of a Claim that is "impaired" under the Plan is entitled to vote to accept or reject the Plan if (1) the Plan provides a distribution in respect of such Claim and (2) (a) the Claim has been scheduled by the Reorganizing Debtor (and such Claim is not scheduled as disputed, contingent, or unliquidated), (b) such holder has timely filed a Proof of Claim as to which no objection has been filed, or (c) such holder has timely filed a motion pursuant to Bankruptcy Rule 3018(a) seeking temporary allowance of such Claim for voting purposes only and the Reorganizing Debtor has not opposed the motion, or objected to allowance of the Claim, in which case the holder's vote will be counted only upon order of the Court.

A vote may be disregarded if the Court determines, pursuant to section 1126(e) of the Bankruptcy Code, that it was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code. The Disclosure Statement Order also sets forth assumptions and procedures for tabulating Ballots, including Ballots that are not completed fully or correctly.

B. Classes Impaired Under the Plan

1. Voting Impaired Classes of Claims

The following Classes are Impaired under, and entitled to vote to accept or reject, the Plan: Subclass 3A, Subclass 3B, and Class 4.

2. Unimpaired Classes of Claims and Interests

All other Classes are Unimpaired under the Plan and deemed under section 1126(f) of the Bankruptcy Code to have accepted the Plan. Their votes to accept or reject the Plan will not be solicited. Acceptances of the Plan are being solicited only from those who hold Claims in an Impaired Class whose members will receive a distribution under the Plan.

XIII. CONCLUSION

A. Hearing on and Objections to Confirmation

1. Confirmation Hearing

The hearing on confirmation of the Plan has been scheduled for December 1, 2004, at 2:00 p.m. (prevailing Eastern Time). Such hearing may be adjourned from time to time by announcing such adjournment in open court,

all without prior notice to parties in interest, provided, however, that the Reorganizing Debtor will file with the Court a notice of such adjournment. The Plan may be modified by the Reorganizing Debtor pursuant to section 1127 of the Bankruptcy Code prior to, during, or as a result of such confirmation hearing, without further notice to parties in interest in accordance with the terms of the Plan.

2. Date Set for Filing Objections to Confirmation of the Plan

The time by which all objections to confirmation of the Plan must be filed with the Court and received by the parties listed in the Confirmation Hearing Notice has been set for November 19, 2004, at 4:00 p.m. (prevailing Eastern Time). A copy of the Confirmation Hearing Notice is enclosed with this Disclosure Statement.

B. Recommendation

The Plan provides for equitable and prompt distributions to creditors holding Allowed Claims against the Reorganizing Debtor, preserves the value of the business as a going concern, and resolves expensive and draining litigation with the County. The Reorganizing Debtor believes that any alternative to confirmation of the Plan, such as a liquidation of the Reorganizing Debtor or attempts by another party in interest to file a plan, would result in significant delays, litigation, and costs. Moreover, the Reorganizing Debtor believes that its creditors will receive greater and earlier recoveries under the Plan than those that might be achieved in liquidation or under an alternative plan. FOR THESE REASONS, THE REORGANIZING DEBTOR URGES YOU TO RETURN YOUR BALLOT ACCEPTING THE PLAN.

Dated: October 20, 2004

COVANTA LAKE II, INC.

By: *Anthony J. Orlando*
President and Chief Executive Officer of
Covanta Lake II, Inc.

EXHIBITS