SUBJECT TO COURT APPROVAL

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	)	Chapter 11
OGDEN NEW YORK SERVICES, INC., et al.,[1]	)	Case Nos. 02-40826 (CB), et al.
Debtors and Debtors In Possession.	)	(Jointly Administered)

FIRST AMENDED DISCLOSURE STATEMENT WITH RESPECT TO REORGANIZING DEBTORS' JOINT PLAN OF REORGANIZATION, HEBER DEBTORS' JOINT PLAN OF REORGANIZATION, AND LIQUIDATING DEBTORS' JOINT PLAN OF LIQUIDATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

THIS PROPOSED DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT FOR USE IN THE SOLICITATION OF ACCEPTANCES OF THE PLANS ~~DISCLOSED~~ PURSUANT TO SECTION 1125(B) OF THE BANKRUPTCY CODE. ACCORDINGLY, THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT IS NOT INTENDED, NOR SHOULD IT BE CONSTRUED, AS SUCH A SOLICITATION, NOR SHOULD THE INFORMATION CONTAINED HEREIN BE RELIED UPON FOR ANY PURPOSE PRIOR TO A DETERMINATION BY THE BANKRUPTCY COURT THAT THE PROPOSED DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL THE BANKRUPTCY COURT HAS APPROVED THIS DISCLOSURE STATEMENT. THIS DISCLOSURE STATEMENT MAY BE REVISED TO REFLECT EVENTS THAT OCCUR AFTER THE DATE HEREOF BUT PRIOR TO THE COURT'S APPROVAL.

Dated: September ~~8,~~ **28,** 2003

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[1] A complete list of the Debtors and Debtors In Possession is provided on Exhibit ~~G~~**K**.

DISCLAIMER

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") AND APPENDICES HERETO RELATES TO CERTAIN DEBTORS' **FIRST AMENDED** JOINT PLAN OF REORGANIZATION (**AS AMENDED,** THE "REORGANIZATION PLAN")**, THE HEBER DEBTORS' FIRST AMENDED JOINT PLAN OF REORGANIZATION (AS AMENDED, THE "HEBER REORGANIZATION PLAN"),** AND CERTAIN DEBTORS' JOINT PLAN OF LIQUIDATION (**AS AMENDED,** THE "LIQUIDATION PLAN," AND TOGETHER WITH THE **REORGANIZATION PLAN AND THE HEBER** REORGANIZATION PLAN, THE "PLANS") AND ARE INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF EACH OF THE PLANS AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON EACH OF THE PLANS. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT, REGARDING THE PLANS OR THE SOLICITATION OF ACCEPTANCES OF THE PLANS.

ALL CREDITORS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLANS IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE REORGANIZATION PLAN AND/OR THE LIQUIDATION PLAN. SUMMARIES OF THE PLANS AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE REORGANIZATION PLAN**, THE HEBER REORGANIZATION PLAN** AND/OR THE LIQUIDATION PLAN, OTHER EXHIBITS ANNEXED OR REFERRED TO IN THE PLANS, 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(c) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE 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 §§ 101-1330 (THE "BANKRUPTCY CODE"). NEITHER THE SECURITIES TO BE DISTRIBUTED NOR THE DISCLOSURE STATEMENT HAS 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 DEBTORS.

NO PARTY IS AUTHORIZED TO PROVIDE TO ANY OTHER PARTY ANY INFORMATION CONCERNING THE PLANS OTHER THAN THE CONTENTS OF THIS DISCLOSURE STATEMENT. THE DEBTORS HAVE NOT AUTHORIZED ANY REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR 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 PLANS THAT ARE OTHER THAN, OR INCONSISTENT WITH, THE INFORMATION CONTAINED HEREIN AND IN THE PLANS.

ADDITIONAL INFORMATION REGARDING THE DEBTORS (AS DEFINED HEREIN) IS CONTAINED IN PUBLIC FILINGS WITH THE SEC.

ALTHOUGH THE DEBTORS HAVE USED THEIR 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 INCLUDED IN COVANTA ENERGY CORPORATION'S ANNUAL REPORT ON FORM 10-K.

THE PROJECTIONS PROVIDED IN THIS DISCLOSURE STATEMENT HAVE BEEN PREPARED BY THE DEBTORS' MANAGEMENT. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED REASONABLE BY MANAGEMENT, MAY NOT BE REALISTIC AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, INDUSTRY, REGULATORY, MARKET AND FINANCIAL UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE PROJECTIONS OR TO THE DEBTORS' ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURING 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 SECTION 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 OR IMPAIRED EQUITY INTEREST TO ACCEPT THE PLANS.

SUMMARY OF THE ~~REORGANIZATION PLAN AND THE LIQUIDATION PLAN~~PLANS

The following introduction and summary is a general overview only, which is qualified in its entirety by, and should be read in conjunction with, the more detailed discussions, information and financial statements and notes thereto appearing elsewhere in this Disclosure Statement~~, the Reorganization Plan~~ and the ~~Liquidation Plan. All capitalized terms not defined in this Disclosure Statement have the meanings ascribed to such terms in the Reorganization Plan and the Liquidation Plan, copies of which~~**Plans. Copies of the Plans** are annexed hereto in Exhibits A ~~and~~**,** B **and C**.

This Disclosure Statement contains, among other things, descriptions and summaries of provisions of the Reorganization Plan being proposed by the Reorganizing Debtors[2] ~~and~~**, the Heber Reorganization Plan being proposed by the** Heber Debtors[3]**,** and the Liquidation Plan being proposed by the Liquidating Debtors[4] (together, the "Debtors"), respectively, as filed with the United States Bankruptcy Court for the Southern District of New York (the "Court") ~~on September 8, 2003.~~**.** Certain provisions of the Plans, and thus the descriptions and summaries contained herein, are the subjects of continuing negotiations among the Debtors and various parties, have not been finally agreed upon, and may be modified. ~~The~~

A complete list of the Reorganizing Debtors, the Heber Debtors and the Liquidating Debtors is attached as Exhibit K hereto. Without prejudice to the rights of the Proposed Buyers under the Heber Purchase Agreement (each as defined herein), the Debtors have reserved their rights in the Plans to redesignate Debtors as Reorganizing Debtors, Heber Debtors or Liquidating Debtors at any time prior to ten (10) days prior to the **applicable** Confirmation Hearing (as defined below). Holders of Claims or Equity Interests (each as defined below) who are entitled to vote on the ~~Reorganization Plan or Liquidation Plan~~**Plans** and who are affected by any such redesignation shall have five (5) days from the notice of such redesignation to vote to accept or reject the ~~Reorganization~~**applicable** Plan ~~or~~**(s). Without prejudice to** the ~~Liquidation Plan~~**rights of the Proposed Buyers under the Heber Purchase Agreement**, ~~as~~ the ~~case may be. The~~ Debtors also have reserved the right to withdraw prior to the **applicable** Confirmation Hearing one or more Debtors from ~~the Reorganization~~**a** Plan ~~or the Liquidation Plan, as the case may be~~, and to thereafter file a plan solely with respect to such Debtor.

The Debtors believe that the Debtors' creditors will receive substantially greater and earlier recoveries under the Plans than those that would be achieved in total liquidation or under an alternative plan and, further, that any alternative to confirmation of the Plans, such as total liquidation of the Debtors or attempts by another party in interest to file a plan, could result in significant delays, litigation and costs. FOR THESE REASONS, THE DEBTORS URGE YOU TO RETURN YOUR BALLOT ACCEPTING THE PLANS.

A. Definitions

Except as otherwise provided herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to them in the Plans. In addition, all references in this Disclosure Statement to monetary figures refer to United States currency, unless otherwise expressly provided.

B. ~~A.~~ Overview

Covanta Energy Corporation ("Covanta") and its subsidiaries (collectively, the "Subsidiaries" and together with Covanta, the "Company") develop, construct, own and operate for others key infrastructure for the conversion of waste-to-energy, independent power production and the treatment of water and wastewater in the United States and abroad. The Company owns or operates 62 power generation facilities, 46 of which are in the United States and 16 of which are located outside of the United States. The Company's power generation facilities use a variety of fuels, including municipal solid waste, water (hydroelectric), natural gas, coal, geothermal fluid, wood waste,

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[2] ~~A complete list of the Reorganizing Debtors is provided on Exhibit I to the Reorganization Plan.~~

[3] ~~The Heber Debtors are AMOR 14 Corporation, Covanta SIGC Energy, Inc., Covanta SIGC Energy II, Inc., Heber Field Company, Heber Geothermal Company and Second Imperial Geothermal Company, L.P.~~

[4] ~~A complete list of the Liquidating Debtors is provided on Exhibit I to the Liquidation Plan.~~

landfill gas, heavy fuel oil and diesel fuel. Until September 1999, and under prior management, the Company was also actively involved in the entertainment and aviation services industries.

On April 1, 2002 (the "Initial Petition Date"), Covanta and 123 of its domestic subsidiaries filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Court. On December 16, 2002 (the "Interim Petition Date"), and June 6, 2003 (the "Subsequent Petition Date," and with the Initial Petition Date and the Interim Petition Date, the "Petition Dates") thirty-one (31) additional subsidiaries filed their chapter 11 petitions for relief under the Bankruptcy Code. In addition, four (4) subsidiaries that had filed petitions on the Initial Petition Date have been sold as part of the Company's disposition of non-core assets and are no longer owned by the Company, nor are they part of the bankruptcy proceedings. The pending bankruptcy cases (the "Chapter 11 Cases") are being jointly administered under the caption "In re Ogden New York Services, Inc., et al., Case Nos. 02-40826 (CB), et al."

Until September 1999, and under prior management, the Company was actively involved in the entertainment and aviation services industries. However, after extensive study and evaluation, the Company determined that most of its earnings were generated by the energy business, that the entertainment business was substantially over-leveraged and that the focus on the entertainment and aviation businesses had not proven successful. Accordingly, in September 1999, the Company adopted a restructuring strategy in which it would concentrate on its core energy business while seeking to sell its aviation and entertainment businesses. During 2000 and 2001, the Company divested multiple entertainment and aviation assets and shed tens of millions of dollars of overhead.

However, the Company required waivers of financial covenants under its numerous credit agreements and new letter of credit facilities to be used by its core energy business in the event of a downgrade by the credit rating agencies below investment grade. The Company believed that, with a single master credit agreement in place, it could seek access to the capital markets with which it could raise equity or debt that, combined with additional cash from the sale of its remaining entertainment and aviation assets, would meet its liquidity needs, including the timely repayment of outstanding debentures maturing in 2002. By the fall of 2000, the Company and its key banks reached an agreement in principle on the terms of a new master credit facility that would include all then-existing bank credit arrangements and a new revolving and letter of credit facility. Due principally to ~~difficult~~ intercreditor issues **that were difficult** to resolve, the new Revolving Credit and Participation Agreement (the "Master Credit Facility") was not executed until March 14, 2001, at which time the Company paid down all ~~their~~ outstanding bank debt. With the Master Credit Facility in place, the Company took steps to access the equity markets and continued to dispose of entertainment and aviation assets. However, these efforts were thwarted in the spring of 2001 by unanticipated events. The sale of the remaining assets from the non-core businesses took longer and yielded less proceeds than anticipated. The energy crisis in California (which led to the substantially delayed payment to the Company of approximately $75 million by two California utilities) and the perception that the independent power sector was overbuilt contributed to a reduction in demand for energy company securities. The delayed payment by the two California utilities also caused the Company to seek cash flow covenant waivers under the Master Credit Facility in June 2001. These waivers were granted, but in consideration for the waivers the Company lost the capacity under the Master Credit Facility to obtain letters of credit that it had intended to provide to third parties in the event of a downgrade in the Company's credit rating. The Company's ability to access the capital markets was further hampered first by a sharp downturn in capital markets for energy companies in the middle of 2001, and subsequently by the events of September 11, 2001, which dampened the capital markets generally, and the collapse of Enron, which brought the energy sector further investor disfavor.

In December 2002, the Company publicly stated that it needed further covenant waivers and that it was encountering difficulties in achieving access to short-term liquidity. This resulted in a downgrade of the Company's credit rating below investment grade. Consequently, under its contracts for two waste-to-energy facilities the Company became obligated to provide credit support in the amount of $50 million for each project. On March 1, 2002, the Company availed itself of a grace period to defer for 30 days the payment of approximately $4.6 million of interest on its $100 million principal amount 9.25% Debentures due ~~2002~~**2022** (the "9.25% Debentures").

In March 2002, substantial amounts of fees under the Master Credit Facility came due, but could not be paid without violating cash maintenance covenants under the facility. In addition, draw notices totaling

approximately $105.2 million were presented on two letters of credit issued on behalf of the Company. Although the bank lenders honored such letters of credit, the Company had insufficient liquidity to reimburse the bank lenders as required under the Master Credit Facility. Furthermore, approximately $148.7 million of the 6% Convertible Debentures and the 5.75% Convertible Debentures were to mature in 2002.

Ultimately, the Company concluded that the commencement of the Chapter 11 Cases was in the best interest of all creditors as the best means by which to protect the value of the Company's core business, reorganize its capital structure and complete the disposition of its remaining non-core entertainment and aviation assets.

Since the Initial Petition Date, the Debtors have continued their efforts to dispose of non-core businesses. With approval of the Court, the Debtors have sold the remaining aviation fueling assets, their interests in Casino Iguazu ("Casino Iguazu") and La Rural Fairgrounds and Exhibition Center ("La Rural Fairgrounds," and with Casino Iguazu, the "Argentine Assets") in Argentina~~.~~**. They also realized** their interests in the Corel Centre in Ottawa, Canada (the "Corel Centre") and in the **Ottawa Senators Hockey Club Corporation (the "**Team**")** and other miscellaneous assets related to the entertainment business. In addition, in order to enhance the value of the Company's core business, on September 23, 2002, management announced a reduction in non-plant personnel, closure of satellite development offices and reduction in all other costs not directly related to maintaining operations at their current high levels. As part of the reduction in force, waste-to-energy and domestic independent power headquarters management were combined and numerous other structural changes were instituted in order to improve management efficiency.

C. ~~**B.**~~ **Events Leading to the Plans**

Over the course of these proceedings, the Debtors have held discussions with the Creditors Committee, representatives of the **Debtors' prepetition bank lenders (the "**Prepetition Lenders**")** and DIP Lenders (together, the "Secured Bank Lenders") and the 9.25% Debenture holders with respect to possible capital and debt structures for the Debtors and the formulation of the Plans. A central element of these discussions and related negotiations, described further in Section VI.C.12, was the possibility for the Debtors and their secured and unsecured creditors to develop a plan of reorganization involving an employee stock ownership plan or "ESOP."

After extensive negotiations, significant progress was made toward determining that an ESOP could provide a useful framework for a plan of reorganization. In order to better determine the viability of an ESOP, the Debtors appointed a committee originally consisting of three of Covanta's senior managers (the "ESOP Committee"), whose purpose ~~it~~ was to ~~investigate various issues from the perspective~~**foster the exploration** of the ESOP ~~and the employees~~**structure by devising a course** of **action pursuant to which** the ~~Reorganized Debtors~~**Company could move forward with its inquiries regarding the ESOP alternative**. ~~Upon further investigation,~~ **It was** the ESOP Committee**'s** ~~concluded~~**belief** that a more definitive determination of the viability of an ESOP required the appointment of an independent fiduciary to represent the ESOP and the interests of employees who would participate in the ESOP in reviewing the terms of any proposed ESOP transaction and subsequently deciding whether the ESOP should participate in such a transaction. In addition, the ESOP Committee ~~determined~~**believed** that ~~it was imperative~~**an independent fiduciary's representation of the ESOP and its participants would be essential to ensuring** that any proposed ESOP transaction be structured to comply with all of the applicable fiduciary requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")~~ and that the representation of the ESOP and its participants by an independent fiduciary would be essential to ensuring such compliance~~.

After conducting interviews with a number of potential candidates, the ESOP Committee decided to retain U.S. Trust Company, N.A. ("U.S. Trust"), because of its extensive experience in providing specialized management, fiduciary and consulting services with respect to the formation of ESOPs, to act as independent fiduciary on behalf of the ESOP. The ESOP Committee thereafter negotiated a form of agreement with U.S. Trust for the provision of fiduciary services in connection with a potential ESOP (the "U.S. Trust Agreement"). On July 1, 2003, the Court entered an order (Docket No. 1719) authorizing Covanta to engage U.S. Trust, as well as retain Duff & Phelps ("D&P") as a financial advisor to U.S. Trust, in connection with the potential ESOP transaction. Pursuant to this order, Covanta, the ESOP Committee and U.S. Trust, effective as of July 1, 2003, entered into the U.S. Trust Agreement.

Pursuant to the U.S. Trust Agreement, U.S. Trust is authorized to review the terms of the Reorganization Plan and the proposed new corporate structure of the Reorganized Debtors. As part of this review, U.S. Trust's responsibilities are to (i) conduct appropriate due diligence on the Company and the proposed ESOP, (ii) negotiate on behalf of the proposed ESOP the terms governing the contribution of Reorganized Covanta's stock to the proposed ESOP and (iii) determine, on behalf of the proposed ESOP, whether to accept a proposed contribution of Reorganized Covanta's stock to the proposed ESOP. In exercising these responsibilities, U.S. Trust will rely on the opinion of its financial advisor, D&P, that the terms and conditions of the proposed contribution are fair and reasonable to the ESOP from a financial point of view. The Company has agreed to indemnify U.S. Trust for any losses, claims, damages or liabilities, including reasonable attorneys' fees, arising in any manner in connection with the provision of services or exercise of responsibilities under the U.S. Trust Agreement, unless such losses, claims, damages or liabilities are finally adjudged to have resulted from U.S. Trust's bad-faith, self-dealing, breach of fiduciary duty, negligence or willful misconduct.

The fee structure of the U.S. Trust Agreement contemplates, in addition to the reimbursement of reasonable expenses, a flat dollar fee of $300,000, payable to U.S. Trust regardless of whether the Reorganization Plan is consummated. The Company has already paid to U.S. Trust $150,000 as compensation for the services it has performed and will continue to perform in connection with the ESOP transaction. The final installment of $150,000 will be paid to U.S. Trust when it is prepared to make a final decision regarding whether or not to accept, on behalf of the ESOP, the proposed contribution of Reorganized Covanta stock. In addition, the U.S. Trust Agreement contemplates the payment to D&P of a reasonable fee, not to exceed $175,000, and reimbursement of reasonable expenses, not to exceed $25,000, in connection with its rendering of the financial opinion. No portion of the fee payable to U.S. Trust is contingent in any way upon the consummation of the Reorganization Plan or an affirmative decision by U.S. Trust to accept the proposed contribution. The ESOP Committee believes the fee structure is a critical component of its efforts to ensure that the ESOP transaction complies with the fiduciary requirements of ERISA.

U.S. Trust's decision with respect to whether or not to accept the proposed contribution of Reorganized Covanta stock is crucial to the successful restructuring of the Debtors. The consummation of the Reorganization Plan is predicated on U.S. Trust's acceptance of the contribution on behalf of the ESOP. There is no guarantee that U.S. Trust will decide that the acceptance of such contribution is in the best interests of the ESOP and its participants. The Debtors expect that U.S. Trust will be prepared to make its decision prior to the approval of this Disclosure Statement. However, due to the nature of the services to be performed by U.S. Trust in connection with the ESOP transaction, as well as the potential delay that would result from further negotiations between U.S. Trust and with the Debtors' various creditor constituencies, it is possible that U.S. Trust will not be prepared to make its final decision until a later time.

D. ~~C.~~ General Structure of the Plans

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor is authorized to reorganize its business for the benefit of its creditors. Upon the filing of a petition for relief under chapter 11, section 362 of the Bankruptcy Code provides for an automatic stay of substantially all actions and proceedings against the debtor and its property, including all attempts to collect claims or enforce liens that arose prior to the commencement of its chapter 11 case.

The process of satisfying claims against and interests in the Debtors is set forth in the ~~Reorganization Plan and the Liquidation Plan~~**Plans**. Confirmation of the Plans by the Court makes the Plans binding upon the Debtors, any issuer of securities under the Plans, any person or entity acquiring property under the Plans and any creditor of or equity security holder in the Debtors, whether or not such creditor or equity security holder (i) is impaired under or has accepted the Plans or (ii) receives or retains any property under the Plans.

Subject to certain limited exceptions and other than as provided in the Reorganization Plan ~~itself~~**or the Heber Reorganization Plan** or in the ~~order~~**orders** confirming the Plans (the "Confirmation Order"), the confirmation of the Reorganization Plan **and the Heber Reorganization Plan** discharges the Reorganizing Debtors and Heber Debtors**, respectively,** from any debt that arose prior to the **applicable** Effective Date ~~of the Reorganization Plan~~, substitutes therefor the obligations specified under the confirmed Reorganization Plan **or**

Heber Reorganization Plan, and terminates all rights and interests of equity security holders except to the extent expressly provided therein. The terms of the Reorganization Plan **and the Heber Reorganization Plan** are based upon, among other things, the Debtors' assessment of their ability to achieve the goals of their Business Plan (as defined in Section VI.C.16 herein), make the distributions contemplated under the **Reorganization Plan and Heber** Reorganization Plan and pay certain of their continuing obligations in the ordinary course of the businesses of the Reorganizing Debtors. In accordance with section 1141(d)(3) of the Bankruptcy Code, the confirmation of the Liquidation Plan does not discharge the Liquidating Debtors from any Claims asserted against them.

Under the ~~Reorganization Plan and the Liquidation Plan~~**Plans**, Claims against and **Equity** Interests in the Reorganizing Debtors, Heber Debtors and the Liquidating Debtors, respectively, are divided into Classes according to their relative seniority and other criteria. Each Reorganizing Debtor**, Heber Debtor** and Liquidating Debtor is a proponent of the respective Plans within the meaning of section 1129 of the Bankruptcy Code. The Reorganizing Debtors' Estates, **the** Heber Debtors' Estates and the Liquidating Debtors' Estates have been deemed consolidated solely for purposes of administration, procedure and voting. By virtue of this deemed consolidation, in some instances, claims against multiple Reorganizing Debtors, Heber Debtors and Liquidating Debtors have been grouped together into single Classes of Claims.

Except to the extent a Reorganizing Debtor, **Heber Debtor or** Liquidating ~~Debtor or Heber~~ Debtor expressly assumes an obligation or liability of another Debtor, the Plans will not operate to impose liability on the Reorganizing Debtors, Heber Debtors ~~and~~**or** Liquidating Debtors for the Claims against any other Debtor or the debts and other obligations of any other Debtor. From and after the Effective Date **of the Reorganization Plan (the "Reorganization Effective Date") or the Effective Date of the Heber Reorganization Plan (the "Heber Effective Date")**, each Reorganizing Debtor and Heber Debtor will be separately liable for its own debts and obligations arising on and after the **applicable** Effective Date. Additionally, from and after the Effective Date **of the Liquidation Plan (the "Liquidation Effective Date")**, each Liquidating Debtor will be separately liable for its own debts and obligations arising on and after the **Liquidation** Effective Date, although, as most of the Liquidating Debtors are non-operating and there is no objective to continue or engage in the conduct of a trade or business, except to the extent reasonably necessary to, and consistent with the liquidating purpose of the Liquidation Plan, the Liquidating Debtors do not anticipate that they will incur any new debts or obligations on or after the **Liquidation Plan** Effective Date.

After careful review of the Debtors' current and projected operations, estimated recoveries in a complete liquidation scenario, prospects as an ongoing business, and the strategic Business Plan developed by management and discussed more fully in Section VI.C.16, the Debtors have concluded that the recovery to the Debtors' creditors will be maximized by the Reorganizing Debtors and Heber Debtors' continued operation as a going concern and the Liquidating Debtors' dissolution in accordance with applicable law. The Reorganizing Debtors and Heber Debtors believe that their businesses and assets have significant value that would not be realized in a complete liquidation. According to the liquidation valuation analyses prepared by the Reorganizing Debtors and Heber Debtors with the assistance of their financial advisors, the value of each of the estates of the Reorganizing Debtors and Heber Debtors, respectively, is considerably greater as a going concern than in a liquidation. For a complete discussion of the liquidation value of the Reorganizing Debtors and Heber Debtors, please refer to Exhibit ~~E~~**H** attached hereto. The Debtors believe that this value is further enhanced by segregating the Liquidating Debtors, whose assets are primarily non-core and unrelated to the core businesses of the Reorganizing Debtors and Heber Debtors.

Accordingly, the Debtors believe that the structures of the ~~Reorganization Plan and the Liquidation Plan~~**Plans** provide the best recoveries possible for holders of Claims against the Debtors and strongly recommend that, if you are entitled to vote, you vote to ACCEPT the ~~Reorganization Plan and the Liquidation Plan~~**Plans**. The Debtors believe that any alternative to confirmation of the Plans, such as complete liquidation or attempts by another party in interest to file a plan, could result in significant delays, litigation and costs, as well as significantly reduced recovery by creditors.

E. ~~D.~~ Restructuring of the Debtors

The Debtors filed **(i)** the Reorganization Plan and the Liquidation Plan with the Court on September 8, **2003, (ii) the Heber Reorganization Plan on September 24, 2003, and (iii) the first amendment to the**

Reorganization Plan, the second amendment to the Heber Reorganization Plan and the first amendment to the Liquidation Plan on September 28, 2003. The Reorganization Plan is premised upon the economic benefits to be derived from a framework for a restructuring of the Debtors built around the establishment and implementation of an ESOP. By establishing an ESOP to which Reorganized Covanta will contribute all of its stock, the employees of the Reorganized Debtors, as participants in the ESOP, will receive an equity interest in Reorganized Covanta that provides employees an opportunity to profit from the value of Reorganized Covanta Common Stock. In addition, the implementation of the ESOP and Reorganization Plan (which includes ~~reorganized~~**Reorganized** Covanta electing S corporation status for federal income tax purposes) is intended to result in the Debtors realizing a significant increase in available after-tax cash flow through a substantial reduction in federal income tax liabilities that will permit the Debtors to pay down their Allowable Claims, thereby permitting the Reorganizing Debtors to emerge from bankruptcy and permitting the Reorganizing Debtors to benefit the employees participating in the ESOP. Furthermore, the feasibility of the Reorganization Plan is further premised upon an ability to implement the Business Plan for the Reorganizing Debtors. The Business Plan (as defined in Section VI.C.16 ~~herein~~) and accompanying financial projections through December 31, 2007, which include the preliminary estimated effects of the required adoption of "fresh start" accounting (the "Projections"), are described in detail in Section VI.C.16. While the Company believes that the Business Plan and Projections are reasonable and appropriate, they include a number of assumptions that may differ from actual results and are subject to a number of risk factors. See Section VIII for a discussion of such factors.

The Debtors expect to sell their interests in certain geothermal energy projects (each project, a "Geothermal Project") in Heber, California (the "Geothermal ~~Debtor Equity~~**Business**").~~[5]~~**[2]** ~~The Debtors expect to effect such sale~~ **either** pursuant to ~~either Section~~**section** 363 of the Bankruptcy Code or through ~~a plan of reorganization for the~~ **the** Heber ~~Debtors (the "Heber Plan") to be filed~~ **Reorganization Plan, in accordance** with ~~respect to~~ the ~~Debtor entities to be sold, in either event contemplating selling~~ **provisions of** the **Ownership Interest Purchase Agreement, by and among Covanta Heber Field Energy, Inc., Heber Field Energy II, Inc., ERC Energy, Inc., ERC Energy II, Inc. Heber Loan Partners, Covanta Power Pacific, Inc. and Covanta Energy Americas, Inc. (collectively, the "Sellers") and Covanta and Caithness Heber Field I, LLC, Caithness Heber Field II, LLC, Caithness Heber** Geothermal ~~Debtor Equity on substantially similar economic terms. The Debtors expect to file a Section 363 sale motion on or about~~**I, LLC, Caithness Heber Geothermal II, LLC, Caithness Mammoth, LLC, Caithness SIGC GP, LLC and Caithness SIGC LP, LLC (collectively, the "Proposed Buyers") dated as of** September ~~8, 2003, and reserve the right to file the Heber Plan based on substantially similar economic terms to~~**24, 2003 (Docket No. 2214) (as may be amended, modified or terminated pursuant to the terms thereof,** the ~~proposed Section 363 sale. Consummation of~~ **"Heber Purchase Agreement"). Pursuant to** the **Heber Purchase Agreement,** the ~~sale of Geothermal Debtor Equity under either a Section 363 sale or the Heber Plan (either, the "~~**Sellers, in consultation with the Proposed Buyers, shall determine whether to accomplish the resolution of the Chapter 11 Cases of the Heber Debtors though a sale pursuant to section 363 of the Bankruptcy Code or through the Heber Reorganization Plan. On September 8, 2003 the Debtors filed a motion (Docket No. 2058) (the "Heber Sale Motion"), seeking, among other things, (i) entry of an Order establishing competitive bidding and auctions procedures for the** Geothermal ~~Sale") would result in the transfer of ownership of certain Reorganizing Debtors and Heber Debtors that own or lease~~ **Business; (ii) approval of the sale of** the Geothermal ~~Projects~~**Business to the Proposed Buyers pursuant to the Heber Purchase Agreement or the sale of some or all of the Geothermal Business to a party making a higher or better offer pursuant** to ~~certain buyers. The Reorganization Plan is~~**the Court-approved bidding and auction procedures, either pursuant to the Heber Sale Motion or the Heber Reorganization Plan (the "Heber Alternative Transaction") (without prejudice to the Proposed Buyers' rights under the Heber Purchase Agreement, the "Geothermal Sale"); (iii) and the dismissal of the Heber Debtors' Chapter 11 Cases as contemplated by the sale Motion or the Heber Alternative Transaction, as applicable (the "Heber Debtor Dismissal"). On the same day, the Heber Debtors filed their original proposed Plan of Reorganization, which was subsequently amended as provided in the Heber Reorganization Plan, on September 24, 2003, and on the date hereof. On September [ ], 2003, the Court entered an order (Docket No. [ ]) (the "Heber Bidding Procedures Order"), approving the bidding**

~~[5] Non-debtor affiliates of the Debtors also expect to sell their interest in certain geothermal energy projects operated by Mammoth Pacific, L.P., also a non-debtor.~~

[2] Non-debtor affiliates of the Debtors also expect to sell their interest in certain geothermal energy projects operated by Mammoth Pacific, L.P., also a non-debtor.

procedures and establishing November 19, 2003 as the date of the Auction (as defined in the Heber Bidding Procedures Order) and the hearing to consider approval of the Geothermal Sale, either pursuant to the Heber Sale Motion or the Heber Reorganization Plan (the "Approval Hearing"). If the Court confirms the Heber Reorganization Plan at the Approval Hearing the Debtors will withdraw the request for the Heber Debtor Dismissal as provided in the Heber Sale Motion.

The Reorganization Plan and the Heber Reorganization Plan are premised on the consummation of the Geothermal Sale, as the proceeds of the Geothermal Sale will provide the Reorganized Debtors **and the Heber Debtors** with funds necessary to emerge from **their respective** Chapter 11 ~~protection~~**Cases**.

~~Additionally, the~~**The** Liquidation Plan provides for the complete liquidation of the Liquidating Debtors. ~~Substantially~~**Apart from the disposition of businesses associated with the Arrowhead Pond of Anaheim arena in Anaheim, California ("Arrowhead Pond"), substantially** all of the Liquidation Assets of the Liquidating Debtors have already been sold. The Debtors have proposed that the Secured Bank Lenders and 9.25% Debenture Holders contribute their Distributions, to which they would otherwise be entitled under the Liquidation Plan (consisting of (i) the proceeds of certain postpetition asset sales and (ii) certain other Claims of the Liquidating Debtors upon which the Secured Bank Lenders and 9.25% Debenture Holders have a first priority secured lien) to Reorganized Covanta. The Debtors further propose that up to $~~500,000~~**3,000,000** of the Cash subject to the transfers described in the previous sentence be transferred to the Operating Reserve **and the Administrative Expense Claims Reserve**, which shall be used by the Liquidating Trustee to fund the implementation of the Liquidation Plan. The transfers **to Reorganized Covanta** described above will assist the Reorganized Debtors in their reorganization. Furthermore, to the extent that there are Liquidation Assets that have not already been sold and/or transferred to Reorganized Covanta (the "Residual Liquidation Assets"), the Liquidation Plan provides for the complete liquidation and monetization (or abandonment, as the case may be) of such Residual Liquidation Assets and the complete dissolution of the Liquidating Debtors pursuant to applicable state law.

F. ~~E.~~ Compromises and Settlements Incorporated into the Plans

Under the ~~Reorganization Plan and the Liquidation Plan~~**Plans**, Claims and Equity Interests are divided into Classes. The Distributions provided for under the Plans are based upon the relative priorities and rights of members of those respective Classes.

The Plans also embody the proposed compromise and settlement of claims and causes of action among the creditors in certain Classes. The obligations of Prepetition Borrowers (including Covanta and certain of its subsidiaries under Tranche B of the DIP **Financing** Facility) under the Master Credit Facility are expected to ~~be approximately~~**aggregate** $400 million (excluding undrawn letters of credit) together with approximately $34 million in accrued and unpaid fees and interest. These obligations were secured by a first priority lien on substantially all of the Prepetition Borrowers' assets, to the extent permitted, and by a pledge of 100% of the shares of most of Covanta's existing and future domestic subsidiaries, and 65% of the shares of substantially all of Covanta's foreign subsidiaries (the "Prepetition Collateral"). Pursuant to the order of the Court authorizing the DIP Financing Facility (as defined below), the Debtors stipulated, among other things, as to the priority, validity and enforceability of the liens and security interests that had been granted to the Prepetition Lenders prior to the commencement of the Chapter 11 Cases. Accordingly, the Prepetition Lenders are entitled to payment in full of their Allowed Secured Claim up to the full value of their security interest in the assets of the Prepetition Borrowers. However, in connection with the negotiations undertaken in development of the Plans, the Debtors have estimated the Prepetition Lenders' aggregate Allowed Secured Claim in the amount of $434 million, including interest and fees, which amount is subject to final allowance by the Court. In addition, distributions to the Prepetition Lenders are subject to certain priorities vis-à-vis each other as a result of the Intercreditor Agreement, among the Prepetition Lenders and the Company, dated March 14, ~~2001,~~**2001** (the "Intercreditor Agreement"). Similarly, the Debtors have estimated the 9.25% Debenture Holders' Allowed Secured Claims in the aggregate amount of $105 million, which amount is subject to final allowance by the Court.

The proposed settlement of the Loss Sharing Litigation will also be incorporated into the Reorganization Plan and become effective on the Reorganizing Debtors ~~and Heber Debtors'~~ emergence from Chapter 11. Under the settlement, the current synthetic pooling arrangement (i.e., loss sharing under the Intercreditor Agreement) will be

replaced with an actual pooling of exposures among the Canadian Loss Sharing Lenders and the Pooled Facility Lenders.[63] This would be accomplished by the Pooled Facility Lenders purchasing a ratable share of the funded exposures of the Canadian Loss Sharing Lenders (and receiving a distribution on such amounts from the Reorganizing Debtors ~~and Heber Debtors~~ under ~~a Chapter 11~~**the Reorganization** Plan).[74] The Canadian Loss Sharing Lenders, in turn, would purchase a like amount of participations in the Tranche B Facility of the DIP Credit Agreement and thereby reduce the Pooled Facility Lenders' existing exposure under that facility and any replacement thereof.

As described in more detail herein, as part of the overall ~~negotiations~~**negotiation** of the ~~Reorganization Plan and the Liquidation Plan~~**Plans**, the Debtors have proposed that the Secured Bank Lenders and the 9.25% Debenture Holders contribute certain Distributions to Reorganized Covanta. As further described herein, $500,000 of the Distributions or proceeds described above will be used to fund the Operating Reserve **and up to $2,500,000 will be used to fund the Administrative Expense Claims Reserve, both of which are** established under the Liquidation Plan. The Debtors believe that the transfer **to Reorganized Covanta** of such Distributions and other Liquidation Assets will enhance the value of Reorganized Covanta and inure to the benefit of the Secured Bank Lenders and the 9.25% Debenture Holders via their Distributions under the Reorganization Plan.

Additionally, pursuant to the 9.25% Settlement, the holders of Parent and Holding Company Unsecured Claims would be entitled to receive a Pro-Rata Share of a Settlement Distribution as a result of the proposed settlement of the 9.25% Adversary Proceeding, as further described in Section VI.C.11 below. Each holder of an Allowed 9.25% Debenture Claim shall have the option to opt out of participation in the 9.25% Settlement (those electing to opt out, the "Rejecting Bondholders"). In the event that there are Rejecting Bondholders with aggregate Claims in excess of $10 million, the 9.25% Debenture Adversary Proceeding shall continue with respect to such holders and the distribution to such Rejecting Bondholders will be held in a Reserve Account subject to resolution of the 9.25% Debenture Adversary Proceeding.

G. ~~F.~~ Treatment of Claims and Interests ~~Under~~**under** the Plans

Pursuant to the Plans, **and subject to the provisions therein,** certain unclassified Claims, including Administrative ~~Priority~~**Expense** Claims (other than the DIP **Financing** Facility Claims and Claims for compensation and reimbursement) and Priority Tax Claims, will receive payment in Cash (i) on the later of the ~~Effective~~**applicable Distribution** Date ~~or as soon as practicable after such Claims are Allowed~~, or (ii) in installments over time (as permitted by the Bankruptcy Code), or (iii) as agreed with the holders of such Claims. The DIP **Financing** Facility Claims, including those contingent claims relating to letters of credit still outstanding, are included as Administrative Claims and will be paid or otherwise satisfied on the **Reorganization** Effective Date in accordance with Section 2.5 of the Reorganization Plan by reinstatement of such contingent obligations under the Reinstated L/C Facility or by replacement by the Exit Financing Facility. While certain DIP **Financing** Facility Claims will not be paid in full as a result of the reinstatement of these contingent obligations under the Reorganization Plan, acceptance of such treatment by a requisite majority of DIP Lenders, as provided under the DIP Financing Facility, shall be binding on all DIP Lenders. Additionally, the Plans provide that all entities seeking an award by the Court of compensation for services rendered or reimbursement of expenses incurred through and including the **applicable** Confirmation Date under subsections 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred ~~by~~**on or before** the ~~date that is forty-five (45) days after~~**deadlines set forth in** the ~~Effective Date~~**Plans**.

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[63] Capitalized terms in this paragraph not otherwise defined herein or in the Reorganization Plan shall have the meaning set forth in the ~~Prepetition~~**Master** Credit ~~Agreement~~**Facility**.

[74] Based upon current projections, the Pooled Facility Lenders will purchase approximately **[US]**$14 million of the Canadian Loss Sharing Lenders' funded debt. After giving effect to the purchase (and all prior loss sharing payments), the remaining Tranche C Commitments (anticipated to be approximately US $16 million at such time) will be terminated.

All other Claims and **Equity** Interests are classified separately in various Classes in the Debtors' Chapter 11 Cases and will receive the distributions and recoveries (if any) described in the relevant Plan. The following tables summarize the classification and treatment under the Plans of the Claims and Equity Interests and in each case, reflects the amount and form of consideration that will be distributed in exchange for and in full satisfaction, settlement, release and discharge of such Claims and **Equity** Interests. The classification and treatment for all Classes are described in more detail under Section VII ~~of this Disclosure Statement~~.

The Debtors have been informed by counsel to the informal committee of 9.25% Debenture Holders (the "Informal Committee") that the Informal Committee opposes confirmation of the Reorganization Plan and the Liquidation Plan, as currently drafted, and believes that such Plans violate sections 1122(a), 1123(a)(4) and 1129(a)(1) of the Bankruptcy Code. The Debtors have been further advised that the Informal Committee believes that the Reorganization Plan and Liquidation Plan are not confirmable because (i) the 9.25% Debenture Claims should be classified separately from the Secured Bank Claims; (ii) disparate treatment exists among the Allowed Class 3 Claims (Reorganized Covanta Secured Claims); and (iii) the Reorganization Plan and Liquidation Plan have not been proposed in good faith. At the hearing to approve this Disclosure Statement and the Short-Form Disclosure Statement, the Informal Committee preserved its rights to object to confirmation of the Reorganization Plan and Liquidation Plan on the foregoing and any other grounds.

Contrary to the assertions of the Informal Committee, the Debtors believe that the Reorganization Plan and the Liquidation Plan comply with sections 1122, 1123 and 1129, as well as any other relevant provisions of the Bankruptcy Code. The Debtors believe and expect to provide sufficient evidence at the Plans Confirmation Hearing to prove that the Reorganization Plan and the Liquidation Plan have been proposed in good faith as required by section 1129(a)(3) of the Bankruptcy Code, that the classification of the 9.25% Debenture Claims under the respective Plans is proper and that no disparate treatment exists among the Allowed Class 3 Claims. The professionals representing the Informal Committee and certain members of such Committee have executed confidentiality agreements with the Debtors and have participated in negotiations regarding the creation of the Plans and have had the opportunity to comment on the Plans and this Disclosure Statement prior to their submission. The Debtors will continue to negotiate with the Informal Committee to attempt to resolve their concerns.

Reorganization Plan

Class	**Reorganization Plan**	**Liquidation Plan**
Class 1	Allowed Priority Non-Tax Claims Treatment of Class 1 Claims is summarized on page ~~xiii~~ **xv**	~~Allowed Priority Non-Tax Claims~~ ~~Treatment of Class 1 Claims is summarized on page xiii~~
Class 2	Allowed Project Debt Claims Treatment of Class 2 Claims is summarized on page ~~xiv~~**xvi**	~~N/A~~
~~Class 2H~~	~~Allowed Heber Secured Claims~~ ~~Treatment of Class 2H Claims is summarized on page xiv~~	~~N/A~~
Class 3	Subclass 3A: Allowed Secured Bank Claims Subclass 3B: Allowed Secured 9.25% Debenture Claims Treatment of Class 3 Claims is summarized on page ~~xvi~~**xvii**	~~Class 3A: Allowed Liquidation Secured Claims~~ ~~Class 3B: Allowed Secured CSFB Claim against Ogden FMCA~~ ~~Treatment of Class 3 Claims is summarized on page xvi~~
Class 4	Allowed Operating Company Unsecured Claims Treatment of Class 4 Claims is summarized on page ~~xix~~**xxi**	~~N/A~~
Class 5	Allowed ~~Covanta Energy Americas Unsecured~~**Parent and Holding Company Guarantee** Claims Treatment of Class 5 Claims is summarized on page ~~xx~~**xxii**	~~N/A~~
Class 6	Allowed ~~Covanta~~**Parent and Holding Company** Unsecured Claims Treatment of Class 6 Claims is summarized on page ~~xxi~~**xxiii**	~~N/A~~
Class 7	Allowed ~~Heber Unsecured~~**Convertible Subordinated Bond** Claims Treatment of Class 7 Claims is summarized on page ~~xxiii~~ **xxiv**	~~Allowed Unsecured Liquidation Claims~~ ~~Treatment of Class 7 Claims is summarized on page xxii~~
Class 8	Allowed Convenience Claims Treatment of Class 8 Claims is summarized on page ~~xxiv~~ **xxv**	~~N/A~~
Class 9	**Subclass 9A: Liquidating Debtors** Intercompany Claims **Subclass 9B: Reorganizing Debtors Intercompany Claims** **Subclass 9C: Heber Debtor Intercompany Claims**	~~Intercompany Claims~~ ~~Treatment of Class 9 Claims is summarized on page xxv~~

Class	**Reorganization Plan**	**Liquidation Plan**
	Treatment of Class 9 Claims is summarized on page ~~xxv~~**xxvi**	
Class 10	Subordinated Claims Treatment of Class 10 Claims is summarized on page xxvii	~~N/A~~
Class 11	Equity Interests in Subsidiary Debtors Treatment of Class 11 Claims is summarized on page xxviii	~~Equity Interests in Liquidating Debtors~~ ~~Treatment of Class 11 Claims is summarized on page xxvii~~
Class 12	Equity Interests in Covanta Huntington, Covanta Onondaga and DSS Environmental Treatment of Class 12 Claims is summarized on page xxix	~~N/A~~
Class 13	Old Covanta Stock Equity Interests Treatment of Class 13 Claims is summarized on page xxx	~~N/A~~
~~Class 14~~	~~Equity Interests in the Heber Debtors~~ ~~Treatment of Class 14 Claims is summarized on page xxxi~~	~~N/A~~

Heber Reorganization Plan

Class	Heber Reorganization Plan
Class 1	Allowed Priority Non-Tax Claims Treatment of Class 1 Claims is summarized on page xxxi
Class 2H	Subclass 2H-A: Allowed GECC Secured SIGC Claims Subclass 2H-B: Allowed GECC Secured HGC/HFC Claims Treatment of Class 2H Claims is summarized on page xxxii
Class 3H	Allowed Heber Secured Claims Treatment of Class 3H Claims is summarized on page xxxiii
Class 4	N/A
Class 5	N/A
Class 6	N/A
Class 7	Allowed Unsecured Claims Treatment of Class 7 Claims is summarized on page xxxiv
Class 8	Allowed Heber Intercompany Claims Treatment of Class 8 Claims is summarized on page xxxv
Class 9	Intercompany Claims Treatment of Class 9 Claims is summarized on page xxxvi
Class 10	N/A
Class 11	N/A
Class 12	N/A
Class 13	N/A
Class 14	Equity Interests in the Heber Debtors Treatment of Class 14 Claims is summarized on page xxxvii

Liquidation Plan

Class	Liquidation Plan
Class 1	Allowed Priority Non-Tax Claims Treatment of Class 1 Claims is summarized on page xxxviii
Class 2	N/A
Class 3	Class 3A: Allowed Liquidation Secured Claims Class 3B: Allowed Secured CSFB Claim Class 3C: Allowed Covanta Tulsa Secured Claims Treatment of Class 3 Claims is summarized on page xxxix
Class 4	N/A
Class 5	N/A
Class 6	N/A
Class 7	Allowed Unsecured Liquidation Claims and Allowed Insurance Claims Treatment of Class 7 Claims is summarized on page xli
Class 8	N/A
Class 9	Intercompany Claims Treatment of Class 9 Claims is summarized on page xlii
Class 10	N/A
Class 11	Equity Interests in Liquidating Debtors Treatment of Class 11 Claims is summarized on page xliii
Class 12	N/A
Class 13	N/A

REORGANIZATION PLAN SUMMARY OF CLASS TREATMENT

Class Description	Treatment Under Reorganization Plan
Class 1: Allowed Priority Non-Tax Claims	**Estimated Allowed Claims: $[~~_____~~]0 to $200,000**
~~Class 1: Allowed Priority Non-Tax Claims~~	Each holder of an Allowed Class 1 Claim shall receive, in full settlement, release and discharge of its Class 1 Claim, either (i) Cash, on the Distribution Date, in an amount equal to such Allowed Claim, or (ii) on such other less favorable terms as the Reorganizing Debtors and Reorganized Debtors and the holder of an Allowed Priority Non-Tax Claim agree. Class 1 Claims are Unimpaired, and the holders of Allowed Class 1 Claims are not entitled to vote to accept or reject the Reorganization Plan. **Estimated Percentage Recovery: [~~_____~~]100%**
	~~**Treatment Under Liquidation Plan**~~ ~~**Estimated Allowed Claims: $[_____]**~~ ~~In full settlement, release and discharge of its Class 1 Claim, each holder of an Allowed Class 1 Claim in Class 1 shall receive Cash in an amount equal to such Allowed Class 1 Claim on the Initial Liquidation Distribution Date.~~ ~~Class 1 Claims are Unimpaired, and holders of Allowed Class 1 Claims are not entitled to vote to accept or reject the Liquidation Plan.~~ ~~**Estimated Percentage Recovery: [_____]%**~~

Class Description	Treatment Under Reorganization Plan
	Estimated Allowed Claims: $[_____]
Class 2: **Allowed Project Debt Claims**	On the Effective Date, the legal, equitable and contractual rights of the holders of Allowed Class 2 Claims will be reinstated in full satisfaction, release and discharge of their respective Class 2 Claims and will remain unaltered under the Reorganization Plan, except as the Reorganizing Debtors and the holders of Allowed Class 2 Claims may otherwise agree or as such holders may otherwise consent. Notwithstanding the foregoing, no contractual provisions or applicable law that would entitle the holder of an Allowed Class 2 Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim, terminate any contractual relationship or take such other enforcement action (as may be applicable) from and after the occurrence of a default that occurred prior to the Effective Date shall be enforceable against the Reorganized Debtors. Class 2 Claims are Unimpaired, and the holders of Allowed Class 2 Claims are not entitled to vote to accept or reject the Reorganization Plan.
	Estimated Percentage Recovery: [_____]%
	Estimated Allowed Claims: $[_____]
Class 2H: **Allowed Heber Secured Claims**	On the Effective Date, to the extent such claims are not paid in full on or prior to the Effective Date, the legal, equitable and contractual rights of the holders of Allowed Class 2H Claims will be reinstated in full satisfaction, release and discharge of their respective Class 2H Claims and will remain unaltered under the Reorganization Plan, except as the Heber Debtors and the holders of Allowed Class 2H Claims may otherwise agree or as such holders may otherwise consent; provided, however, that that the assets of the Heber Debtors subject to Liens, Claims and encumbrances of holders of Allowed Class 2H Claims may be sold, subject to such Liens, Claims and encumbrances, as part of the Geothermal Sale contemplated by this Reorganization Plan, and provided further that to the extent an Allowed Class 2H Claim is paid in full on or prior to the Effective Date, the Liens, Claims and encumbrances securing such claim shall be released and discharged immediately upon such payment in full. Notwithstanding the foregoing, no contractual provisions or applicable law that would entitle the holder of an Allowed Class 2H Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim, termimate any contractual relationship or take such other enforcement action (as may be applicable) from and after the occurrence of a default that occurred prior to the Effective Date shall be enforceable against the Reorganized Heber Debtors. Class 2H Claims are Unimpaired, and the holders of Allowed

~~Class 2H Claims are not entitled to vote to accept or reject the Reorganization Plan.~~

~~**Estimated Percentage Recovery: [_____]%**~~

~~**Treatment Under Liquidation Plan**~~

~~N/A~~

Class Description	
Class 3: **Allowed Reorganized Covanta Secured Claims**	Under the Reorganization Plan, Class 3 is divided into two Subclasses for Distribution purposes: Subclass 3A consists of the Allowed Secured Bank Claims and Subclass 3B consists of Allowed Secured 9.25% Debenture Claims. Under the Liquidation Plan, Class 3 is also divided into two Subclasses for Distribution purposes: Subclass 3A consists of the Allowed Secured Bank Claims and the Allowed 9.25% Debenture Claims and Subclass 3B consists of the Allowed CSFB Claim. **Treatment Under Reorganization Plan** **Estimated Allowed Claims: $[ ]**
Subclass 3A: **Allowed Reorganized Covanta Secured Claims – Secured Bank Claims**	Holders of Allowed Subclass 3A Claims shall receive the Subclass 3A Recovery in full settlement, release and discharge of their aggregate Allowed Subclass 3A Claims. The Subclass 3A Recovery shall be distributed among holders of Allowed Subclass 3A Claims as follows: First, in full settlement, release and discharge of the Allowed Priority Bank Claims, the Priority Bank Lenders shall receive first, to the extent available as part of the Subclass 3A Recovery, Excess Distributable Cash in an amount equal to the amount of such Allowed Priority Bank Claims and thereafter New High Yield Secured Notes in a principal amount equal to the remaining amount of such Allowed Priority Bank Claims; Second, immediately after making the Distribution on account of the Allowed Priority Bank Claims, in full settlement, release and discharge of Non-Priority Subclass 3A Claims, the holders of Allowed Non-Priority Subclass 3A Claims shall receive a Pro Rata Subclass Share of the remaining Subclass 3A Recovery where such distribution shall consist of Distributable Cash, New High Yield Secured Notes and New Lender Warrants, which types of Distributions may be further allocated depending on whether the holder of a Subclass 3A Claim is a New Facility Lender, one of the Additional New Lenders or a Non-Participating Lenders; [Notwithstanding anything in the Reorganization Plan to the contrary, immediately prior to any Distribution to holders of Subclass 3A Claims, the settlement of the Loss Sharing Litigation as described on Exhibit __ to the Reorganization Plan shall be deemed effective and implemented for purposes of Distributions under the Reorganization Plan.] Subclass 3A Claims are Impaired, and the holders of Allowed

~~Claims in such Subclass are entitled to vote to accept or reject the Reorganization Plan. The members of Subclass 3A shall vote together with members of Subclass 3B as a single Class.~~

~~**Estimated Percentage Recovery: [_____]%**~~

~~**Subclass 3B:**~~

~~**Allowed Reorganized Covanta Secured Claims – 9.25% Debenture Claims**~~

~~**Treatment Under Reorganization Plan**~~

~~**Estimated Allowed Claims: $[ ]**~~

~~On the Distribution Date, holders of Allowed Subclass 3B Claims shall receive the Subclass 3B Recovery in full settlement, release and discharge of their respective Allowed Subclass 3B Claims. The Subclass 3B Recovery shall be distributed among holders of Allowed Subclass 3B Claims as follows:~~

~~First, in full settlement, release and discharge of Allowed Subclass 3B Claims, each holder of an Allowed Subclass 3B Claim shall receive its Pro Rata Subclass Share of Distributions of the Subclass 3B Recovery; provided, however, that with respect to the Subclass 3B Recovery, (i) the New Facility Lenders in Subclass 3B, if any, shall receive their Secured Value Distribution first, to the extent available, in the form of Distributable Cash and thereafter in the form of New High Yield Secured Notes; and (ii) the members of the Additional New Lenders in Subclass 3B shall receive their Secured Value Distribution solely in the form of New High Yield Secured Notes plus a Pro Rata Subclass Share of the New Lender Warrants; and provided further that the Non-Participating Lenders in Subclass 3B shall not receive any Distributable Cash or any Distribution of New Lender Warrants.~~

~~Second, in the event that the parties to the 9.25% Adversary Proceeding reach a settlement to their dispute, the Distributions made to each holder of an Allowed Subclass 3B Claim shall be subject to adjustment and modification in accordance with the provisions of such settlement.~~

~~Subclass 3B Claims are Impaired, and the holders of Allowed Claims in such Subclass are entitled to vote to accept or reject the Reorganization Plan. The members of Subclass 3B shall vote together with the members of Subclass 3A as a single Class.~~

~~**Estimated Percentage Recovery [_____]%**~~

	Treatment Under Liquidation Plan **Estimated Allowed Claims: $[_____]**
Subclass 3A: **Allowed Liquidation Secured Claims – Secured Bank Claims and 9.25% Debenture Claims**	In full settlement, release and discharge of its Class 3A Claim, (I) (a) each holder of an Allowed Liquidation Secured Claim would be entitled, absent the Secured Creditor Direction, to receive on any Liquidation Distribution Date, such holder's Pro Rata Share of the sum of any Net Liquidation Proceeds and Liquidation Assets of the Liquidating Pledgor Debtors existing, but not yet distributed on such Liquidation Distribution Date and (b) on the Effective Date, (i) such holder of a Class 3A Allowed Liquidation Secured Claim shall be deemed to have received, on account of its Subclass 3A Allowed Liquidation Secured Claim, the Distribution it receives as a holder of a Subclass 3A or Subclass 3B Claim under the Reorganization Plan, as applicable, in full satisfaction of its Subclass 3A Claim under the Liquidation Plan and (ii) the Liquidating Trustee and the Liquidating Debtors will implement the Secured Creditor Direction and (II) each holder of an Allowed Liquidation Secured Claim shall be entitled to receive on any Liquidation Distribution Date, such holder's Pro Rata Share of any Net Liquidation Proceeds of any Liquidating Pledgor Debtor's Residual Liquidation Assets. Subclass 3A Claims are Impaired and the holders of Claims in such subclass are entitled to vote to accept or reject the Liquidation Plan. **Estimated Percentage Recovery: [_____]%**
	Treatment Under Liquidation Plan **Estimated Allowed Claim: $[_____]**
Subclass 3B: **Allowed Liquidation Secured Claims – the CSFB Claim**	On the Effective Date, or as soon thereafter as practicable, Ogden FMCA shall cause to be transferred, pursuant to Section 6.1(b) of the Liquidation Plan, to CSFB, in its capacity as holder of the Allowed Secured CSFB Claim, the Bank Agreement Ogden FMCA Collateral, in full settlement, release and discharge of its Class 3B Claim. The Class 3B Claim is Impaired and the holder of the Claim in such subclass is entitled to vote to accept or reject the Liquidation Plan. **Estimated Percentage Recovery: [_____]%**

~~Class Description~~	~~Treatment Under Reorganization Plan~~
	~~Estimated Allowed Claims: $[_____]~~
~~Class 4:~~ ~~Allowed Operating Company Unsecured Claims~~	~~On the Distribution Date, each holder of an Allowed Class 4 Claim shall receive, in full settlement, release and discharge of its Class 4 Claim, a Distribution of Reorganization Plan Unsecured Notes in the aggregate principal amount equal to the amount of its Allowed Class 4 Claim.~~ ~~With respect to Allowed Class 4 Claims for and to the extent which insurance is available, such Class 4 Claims shall be paid in the ordinary course of the Reorganizing Debtors' business to the extent of such insurance, when any such Claim becomes an Allowed Claim insurance proceeds become available; provided, however, that to the extent insurance is not available or is insufficient, treatment of such Allowed Class 4 Claims shall be as otherwise provided for holders of Class 4 Claims.~~ ~~Additionally, each holder of an Allowed Class 4 Claim shall have the option to elect to be treated as a Class 4 Claim, in which case, at the option of the Reorganizing Debtors, each such holder of an Elective Convenience Claim shall be entitled to receive either (A) payment in Cash, in an amount equal to the lesser opf $2,500 or 75% of such Allowed Class 4 Claim, or (B) the Reorganization Plan Unsecured Notes that such holder would otherwise have been entitled to receive for its Allowed Class 4 Claim pursuant to the Reorganization Plan if such holder had not made such an election.~~ ~~Class 4 Claims are Impaired, and the holders of Allowed Class 4 Claims are entitled to vote to accept or reject the Reorganization Plan.~~ ~~Estimated Percentage Recovery: [_____]%~~ ~~Treatment Under Liquidation Plan~~ ~~N/A~~

Class Description	Treatment Under Reorganization Plan

Class 2: **Allowed Project Debt Claims**	**Estimated Allowed Claims: $300,000 to $1 million** **On the Reorganization Effective Date, the legal, equitable and contractual rights of the holders of Allowed Class 2 Claims will be reinstated in full satisfaction, release and discharge of their respective Class 2 Claims and will remain unaltered under the Reorganization Plan, except as the Reorganizing Debtors and the holders of Allowed Class 2 Claims may otherwise agree or as such holders may otherwise consent. To the extent that defaults exist in connection with any Allowed Project Debt Claims, the Reorganized Debtors shall comply with section 1124(2) of the Bankruptcy Code on or before the Reorganization Effective Date. Without limiting the generality of the foregoing, the Reorganizing Debtors shall pay in Cash thirty (30) days after the Reorganization Confirmation Date any Secured Project Fees and Expenses, which are defined as those reasonable fees, costs or charges that (i) are incurred by a trustee acting on behalf of a bondholder, bond insurer or owner participant under any indenture that relates to an Allowed Project Debt Claim, (ii) represent fees, costs or charges incurred after the Petition Date, (iii) are properly payable under the applicable indenture, and (iv) have been approved by order of the Court; provided, however, that to the extent that any Secured Project Fees and Expenses may have been paid by third parties, then such third parties may only seek reimbursement from the Reorganizing Debtors for payment of such Secured Project Fees and Expenses, if and to the extent permitted by the relevant prepetition transaction documents and the Bankruptcy Code. Notwithstanding the foregoing, no contractual provisions or applicable law that would entitle the holder of an Allowed Class 2 Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim, terminate any contractual relationship or take such other enforcement action (as may be applicable) from and after the occurrence of a default that occurred prior to the Reorganization Effective Date shall be enforceable against the Reorganized Debtors.** **Class 2 Claims are Unimpaired, and the holders of Allowed Class 2 Claims are not entitled to vote to accept or reject the Reorganization Plan.** **Estimated Percentage Recovery: 100%**

Class Description	Treatment Under Reorganization Plan
Class 3: Allowed Reorganized Covanta Secured Claims	Under the Reorganization Plan, Class 3 is divided into two Subclasses for Distribution purposes: Subclass 3A consists of the Allowed Secured Bank Claims and Subclass 3B consists of Allowed Secured 9.25% Debenture Claims. Estimated Allowed Claims: $418.7 million to $448.6 million
Subclass 3A: Allowed Reorganized Covanta Secured Claims-- Secured Bank Claims	Holders of Allowed Subclass 3A Claims shall receive the Subclass 3A Recovery in full settlement, release and discharge of their aggregate Allowed Subclass 3A Claims. The Subclass 3A Recovery shall be distributed among holders of Allowed Subclass 3A Claims as follows: First, in full settlement, release and discharge of the Allowed Priority Bank Claims, the Priority Bank Lenders shall receive first, to the extent available as part of the Subclass 3A Recovery, Excess Distributable Cash in an amount equal to the amount of such Allowed Priority Bank Claims and thereafter New High Yield Secured Notes in a principal amount equal to the remaining amount of such Allowed Priority Bank Claims; Second, immediately after making the Distribution on account of the Allowed Priority Bank Claims, in full settlement, release and discharge of Non-Priority Subclass 3A Claims, the holders of Allowed Non-Priority Subclass 3A Claims shall receive a Pro Rata Subclass Share of the remaining Subclass 3A Recovery; provided, however, that with respect to the Distribution of the remaining Subclass 3A Recovery, (i) the New Facility Lenders in Subclass 3A shall receive their Secured Value Distribution first, to the extent available, in the form of Distributable Cash and thereafter in the form of New High Yield Secured Notes, and (ii) the Additional New Lenders in Subclass 3A shall receive their Secured Value Distribution first in the form of New Lender Warrants and thereafter solely in the form of New High Yield Secured Notes; and further, provided, that Non-Participating Lenders in Subclass 3A shall receive their Secured Value Distribution solely in the form of New High Yield Secured Notes and shall not receive any Distribution of Distributable Cash or New Lender Warrants.

	Immediately prior to any Distribution to holders of Subclass 3A Claims, the settlement of the Loss Sharing Litigation as described on Exhibit 6 to the Reorganization Plan shall be deemed effective and implemented for purposes of Distributions under the Reorganization Plan. Class 3 Claims are Impaired, and the holders of Allowed Claims in such Class are entitled to vote to accept or reject the Reorganization Plan. The members of Subclasses 3A and 3B shall vote together as a single Class for purposes of accepting or rejecting this Reorganization Plan; provided, however that the Ballots distributed to holders of Subclass 3B Secured Claims shall permit each such holder the opportunity to elect treatment as a Rejecting Bondholder, it being understood that any such holder who does not expressly make such election by properly marking the Ballot shall be deemed an Accepting Bondholder. Estimated Percentage Recovery: 63.0% to 70.5%
Subclass 3B: Allowed Reorganized Covanta Secured Claims—9.25% Debenture Claims	Estimated Allowed Claims: $105 million On the Distribution Date, holders of Allowed Subclass 3B Claims shall receive the Subclass 3B Recovery in full settlement, release and discharge of their respective Allowed Subclass 3B Claims. The Subclass 3B Recovery shall be distributed among holders of Allowed Subclass 3B Claims as follows: First, the Subclass 3B Secured Claim shall be deemed an Allowed Secured Claim in an amount equal to the Allowed Subclass 3B Settlement Amount and in full settlement, release and discharge of the Allowed Secured Claims of the Accepting Bondholders, each holder of an Allowed Subclass 3B Claim that is an Accepting Bondholder shall, subject to payment of its pro-rata share of the Settlement Distribution, receive its Pro Rata Subclass Share of Distributions of the Subclass 3B Accepting Bondholder Recovery; provided, however, that with respect to the Subclass 3B Accepting Bondholder Recovery, (i) the New Facility Lenders in Subclass 3B that are Accepting Bondholders, if any, shall receive their Secured Value Distribution first, to the extent available, in the form of Distributable Cash and thereafter in the form of New High Yield Secured Notes; and (ii) the Additional New Lenders in Subclass 3B that are Accepting Bondholders, if any, shall receive their

Secured Value Distribution solely in the form of New High Yield Secured Notes plus a Pro Rata Subclass Share of the New Lender Warrants; and provided further that the Non-Participating Lenders in Subclass 3B that are Accepting Bondholders shall not receive any Distributable Cash or any Distribution of New Lender Warrants as part of the Secured Value Distribution. Distributions made to each Accepting Bondholder of such holder's Allowed Subclass 3B Claim shall be subject to adjustment and modification in accordance with the provisions of the 9.25% Settlement , including the waiver of the 9.25% Deficiency Claims and any subordination benefits with respect to the Convertible Subordinated Bonds, and payment of such holder's pro-rata share of the Settlement Distribution to the holders of Allowed Class 6 Claims as provided under the Reorganization Plan.

Second, in the event that the aggregate amount of Subclass 3B Claims held by Rejecting Bondholders is equal to or greater than $10 million, the Subclass 3B Claim of each Rejecting Bondholder shall be deemed a Disputed Secured Claim, allowance thereof shall be subject to determination pursuant to the 9.25% Debentures Adversary Proceeding, and on the Effective Date, the Reorganizing Debtors shall deliver the Subclass 3B Rejecting Bondholder Recovery into a Reserve Account in accordance with Section 8.4 of the Reorganization Plan and be held subject to Distribution pursuant to Section 8.6 of the Reorganization Plan.

Third, in the event that the aggregate amount of Subclass 3B Claims held by Rejecting Bondholders is less than $10 million, the Subclass 3B Claim of each Rejecting Bondholder shall be deemed an Allowed Secured Claim in its full amount and in full settlement, release and discharge of the Allowed Secured Claims of the Rejecting Bondholders, on the Reorganization Effective Date, each holder of an Allowed Subclass 3B Claim that is a Rejecting Bondholder shall receive its Pro Rata Subclass Share of Distributions of the Subclass 3B Rejecting Bondholder Recovery; provided, however, that with respect to the Subclass 3B Rejecting Bondholder Recovery, (i) the New Facility Lenders in Subclass 3B that are Rejecting Bondholders, if any, shall receive their Secured Value Distribution first, to the extent available, in the form of Distributable Cash and thereafter in the form of New High Yield Secured Notes; and (ii) the Additional New Lenders in Subclass 3B that are Rejecting Bondholders, if any, shall receive their

		Secured Value Distribution solely in the form of New High Yield Secured Notes plus a Pro Rata Subclass Share of the New Lender Warrants; and provided further that the Non-Participating Lenders in Subclass 3B that are Rejecting Bondholders shall not receive any Distributable Cash or any Distribution of New Lender Warrants as part of the Secured Value Distribution. In the event that the aggregate amount of Subclass 3B Claims held by Rejecting Bondholders is less than $10 million, the Distributions made to each Rejecting Bondholder of such holder's Allowed Subclass 3B Claim shall not be subject to adjustment and modification in accordance with the provisions of the 9.25% Settlement, nor shall they receive a release of claims asserted in the 9.25% Adversary Proceeding (remaining subject to liability to the holders of Class 6 Claims for the Settlement Distribution.
	Class 3 Claims are Impaired, and the holders of Allowed Claims in such Class are entitled to vote to accept or reject the Reorganization Plan. The members of Subclasses 3A and 3B shall vote together as a single Class for purposes of accepting or rejecting this Reorganization Plan; provided, however that the Ballots distributed to holders of Subclass 3B Secured Claims shall permit each such holder the opportunity to elect treatment as a Rejecting Bondholder, it being understood that any such holder who does not expressly make such election by properly marking the Ballot shall be deemed an Accepting Bondholder	
		Estimated Percentage Recovery before giving effect to the 9.25% Settlement Distribution: 63.0% to 70.5% Estimated Percentage Recovery for Accepting Bondholders after giving effect to the 9.25% Settlement Distribution: 55.2% to 61.7% IF HOLDERS OF SUBCLASS 3B CLAIMS IN EXCESS OF $10 MILLION ELECT TO BECOME REJECTING BONDHOLDERS, THEN ALL DISTRIBUTIONS TO REJECTING BONDHOLDERS WILL BE HELD IN A DISUPTED RESERVE ACCOUNT SUBJECT TO RESOLUTION OF THE 9.25% DEBENTURES ADVERSARY PROCEEDING.
~~Class Description~~	~~Treatment Under Reorganization Plan~~ ~~Estimated Allowed Claims: $[_____]~~	

~~Class 5:~~ **~~Allowed Covanta Energy Americas Unsecured Claims~~**	~~On the Distribution Date, each holder of an Allowed Class 5 Claim shall receive, in full satisfaction, release and discharge of its Class 5 Claim, a Distribution of Reorganization Plan Unsecured Notes in the aggregate principal amount equal to the amount of its Allowed Class 5 Claim.~~ ~~Class 5 Claims are Impaired, and the holders of Allowed Class 5 Claims are entitled to vote to accept or reject the Reorganization Plan.~~ ~~**Estimated Percentage Recovery: [_____]%**~~ ~~**Treatment Under Liquidation Plan**~~ ~~N/A~~

Class Description	Treatment Under Reorganization Plan
Class 4: Allowed Operating Company Unsecured Claims	Estimated Allowed Claims: $[ ] 30 million to $35 million
~~Class 6:~~ ~~Allowed Covanta Unsecured Claims~~	~~On the Distribution Date, each holder of an Allowed Class 6 Claim shall receive, in full satisfaction, release and discharge of its Class 6 Claim, (1) Reorganization Plan Warrants representing 7 ½% of the equity of Reorganized Covanta, subject to any agreed upon pro rata dilution imposed on all Reorganization Plan Warrants, as required for ESOP purposes, (2) 5% of the first $80 million of net cash proceeds when realized from the sale of the CPIH assets and which proceeds are distributed to holders of Allowed Class 3 Claims , (3) 10% of Reorganized CPIH Preferred Stock; provided, however, that such Preferred Stock shall only be entitled to distributions to the extent of cash proceeds when realized from the sale of the CPIH assets in excess of $90 million, (4) the waiver by the Prepetition Lenders [and the holders of the 9.25% Debentures] of (i) any Deficiency Claim on account of the Allowed Secured Bank Claim [and the Allowed Secured Claim of the 9.25% Debentures] and (ii) the subordination provisions contained in the Convertible Subordinated Bonds, and (5) all proceeds from any cause of action or claim of the Reorganizing Debtors arising under sections 544, 545, 547, 548, 549 and 550 of the Bankruptcy Code (the "Avoidance Actions"), and the right to pursue any Avoidance Actions on terms to be agreed upon with the Reorganizing Debtors; provided that in no event shall such Avoidance Actions or other actions include claims or causes of action against any of the Prepetition Lenders, DIP Lenders or the holders of the 9.25% Debentures. In the event that the parties to the 9.25% Adversary Proceeding reach a settlement to their dispute, the Distributions made to each holder of an Allowed Class 6 Claim (other than a Class 6 Claim consisting of a 9.25% Deficiency Claim or a Prepetition Lender Deficiency Claim) shall be subject to adjustment and modification in accordance with the provisions of that settlement. With respect to Allowed Class 6 Claims for and to the extent which insurance is available, such Class 6 Claims shall be paid in the ordinary course of the Reorganizing Debtors business to the extent of such insurance, when any such Claim becomes an Allowed Claim and such insurance proceeds become available; provided, however, that to the extent insurance is not available or is insufficient, treatment of such Allowed Class 6 Claims shall be as otherwise provided in the Reorganization Plan.~~ ~~The Committee and the Bondholders Committee have reached a tentative settlement in principle of the 9.25% Debentures Adversary Proceeding. To achieve a consensual settlement, final agreement and approval by the Bondholders Committee remains subject to their approval of the treatment of the 9.25% Debentures Claims under the Reorganization Plan.~~ ~~[Furthermore, the subordination provisions contained in the Convertible Subordinated Bonds shall be enforced against the holders of Convertible~~

	~~Subordinated Bond Claims, such that all Distributions that the holders of Convertible Subordinated Bond Claims would otherwise be entitled to receive under the Reorganization Plan, shall instead be Distributed on a pro rata basis the holders of Allowed Class 6 Claims that are entitled to the benefit of such subordination provisions.]~~ ~~The Plans and this Disclosure Statement may be modified after the date hereof in order to conform them to the terms of this tentative settlement.~~ ~~**Estimated Percentage Recovery: [_____]%**~~
(Note: A list of Operating Company Debtors is attached at Exhibit K)	~~**Treatment Under Liquidation Plan**~~**On the Distribution Date, each holder of an Allowed Class 4 Claim shall receive, in full settlement, release and discharge of its Class 4 Claim, a Distribution of Reorganization Plan Unsecured Notes in the aggregate principal amount equal to the amount of its Allowed Class 4 Claim. With respect to Allowed Class 4 Claims for and to the extent which insurance is available, such Class 4 Claims shall be paid in the ordinary course of the Reorganizing Debtors' business to the extent of such insurance, when any such Claim becomes an Allowed Claim and such insurance proceeds become available; provided, however, that to the extent insurance is not available or is insufficient, treatment of such Allowed Class 4 Claims shall be as otherwise provided in Section 4.4 of the Reorganization Plan.** **Class 4 Claims are Impaired, and the holders of Allowed Class 4 Claims are entitled to vote to accept or reject the Reorganization Plan.** ~~N/A~~ **Estimated Percentage Recovery: 100%**

Class Description	Treatment Under Reorganization Plan
Class 5: Allowed Parent and Holding Company Guarantee Claims	Estimated Allowed Claims: $0 On the Reorganization Effective Date, the legal, equitable and contractual rights of the holders of Allowed Class 5 Claims will be reinstated in full satisfaction, release and discharge of their respective Class 5 Claims and will remain unaltered under the Reorganization Plan, except as the Reorganizing Debtors and the holders of Allowed Class 5 Claims may otherwise agree or as such holders may otherwise consent. Notwithstanding the foregoing, no contractual provisions or applicable law that would entitle the holder of an Allowed Class 5 Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim, terminate any contractual relationship or take such other enforcement action (as may be applicable) from and after the occurrence of a default that occurred prior to the Reorganization Effective Date shall be enforceable against the Reorganized Debtors. Class 5 Claims are Unimpaired, and the holders of Allowed Class 5 Claims are not entitled to vote to accept or reject the Reorganization Plan. Estimated Percentage Recovery: 100%

~~Class Description~~	~~Treatment Under Reorganization Plan~~
~~Class 7:~~ ~~Allowed Heber Unsecured Claims~~	~~On the Distribution Date, each holder of an Allowed Class 7 Claim shall receive, in full satisfaction, release and discharge of its Class 7 Claim, a Cash payment equal to the full amount of its Allowed Class 7 Claim, on the Distribution Date.~~ ~~Class 7 Claims are Unimpaired and the holders of Allowed Class 7 Claims are not entitled to vote to accept or reject the Reorganization Plan.~~ ~~Treatment Under Liquidation Plan~~ ~~Estimated Allowed Claims: $[_____]~~
~~Allowed Unsecured Liquidation Claims~~	~~The holders of Class 7 Claims shall not be entitled to receive any Distribution under the Liquidation Plan, provided, however, that with~~

and Allowed Insured Claims	respect to Allowed Class 7 Claims for and to the extent to which insurance is available, such Allowed Class 7 Claims shall be paid in the ordinary course of the Liquidating Debtors' business to the extent of such insurance, when any such Claims become Allowed Claims and such insurance proceeds become available; provided, further, that to the extent that insurance is not available or is insufficient, treatment of such Allowed Class 7 Claim shall be as otherwise provided in the Liquidation Plan. Class 7 Claims are Impaired and the holders of Allowed Claims in such Class are conclusively presumed to reject the Liquidation Plan. The votes of holders of Class 7 Claims will not be solicited. **Estimated Percentage Recovery: [_____]%**

Class Description	Treatment Under Reorganization Plan
Class 6: Allowed Parent and Holding Company Unsecured Claims	Estimated Allowed Claims: $125 million to $500 million
	In consideration of the agreement by the holders of Class 6 Claims to waive any claims, including all alleged avoidance actions, that might be brought against the holders of Subclass 3A Claims and to settle the 9.25% Debentures Adversary Proceeding in accordance with the terms of the 9.25% Settlement, and to secure the support of the holders of Allowed Class 6 Claims for confirmation of this Reorganization Plan, the holders of Allowed Class 3 Claims have agreed to provide the holders of Allowed Class 6 Claims from the value that would otherwise have been distributable to the holders of Allowed Class 3 Claims under this Reorganization Plan, so that on the Distribution Date each holder of an Allowed Class 6 Claim shall receive, in full satisfaction, release and discharge of its Class 6 Claim, Distributions consisting of (i) such holder's Pro Rata Class Share of Class 6 Warrants, (ii) such holder's Pro Rata Class Share of Class 6 CPIH Preferred Stock, (iii) such holder's Pro Rata Class Share of the CPIH Participation Interest, and (iv) such holders Pro Rata Class Share of the proceeds, if any, with respect to the Class 6 Litigation Claims. Additionally, each holder of an Allowed Class 6 Claim (a) shall receive from each Accepting Bondholder, in full satisfaction, release and discharge of its rights with respect to the 9.25% Debentures Adversary Proceeding against each Accepting Bondholder, a Distribution consisting of such holder's Pro Rata Share of the Settlement Distribution and (b) may receive a further Distribution with respect to the Subclass 3B Rejecting Bondholder Recovery, subject to the resolution of the 9.25% Debentures Adversary Proceeding, in accordance with Section 8.6(b) of the Reorganization Plan. With respect to the Distribution to holders of Allowed Class 6 Claims (including any Distribution with respect to the Settlement Distribution), the Reorganizing Debtors shall have the option to make all or any portion of the Distribution either directly to the holder of such Allowed Class 6 Claim or through a depository or trust arrangement that provides holders of Allowed Class 6 Claims with the equivalent economic benefits they would have received through a direct Distribution; provided, however, that the costs of implementing and maintaining any such depository or trust arrangement shall be paid for from the proceeds of the Distribution to holders of Allowed Class 6 Claims. With respect to Allowed Class 6 Claims for and to the extent which insurance is available, such Class 6 Claims shall be paid in the ordinary course of the Reorganizing Debtors' business to the extent of such insurance, when any such Claim becomes an Allowed Claim and such insurance proceeds become available; provided, however, that to the extent insurance is not available or is insufficient, treatment of such Allowed Class 6 Claims shall be as otherwise provided in

	Section 4.7 of the Reorganization Plan. **Estimated Percentage Recovery before giving effect to 9.25% Settlement Distribution: 1.6% to 6.5%**
Class Description	**Treatment Under Reorganization Plan**
Class 7: **Allowed Convertible Subordinated Bond Claims**	**Estimated Allowed Claims: $~~[~~~~~~~~~~~~~~]~~154.5 million**
~~**Class 8:**~~ ~~**Allowed Convenience Claims**~~	On the Distribution Date, each holder of an Allowed Class ~~8~~7 Claim shall **not** receive~~,~~ **any Distributions from the Reorganizing Debtors or retain any property under the Reorganization Plan** in ~~full satisfaction~~**respect of Class 7 Claims**, ~~release and discharge~~**on account** of its Class ~~8 Claim, a paymentin Cash, in an amount equal to seventy-five (75%) of the Allowed amount of such Class 8~~7 Claim. Class ~~8~~7 Claims are Impaired, and the holders of Allowed Class ~~8~~7 Claims are ~~entitled~~**conclusively presumed** to~~ vote to accept or~~ reject the Reorganization Plan. **The votes of holders of Allowed Class 7 Claims will not be solicited.** **Estimated Percentage Recovery: 0%**
	~~**Estimated Percentage Recovery: 75%**~~ ~~**Treatment Under Liquidation Plan**~~ ~~N/A~~

Class Description **Class 8:** **Allowed Convenience Claims**	**Treatment Under Reorganization Plan** **Estimated Allowed Claims: $2.1 million** **On the Distribution Date, each holder of an Allowed Class 8 Claim shall receive, in full satisfaction, release and discharge of its Class 8 Claim, a payment in Cash, in an amount equal to seventy-five (75%) of the Allowed amount of such Class 8 Claim.** **Class 8 Claims are Impaired, and the holders of Allowed Class 8 Claims are entitled to vote to accept or reject the Reorganization Plan.** **Estimated Percentage Recovery: 75%**
~~**Class Description**~~ ~~**Class 9:**~~ ~~**Intercompany Claims**~~	~~Class 9 consists of all Intercompany Claims. Class 9 is subdivided into three Subclasses for Distribution purposes: Subclass 9A consists of the Liquidating Debtors Intercompany Claims; Subclass 9B consists of the Reorganized Debtors Intercompany Claims; and Subclass 9C consists of the Heber Debtors Intercompany Claims.~~ ~~**Treatment Under Reorganization Plan**~~ ~~**Estimated Allowed Claims: $[_____]**~~
~~**Subclass 9A:**~~ ~~**Liquidating Debtors Intercompany Claims**~~	~~In full satisfaction, release and discharge of each Liquidating Debtors Intercompany Claim, each such Liquidating Debtors Intercompany Claim shall be deemed cancelled or waived in exchange for the Reorganizing Debtors' contribution of the Operating Reserve Deficiency Amount, if any, to the Operating Reserve.~~
~~**Subclass 9B:**~~ ~~**Reorganized Debtors Intercompany Claims**~~	~~In the sole discretion of the applicable Reorganizing Debtor or Reorganized Debtor, Reorganizing Debtors Intercompany Claims shall be either: (a) preserved and reinstated, (b) released, waived and discharged, or (c) contributed to the capital of the obligor corporation.~~
~~**Subclass 9C:**~~ ~~**Reorganized Heber Debtors Intercompany Claims**~~	~~In the full satisfaction, release and discharge of each Heber Debtors Intercompany Claim, each such Heber Debtors Intercompany Claim shall be deemed released, waived and discharged.~~

Claims	Class 9 Claims are Impaired and holders of Allowed Class 9 Claims are conclusively presumed to reject the Reorganization Plan. The votes of the holders of Allowed Class 9 Claims will not be solicited. **Estimated Percentage Recovery: [_____]%** **Treatment Under Liquidation Plan** **Estimated Allowed Claims: $[_____]** On the Effective Date, all Intercompany Claims shall be cancelled, annulled and extinguished. Holders of such claims shall receive no distributions in respect of Class 9 Claims. Class 9 Claims are impaired and holders of Allowed Class 9 Claims are conclusively presumed to reject the Liquidation Plan. The votes of the holders of Allowed Class 9 Claims will not be solicited. **Estimated Percentage Recovery: [_____]%**

~~Class Description~~	~~Treatment Under Reorganization Plan~~ ~~Estimated Allowed Claims: $[_____]~~
~~Class 10:~~ ~~Subordinated Claims~~	~~As of the Effective Date, holders of Class 10 Claims shall not receive any Distributions or retain any property under the Reorganization Plan in respect of Class 10 Claims, in full satisfaction, release and discharge of such Claims.~~ ~~Class 10 Claims are Impaired and holders of Allowed Class 10 Claims in are conclusively presumed to reject the Reorganization Plan. The votes of holders of Allowed Class 10 Claims will not be solicited.~~ ~~Estimated Percentage Recovery: [_____]%~~ ~~Treatment Under Liquidation Plan~~ ~~N/A~~
Class Description	Treatment Under Reorganization Plan
Class 9: Intercompany Claims	Class 9 consists of all Intercompany Claims. Class 9 is subdivided into two Subclasses for Distribution purposes: Subclass 9A consists of the Liquidating Debtors Intercompany Claims; Subclass 9B consists of the Reorganized Debtors Intercompany Claims.
Subclass 9A: Liquidating Debtors Intercompany Claims	In full satisfaction, release and discharge of each Liquidating Debtors Intercompany Claim, each such Liquidating Debtors Intercompany Claim shall be deemed cancelled or waived in exchange for the Reorganizing Debtors' contribution of the Operating Reserve Deficiency Amount, if any, to the Operating Reserve.
Subclass 9B: Reorganizing Debtors Intercompany Claims	In the sole discretion of the applicable Reorganizing Debtor or Reorganized Debtor, Reorganizing Debtors Intercompany Claims shall be either: (a) preserved and reinstated, (b) released, waived and discharged, (c) contributed to the capital of the obligee corporation, or (d) distributed to the obligee corporation.

Subclass 9C: **Heber Debtors Intercompany Claims**	**On the Reorganization Effective Date, all Subclass 9C Claims shall be deemed cancelled or waived in exchange for the Reorganizing Debtors' undertaking certain obligations in connection with the Heber Reorganization Plan.**

Class Description	Treatment Under Reorganization Plan
Class 10: Subordinated Claims	**Estimated Allowed Claims: $[~~_____~~] 100,000 to $500,000**
~~Class 11: Equity Interests in Subsidiary Debtors~~	~~Holders of Equity Interests in Subsidiary Debtors~~As of the Reorganized Plan Effective Date, holders of Class 10 Claims shall not receive any ~~Distribution~~Distributions or retain any property under the Reorganization Plan~~, except that any such Equity Interest~~ in ~~a Subsidiary Debtor shall continue to be held by the Reorganizing Debtor that originally held~~respect of Class 10 Claims, on account of such ~~Equity Interest, which Equity Interests shall be evidenced by the existing capital stock, partnership and/or membership interests~~Claims. Class ~~11 Equity Interests~~10 Claims are Impaired and ~~the~~ holders of Allowed Class ~~11 Equity Interests~~10 Claims in ~~such Class~~ are conclusively presumed to reject the Reorganization Plan. The votes of holders of Allowed Class ~~11 Equity Interests~~10 Claims will not be solicited. **Estimated Percentage Recovery: ~~[_____]~~0%**
	~~**Treatment Under Liquidation Plan**~~ ~~**Estimated Allowed Claims: $[_____]**~~ ~~On the Effective Date, all Equity Interests in the Liquidating Debtors shall not be entitled to receive any Distributions under the Liquidation Plan. Such Equity Interests shall be cancelled, annulled and extinguished.~~ ~~Class 11 Equity Interests are Impaired and the holders of Equity Interests in such Class are conclusively presumed to reject the Liquidation Plan. The votes of holders of Equity Interests in such Class will not be solicited.~~ ~~**Estimated Percentage Recovery: [_____]%**~~

Class Description	Treatment Under Reorganization Plan
Class 11: Equity Interests in Subsidiary Debtors	~~Estimated Allowed Claims: $[_____]~~
~~Class 12:~~ ~~Equity Interests in Covanta Huntington, Covanta Onondaga and DSS Environmental~~[8]	~~As of the Effective Date, holders of Equity Interests in Covanta Huntington, Covanta Onondaga and DSS Environmental shall be reinstated, in full satisfaction, release, and discharge of any Allowed Class 12 Equity Interests.~~ ~~Class 12 Equity Interests are Unimpaired and the holders of Allowed Class 12 Equity Interests are not entitled to vote to accept or reject the Reorganization Plan.~~ ~~Estimated Percentage Recovery: [_____]%~~
	~~Treatment Under Liquidation Plan~~As of the Reorganization Effective Date, all Equity Interests in Subsidiary Debtors shall be reinstated in full satisfaction, release and discharge of any Allowed Class 11 Claims and such Equity Interests shall be evidenced by the existing capital stock, partnership and/or membership interests. Class 11 Equity Interests are Unimpaired and the holders of Allowed Class 11 Equity Interests in such Class are conclusively presumed to accept the Reorganization Plan. The votes of holders of Class 11 Equity Interests will not be solicited. ~~N/A~~

[8] ~~The treatment of Onondaga Equity Interests is subject to finalization and implementation of the compromise with Onondaga County Resource Recovery Agency described herein.~~

~~Class Description~~	~~Treatment Under Reorganization Plan~~
	~~Estimated Allowed Claims: $[_____]~~
~~Class 13:~~ ~~Old Covanta Stock Equity Interests~~	~~Holders of Allowed Equity Interests in Old Covanta Stock shall not receive any Distribution or retain any property under the Reorganization Plan in respect of Class 13 Equity Interests. All Class 13 Equity Interests in Old Covanta Stock shall be cancelled, annulled and extinguished, in full satisfaction, release and discharge of any Allowed Class 13 Equity Interests.~~ ~~Class 13 Equity Interests are Impaired and holders of Allowed Class 13 Equity Interests are conclusively presumed to reject the Reorganization Plan. The votes of holders of Allowed Class 13 Equity Interests will not be solicited.~~ ~~Estimated Percentage Recovery: [_____]%~~
	~~Treatment Under Liquidation Plan~~ ~~N/A~~

Class Description	Treatment Under Reorganization Plan
Class 12: Equity Interests in Covanta Huntington, Covanta Onondaga and DSS Environmental[5]	As of the Reorganization Effective Date, Equity Interests in Covanta Huntington, Covanta Onondaga and DSS Environmental shall be reinstated, in full satisfaction, release, and discharge of any Allowed Class 12 Equity Interests, and such reinstated Equity Interests shall be evidenced by the existing capital stock, partnership and/or membership interests. Class 12 Equity Interests are Unimpaired and the holders of Allowed

[5] The treatment of Onondaga Equity Interests is subject to finalization and implementation of the compromise with Onondaga County Resource Recovery Agency described herein.

	Class 12 Equity Interests are not entitled to vote to accept or reject the Reorganization Plan. **Estimated Percentage Recovery: 100%**

Class Description	~~Class 14 consists of all Equity Interests in the Heber Debtors. Class 14 is subdivided into two Subclasses for Distribution purposes: Subclass 14A consists of Equity Interests in Covanta SIGC Energy I, Covanta SIGC Energy II, Heber Field Company and Heber Geothermal Company; Subclass 14B consists of Equity Interests in Amor 14 and Second Imperial Geothermal Company.~~ **Treatment Under Reorganization Plan**
Class ~~14~~13: **Old Covanta Stock Equity Interests ~~in the Heber Debtors~~**	~~**Treatment Under Reorganization Plan**~~ ~~**Estimated Allowed Claims: $[_____]**~~
~~**Subclass 14A:**~~ ~~**Equity Interests in Covanta SIGC Energy I, Covanta SIGC Energy II, Heber Field Company and Heber Geothermal Company**~~	Holders of Allowed Class ~~14A~~**13** Equity Interests shall not receive any Distribution or retain any property under the ~~Heber~~ Reorganization Plan in respect of Class ~~14A~~**13** Equity Interests. All Class ~~14A~~**13** Equity Interests shall be cancelled, annulled and extinguished~~, in full satisfaction, release and discharge of any Allowed~~ **.** Class ~~14A~~**13** Equity Interests~~.~~
~~**Subclass 14B: Equity Interests in Amor 14 and Second Imperial Geothermal Company**~~	~~Holders~~ **are Impaired, and the holders** of Allowed Class ~~14B~~**13** Equity Interests ~~shall not receive any Distribution under~~**are conclusively presumed to reject** the ~~Heber~~ Reorganization Plan~~, except that any such Equity Interests shall continue to be held by the Heber Debtor or Reorganizing Debtor that originally held such Equity Interests, which Equity Interests shall continue to be evidenced by the existing capital stock, partnership and/or membership interests~~.
	~~Class 14 Equity Interests are Impaired, and the holders of Allowed Class 14 Equity Interests are conclusively presumed to reject the Reorganization Plan. The votes of holders of Allowed Class 14 Equity Interests will not be solicited.~~ ~~**Treatment Under Liquidation Plan**~~
	~~N/A~~ **Estimated Percentage Recovery: 0%**

~~G.~~

HEBER REORGANIZATION PLAN SUMMARY OF CLASS TREATMENT

Class Description	Treatment Under Heber Reorganization Plan
Class 1: Allowed Priority Non-Tax Claims	Estimated Allowed Claims: $0 Each holder of an Allowed Class 1 Claim shall receive, in full settlement, release and discharge of its Class 1 Claim, either (i) Cash, on the Distribution Date, in an amount equal to such Allowed Claim, or (ii) on such other less favorable terms as Covanta and the holder of an Allowed Priority Non-Tax Claim agree. Class 1 Claims are Unimpaired, and the holders of Allowed Class 1 Claims are not entitled to vote to accept or reject the Reorganization Plan. Estimated Percentage Recovery: 100%

Class Description	Treatment Under Heber Reorganization Plan
Class 2H: Allowed GECC Secured Claims	Under the Heber Reorganization Plan, Class 2H is divided into two subclasses for distribution purposes: Subclass 2H-A consists of the Allowed GECC Secured SIGC Claims, and Subclass 2H-B consists of all Allowed GECC Secured HGC/HFC Claims.
Subclass 2H-A: Allowed GECC Secured SIGC Claims	The holder of the Allowed Subclass 2H-A Claims shall retain, unaltered, the legal, equitable and contractual rights, including, without limitation, any valid and perfected Liens that secure such Allowed Claim, provided, however, that the assets of the Heber Debtors subject to the GECC Liens may be sold, subject to such GECC Liens, as part of the Geothermal Sale contemplated by the Heber Reorganization Plan.
Subclass 2H-B: Allowed GECC Secured HGC/HFC Claims	Covanta shall pay to each holder of an Allowed Subclass 2H-B Claim, in full settlement, release and discharge of its Subclass 2H-B Claim, either (i) Cash, on the Heber Effective Date, in an amount equal to such Allowed Subclass 2H-B Claim, or (ii) such other less favorable terms as Covanta and the holder of an Allowed GECC Secured HGC/HFC Claim agree. Class 2H Claims are Unimpaired, and the holder of the Allowed Class 2H Claims is not entitled to vote to accept or reject the Heber Reorganization Plan. Estimated Percentage Recovery: 100%

Class Description	Treatment Under Heber Reorganization Plan Estimated Allowed Claims: $0
Class 3H: Allowed Heber Secured Claims, other than Allowed GECC Allowed Secured Claims	On the Heber Reorganization Effective Date, the legal, equitable and contractual rights of the holders of Allowed Class 3H Claims will be reinstated in full satisfaction, release and discharge of their respective Class 3H Claims and will remain unaltered, except as the applicable Heber Debtor (or, on and after the Heber Effective Date, the applicable Reorganized Heber Debtor) and the holders of Allowed Class 3H Claims may otherwise agree or as such holders may otherwise consent. Notwithstanding the foregoing, no contractual provisions or applicable law that would entitle the holder of an Allowed Class 3H Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim, terminate any contractual relationship or take such other enforcement action (as may be applicable) from and after the occurrence of a default that occurred prior to the Heber Effective Date shall be enforceable against the Reorganized Heber Debtors. In the lieu of the foregoing, any Heber Debtor (or, on and after the Heber Effective Date, any Reorganized Heber Debtor) may, at its election, make a Cash payment to the holder of an Allowed Class 3H Claim equal to the full amount of the holder's Allowed Class 3H Claim, together with interest at the legal rate to the extent required by law, in full settlement, release and discharge of such Class 3H Claim. Class 3H Claims are Unimpaired, and the holders of Allowed Class 3H Claims are not entitled to vote to accept or reject the Reorganization Plan. Estimated Percentage Recovery: 100%

Class Description	Treatment Under Heber Reorganization Plan
Class 7: Allowed Unsecured Claims	Estimated Allowed Claims: $4 million to $6 million
	On the Distribution Date, each holder of an Allowed Class 7 Claim shall receive, in full settlement, release and discharge of its Class 7 Claim, a Cash payment equal to the full amount of its Allowed Class 7 Claim, together with interest at the legal rate to the extent required by law. Class 7 Claims are Unimpaired and the holders Allowed Class 7 Claims are not entitled to vote to accept or reject the Heber Reorganization Plan. Estimated Percentage Recovery: 100%

Class Description	Treatment Under Heber Reorganization Plan
Class 8: Heber Intercompany Claims	
	The legal, equitable and contractual rights of holders of Heber Intercompany Claims in respect of such claim shall not be affected, altered or Impaired under the Heber Reorganization Plan. Class 8 Claims are Unimpaired and the holders Allowed Class 8 Claims are not entitled to vote to accept or reject the Heber Reorganization Plan. Estimated Percentage Recovery: 100%

Class Description	Treatment Under Heber Reorganization Plan
Class 9: Intercompany Claims	
	On the Heber Effective Date, all Intercompany Claims shall be cancelled, annulled and extinguished. Holders of such Claims shall receive no Distributions in respect of Class 9 Claims. Class 9 Claims are Impaired, and the holders of Allowed Class 9 Claims are conclusively presumed to reject the Heber Reorganization Plan. The votes of the holders of Allowed Class 9 Claims will not be solicited. Estimated Percentage Recovery: 0%

Class Description	Treatment Under Heber Reorganization Plan
Class 14: Equity Interests in the Heber Debtors	. Holders of Allowed Class 14 Equity Interests shall not receive any Distribution under the Heber Reorganization Plan in respect of Class 14 Equity Interests. Estimated Percentage Recovery: 0%

LIQUIDATION PLAN SUMMARY OF CLASS TREATMENT

Class Description	Treatment Under Liquidation Plan
	Estimated Allowed Claims: $0 to $130,000
Class 1: Allowed Priority Non-Tax Claims	Each holder of an Allowed Class 1 Claim shall receive, in full settlement, release and discharge of its Class 1 Claim, Cash in an amount equal to such Allowed Class 1 Claim on the Initial Liquidation Distribution Date. Class 1 Claims are Unimpaired, and holders of Allowed Class 1 Claims are not entitled to vote to accept or reject the Liquidation Plan. Estimated Percentage Recovery: 100%

Class Description	Treatment Under Liquidation Plan
Class 3: Allowed Reorganized Covanta Secured Claims	Under the Liquidation Plan, Class 3 is divided into two Subclasses for Distribution purposes: Subclass 3A consists of the Allowed Secured Bank Claims and the Allowed 9.25% Debenture Claims and Subclass 3B consists of the Allowed CSFB Claim.
Subclass 3A: Allowed Liquidation Secured Claims—Secured Bank Claims and 9.25% Debenture Claims	In full settlement, release and discharge of its Class 3A Claim, (I) (a) each holder of an Allowed Liquidation Secured Claim would be entitled, absent the Secured Creditor Direction, to receive on any Liquidation Distribution Date, such holder's Pro Rata Share of the sum of any Net Liquidation Proceeds and Liquidation Assets of the Liquidating Pledgor Debtors existing, but not yet distributed on such Liquidation Distribution Date and (b) on the Liquidation Effective Date, (i) such holder of a Class 3A Allowed Liquidation Secured Claim shall be deemed to have received, on account of its Subclass 3A Allowed Liquidation Secured Claim, the Distribution it receives as a holder of a Subclass 3A or Subclass 3B Claim under the Reorganization Plan, as applicable, in full satisfaction of its Subclass 3A Claim under the Liquidation Plan, and (ii) the Liquidating Trustee and the Liquidating Debtors will implement the Secured Creditor Direction, and (II) each holder of an Allowed Liquidation Secured Claim shall be entitled to receive on any Liquidation Distribution Date, such holder's Pro Rata Share of any Net Liquidation Proceeds of any Liquidating Pledgor Debtor's Residual Liquidation Assets. Subclass 3A Claims are Impaired and the holders of Claims in such subclass are entitled to vote to accept or reject the Liquidation Plan.
Subclass 3B: Allowed Liquidation Secured Claims—the CSFB Claim	On the Liquidation Effective Date, or as soon thereafter as practicable, Ogden FMCA shall cause to be transferred, pursuant to Section 6.1(b) of the Liquidation Plan, to CSFB, in its capacity as holder of the Allowed Secured CSFB Claim, the Bank Agreement Ogden FMCA Collateral, in full settlement, release and discharge of its Class 3B Claim. The Class 3B Claim is Impaired and the holder of the Claim in such subclass is entitled to vote to accept or reject the Liquidation Plan.
Subclass 3C: Allowed Liquidation Secured Claims –	On the Liquidation Effective Date, or as soon thereafter as practicable, Covanta Tulsa shall cause to be transferred, pursuant to Section 6.1(c) of the Liquidation Plan, to the Covanta Tulsa Secured Parties as holders of the Allowed Covanta Tulsa Secured Claims, the

Covanta Tulsa Secured Claims	**Covanta Tulsa Collateral in full settlement, release and discharge of the Class 3C Claims.** **The Class 3C Claims are Impaired and the holder of the Claims in such subclass are entitled to vote to accept or reject the Liquidation Plan.**

Class Description	Treatment Under Liquidation Plan
Class 7: Allowed Unsecured Liquidation Claims and Allowed Insured Claims *(Note: A list of Liquidating Debtors is attached at Exhibit K)*	Estimated Allowed Claims: $10 million to $600 million The holders of Class 7 Claims shall not be entitled to receive any Distribution under the Liquidation Plan. Class 7 Claims are Impaired and the holders of Allowed Claims in Class 7 are conclusively presumed to reject the Liquidation Plan. The votes of holders of Class 7 Claims will not be solicited, provided, however, that with respect to Allowed Class 7 Claims for and to the extent that insurance is available, such Allowed Class 7 Claims shall be paid in the ordinary course of the Liquidating Debtors' business to the extent of such insurance, when any such Claims become Allowed Claims and such insurance proceeds become available; provided, further, that to the extent that insurance is not available or is insufficient, treatment of such Allowed Class 7 Claim shall be as otherwise provided in the Liquidation Plan. Class 7 Claims are Impaired and the holders of Allowed Claims in such Class are conclusively presumed to reject the Liquidation Plan. The votes of holders of Class 7 Claims will not be solicited. Estimated Percentage Recovery: 0%

Class Description	Treatment Under Liquidation Plan
Class 9: Intercompany Claims	
	On the Liquidation Effective Date, all Intercompany Claims shall be cancelled, annulled and extinguished. Holders of such claims shall receive no distributions in respect of Class 9 Claims. Class 9 Claims are impaired and holders of Allowed Class 9 Claims are conclusively presumed to reject the Liquidation Plan. The votes of the holders of Allowed Class 9 Claims will not be solicited. Estimated Percentage Recovery: 0%

Class Description	Treatment Under Liquidation Plan
Class 11: Equity Interests in Liquidating Debtors	
	On the Liquidation Effective Date, all Equity Interests in the Liquidating Debtors shall not be entitled to receive any Distributions under the Liquidation Plan. Such Equity Interests shall be cancelled, annulled and extinguished. Class 11 Equity Interests are Impaired and the holders of Equity Interests in such Class are conclusively presumed to reject the Liquidation Plan. The votes of holders of Equity Interests in such Class will not be solicited.
	Estimated Percentage Recovery: 0%

H. Bar Dates and Schedules

On June 26, 2002, the Court entered an order (Docket No. 597) (the "General Bar Date Order") establishing August 9, 2002 as the General Bar Date (as defined therein) by which certain entities holding claims against Covanta and the 123 subsidiaries that filed bankruptcy petitions on April 1, 2002 (the "Original Debtors") arising prior to the Initial Petition Date must file proofs of claim. The General Bar Date Order also established September 30, 2002 as the last date by which governmental units (as defined in 11 U.S.C. § 101(27)) may file proofs of claim. In addition to serving notice of the General Bar Date Order on all scheduled creditors, the Debtors published notice of the General Bar Date in THE WALL STREET JOURNAL and ~~the~~ USA TODAY. **On August 16, 2002, the Court entered a stipulated order (Docket No. 738) (the "Bank of America Bar Date Order") that, among other things, extended the bar date by which Bank of America, N.A. must file proofs of claim against the Original Debtors to September 30, 2002 (the "Bank of America Bar Date"). On September 5, 2002, the Court entered a stipulated order (Docket No. 854) (the "IRS Bar Date Order") that, among other things, extended the bar date by which the Internal Revenue Service must file proofs of claim against the Original Debtors to December 31, 2002 (the "IRS Bar Date").**

On September 20, 2002, the Court entered an order (Docket No. 938) (the "Employee Bar Date Order") establishing November 15, 2002 (the "Employee Bar Date") as the last date for filing claims against the Original Debtors by current or former employees in respect of wages, salaries, commissions, vacation pay, severance pay, sick leave pay, or benefits. Employees were provided notice of the Employee Bar Date by mail.

On May 19, 2003, the Court entered an order (Docket No. 1535) (the "Covanta Concerts Bar Date Order") establishing June 27, 2003 as the last date for filing proofs of claims against Covanta Concerts Holdings, Inc. (the "Covanta Concerts Bar Date"). The Debtors sent notice of the Covanta Concerts Bar Date ~~on~~**to** all scheduled creditors of Covanta Concerts Holdings, Inc. The same order established June 27, 2003 as the last date for holders of 6% Convertible Subordinated Debentures Due 2002 and 5.75% Convertible Subordinated Debentures Due 2002 (collectively, the "Convertible Debentures") to file proofs of claim against Covanta ~~Energy Corporation~~ (the "Convertible Debentures Bar Date"). The Debtors sent notice of the Convertible Debentures Bar Date to all registered holders and other known holders of the Convertible Bonds and published a notice of the same in the FINANCIAL TIMES of London and the LUXEMBURGER WORT.

On June 30, 2003, the Court entered an order (Docket No. 1717) (the "New Debtors Bar Date Order") establishing August 14, 2003 as the last date for filing proofs of claim against the New Debtors (as defined herein) (such date, the "New Debtors Bar Date"). Because the Court was closed on August 14 and August 15, 2003 as a result of the blackout that affected the Northeast region of the United States, the New Debtors' Bar Date was changed to August 18, 2003. The New Debtors Bar Date Order also established December 5, 2003 as the last date by which governmental units (as defined in 11 U.S.C. § 101(27)) may file proofs of claim against the New Debtors. The Debtors sent notice of the New Debtors' Bar Date to all known creditors of the New Debtors and published notice of the same in THE WALL STREET JOURNAL and USA TODAY.

~~A chart describing the various bar dates follows:~~

~~Description of Bar Date~~	~~Applicable Bar Date~~
~~General Bar Date~~	~~August 9, 2002~~
~~Government Bar Date~~	~~September 30, 2002~~
~~Employee Bar Date~~	~~November 15, 2002~~
~~First Amended Bar Date~~	~~December 27, 2002~~
~~Second Amended Bar Date~~	~~January 13, 2003~~
~~Covanta Concerts Bar Date~~	~~June 27, 2003~~
~~Convertible Debentures Bar Date~~	~~June 27, 2003~~
~~New Debtors Bar Date~~	~~August 18, 2003~~
~~Third Amended Bar Date~~	~~October 6, 2003~~
~~New Debtors Government Bar Date~~	~~December 5, 2003~~

In accordance with the General Bar Date Order, which granted the Debtors authority to amend the Original Debtors' schedules that were originally filed on or about June 14, 2002 (Docket No. 590) (the "Original Schedules"), the Debtors have filed several amendments to the Original Schedules. On November 22, 2002, the Original Debtors filed their first amendment to the Original Schedules (Docket No. 1107) (the "First Amended Schedules"). The last date for filing proofs of claim in respect of claims for the first time scheduled as contingent, unliquidated or disputed on the First Amended Schedules was December 27, 2002 (the "First Amended Bar Date"). On December 11, 2002, the Original Debtors filed their second amendment to the Original Schedules (Docket No. 1146) (the "Second Amended Schedules"). The last date for filing proofs of claim in respect of claims for the first time scheduled as contingent, unliquidated or disputed on the Second Amended Schedules was January 13, 2003 (the "Second Amended Bar Date"). On August 24 and 25, 2003, the Original Debtors filed the third amendments to their Original Schedules (Docket Nos. 1886-2006 **and 2186**) (the "Third Amended Schedules"). The last date for filing proofs of claim in respect of claims scheduled as contingent, unliquidated or disputed on the Third Amended Schedules is October 6, 2003 (the "Third Amended Bar Date"). Finally, on June 22, 2003, the New Debtors filed schedules (the "New Debtor Schedules"). August 18, 2003 was the New Debtors Bar Date **and December 5, 2003 is the New Debtors Government Bar Date, as defined in the New Debtors Bar Date Order**.

A chart describing the various bar dates follows:

Description of Bar Date	Applicable Bar Date
General Bar Date	August 9, 2002
Government Bar Date	September 30, 2002
Bank of America Bar Date	September 30, 2002
Employee Bar Date	November 15, 2002
First Amended Bar Date	December 27, 2002
IRS Bar Date	December 31, 2002
Second Amended Bar Date	January 13, 2003
Covanta Concerts Bar Date	June 27, 2003
Convertible Debentures Bar Date	June 27, 2003
New Debtors Bar Date	August 18, 2003
Third Amended Bar Date	October 6, 2003
New Debtors Government Bar Date	December 5, 2003

In total, approximately ~~4,457~~**4,500** proofs of claim in the aggregate amount of approximately $~~12~~**13** billion were filed. The Debtors believe that many of the proofs of claim are invalid, duplicative, untimely, inaccurate or otherwise objectionable. The Debtors are in the process of reviewing such claims, and have filed or are preparing omnibus objections to many of the proofs of claim. Pursuant to the General Bar Date Order, and consistent with 11 U.S.C. § 502(b)(9), any proofs of claim filed after the applicable bar date shall be disallowed as untimely unless and until such proofs of claim are deemed timely filed by the Court after notice and hearing.

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EXHIBITS

FIRST AMENDED DISCLOSURE STATEMENT WITH RESPECT TO REORGANIZING DEBTORS' JOINT PLAN OF REORGANIZATION, HEBER DEBTORS' JOINT PLAN OF REORGANIZATION, AND LIQUIDATING DEBTORS' JOINT PLAN OF LIQUIDATION UNDER CHAPTER 11 OF ~~COVANTA ENERGY CORPORATION AND ITS DEBTOR AFFILIATES, DEBTORS AND DEBTORS IN POSSESSION~~THE BANKRUPTCY CODE

I. INTRODUCTION

The Debtors submit this Disclosure Statement pursuant to section 1125 of the Bankruptcy Code, for use in the solicitation of votes on the Reorganization Plan and the Liquidation Plan which were filed with the Court on September ~~8,~~28, 2003, copies of which are attached hereto as ~~Exhibit~~Exhibits A and ~~Exhibit B~~C, respectively. **Please note that all Claims of non-insider creditors under the Heber Reorganization Plan are Unimpaired and as such no class of creditors is entitled to vote on the Heber Reorganization Plan, a copy of which is attached hereto as Exhibit B.**

This Disclosure Statement sets forth certain information regarding the Debtors' prepetition history, significant events that have occurred during the Chapter 11 Cases, and the anticipated organization, operations and financing of the Reorganizing Debtors and the Heber Debtors and the planned liquidation of the Liquidating Debtors. This Disclosure Statement also describes the terms and provisions of the Plans, including certain alternatives to the Plans, certain effects of confirmation of the Plans, certain risk factors associated with securities to be issued under the Plans, and the manner in which distributions will be made under the Plans. 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 PLANS AND VARIOUS RISKS AND OTHER FACTORS PERTAINING TO THE PLANS AS THEY RELATE TO HOLDERS OF CLAIMS AND EQUITY INTERESTS , PLEASE SEE SECTION VII (SUMMARY OF THE PLANS) AND SECTION VIII (CERTAIN RISKS TO BE CONSIDERED).

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLANS, CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATED TO THE PLANS, CERTAIN EVENTS IN THE CHAPTER 11 CASES, AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE DEBTORS BELIEVE 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 DEBTORS' MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTORS DO NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

II. BANKRUPTCY PLAN VOTING INSTRUCTIONS AND PROCEDURES

~~A. Definitions~~

~~Except as otherwise provided herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to them in the Reorganization Plan and the Liquidation Plan. In addition, all references in this Disclosure Statement to monetary figures refer to United States currency, unless otherwise expressly provided.~~

A. ~~B.~~ Notice to Holders of Claims

This Disclosure Statement is being transmitted to certain holders of Claims for the purpose of soliciting votes on the Reorganization Plan and ~~the~~ Liquidation 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 ~~with respect to the Reorganization Plan and the Liquidation Plan~~ prior to exercising the right to vote to accept or reject either ~~of such Plans~~**the Reorganization Plan or the Liquidation Plan. This Disclosure Statement is also being distributed to holders of Claims against the Heber Debtors for informational purposes, even though such holders are not entitled to vote on the Heber Reorganization Plan because they are Unimpaired by the Heber Reorganization Plan**.

By order entered on October [__], ~~2003,~~**2003 (Docket No. [ ]) (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 Reorganization Plan and/or the Liquidation Plan to make an informed judgment with respect to acceptance or rejection of each ~~respective~~**such** 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 ~~EITHER~~**ANY** 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 CONSULT WITH COUNSEL, BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR TO REJECT THE REORGANIZATION PLAN OR THE LIQUIDATION PLAN. This Disclosure Statement contains important information about the ~~Reorganization Plan and the Liquidation Plan~~**Plans**, considerations pertinent to acceptance or rejection of each Plan and developments concerning the 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 REORGANIZATION PLAN AND THE LIQUIDATION 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 Debtors or the Plans 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 C2~~**Exhibits D, E and F** 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 Debtors do not intend to update the Projections ~~for~~**subsequent to** the ~~purposes hereof~~**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 Debtors do 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. ~~C.~~ Voting Record Date

The record date for determining which holders of Claims are entitled to vote on the ~~Plans~~**Reorganization Plan and the Liquidation Plan** is ~~[~~September ~~27,~~**29,** 2003~~]~~ (the "Voting Record Date"). **There is no record date with respect to the Heber Reorganization Plan because no holders of Claims against or Equity Interests in the Heber Debtors are entitled to vote on the Heber Reorganization Plan.**

C. ~~D.~~ Solicitation Package

~~Accompanying this~~This Disclosure Statement ~~are~~has been prepared with, among other things, copies of (1) the Reorganization Plan (Exhibit A); (2) the ~~Liquidation~~Heber Reorganization Plan (Exhibit B); (3) the Liquidation Plan (Exhibit C); (4) Projected Financial Information (Exhibit D); (5) Pro- Forma Historical Financial Information (Exhibit ~~C1~~E); (~~4~~6) ~~the Projections~~Projected CPIH Financial Information (Exhibit ~~C2~~F); (~~5~~7) the Reorganization Valuation Analysis of the Reorganizing Debtors ~~and Heber Debtors~~(the "Reorganization Valuation Analysis") (Exhibit ~~D~~G); (~~6~~8) the Liquidation Valuation Analysis of the ~~Liquidating~~ Debtors (~~Exhibit E~~the "Liquidation Valuation Analysis"); (~~7~~Exhibit H); (9) Recovery Analysis (Exhibit I); (10) selected historical financial data for the Company (~~Exhibit F~~the "Historical Financial Results"); (~~8~~Exhibit J); (11) List of Debtors and Debtors In Possession (Exhibit K); (12) the notice of, among other things, the time for submitting Ballots to accept or reject the Reorganization Plan or the Liquidation Plan, the date, time and place of the ~~hearing~~hearings to consider the confirmation of the Plans and related matters (with respect to the Heber Reorganization Plan, the "Heber Confirmation Hearing," and with respect to the Reorganization Plan and Liquidation Plan, the "Plans Confirmation Hearing"), and the time for filing objections to the confirmation of the Plans (the "Confirmation Hearing Notice"); and (~~9~~10) if you are entitled to vote, one or more Ballots (and return envelopes, without postage,) to be used by you in voting to accept or to reject the Reorganization Plan or the Liquidation Plan.

Depending on the Class to which you belong under ~~either~~ the Reorganization Plan, the Heber Reorganization Plan or the Liquidation Plan, you ~~will~~may receive this Disclosure Statement (along with the respective Plan and, as applicable, certain of the exhibits hereto described above) or a shorter version of this Disclosure Statement ~~comprising of~~that has been approved by the ~~section herein entitled "Summary of the Reorganization Plan and the Liquidation Plan" on pages i to xxxiii~~Court (the "Short-Form Disclosure Statement"). Holders of Claims or Equity Interests in Classes 1, 3 (including Subclasses 3A and 3B), 4, ~~5,~~6, ~~7,~~8 and 12 under the Reorganization Plan ~~and~~, holders of Claims or ~~Interests in Classes 1,~~ Equity Interests in Classes 1 and 3 (including Subclasses 3A and 3B) ~~and 7~~ under the Liquidation Plan and holders of Claims or Equity Interests in Classes 1, 2H, 3H and 7 under the Heber Reorganization Plan will receive this Disclosure Statement (along with the respective Plan and, if entitled to vote, respective Ballots). Holders of Claims or Equity Interests in Classes 2, ~~2H,~~ 10 and 13 of the Reorganization Plan and holders of Claims in Class 7 of the Liquidation Plan will receive the Short-Form Disclosure Statement (along with the ~~Reorganization~~respective Plan). In addition, all parties in the Debtors' most recent notice list filed with the Court will receive this Disclosure Statement (along with the Plans and certain exhibits). Holders of Claims or Equity Interests in Classes ~~9,~~9 and 11 ~~and 14~~ under both the Reorganization Plan and ~~Classes 9 and 11 under~~ the Liquidation Plan and holders of Claims or Equity Interests in Classes 8, 9 and 14 under the Heber Reorganization Plan will not receive either this Disclosure Statement or the Short-Form Disclosure Statement (or any exhibits thereto, including the Plans).

The Plan Supplement will be distributed only to: (i) counsel to the Prepetition Lenders; (ii) counsel to the DIP Lenders; (iii) counsel to the Informal Committee; (iv) counsel to the Indenture Trustee for the 9.25% Debentures; (v) counsel to the Creditors Committee; (vi) the Office of the United States Trustee; and (vii) the Securities and Exchange Commission. The Plan Supplement will also be made available to other holders of Claims and Equity Interests upon request.

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 Debtors' estates as of the Voting Record Date, as well as to all parties in the Debtors' most recent notice list filed with the Court.

D. ~~E.~~ General Voting Procedures, Ballots, and Voting Deadline

~~After carefully reviewing the~~ If you are entitled to vote on the Reorganization Plan ~~and the~~ or the Liquidation Plan, after carefully reviewing the respective Plan, this Disclosure Statement, and ~~(if you are entitled to vote)~~ the ~~detailed~~voting instructions accompanying your Ballot, please indicate your acceptance or rejection of ~~a~~either the Reorganization Plan or the Liquidation Plan, as applicable, 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~~. Each entity entitled to vote should refer to~~ **and is qualified in its entirety by** the ~~detailed~~**Court-approved** voting instructions accompanying ~~your~~**each** Ballot.

Each Ballot has been coded to reflect the Class of Claims or **Equity** Interests it represents. Accordingly, in voting to accept or reject the Reorganization Plan and/or the Liquidation 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 REORGANIZATION PLAN OR THE LIQUIDATION 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 18, 2003 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. 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 DEBTORS, THE COURT, THE CREDITORS COMMITTEE OR COUNSEL TO THE DEBTORS OR THE CREDITORS COMMITTEE.

E. ~~F.~~ Special Voting Procedures for the Prepetition Lenders

The votes of the Prepetition Lenders are being solicited directly from each Prepetition Lender, not from the Agent Banks on behalf of the Prepetition Lenders. Accordingly, Prepetition Lenders must submit their own Ballots. The Agent Banks will not vote on behalf of the Prepetition Lenders.

F. ~~G.~~ Special Voting Procedures for the 9.25% Debenture Holders

~~*1.*~~

To the best of the Debtors' knowledge, the 9.25% Debentures are held by way of a central depository known as the Depository Trust Company ("DTC"). Among other activities, DTC is engaged in the business of effecting transfers and pledges of the securities deposited with it by its participants, who are banks, brokerage firms, brokers, dealers or other nominees (collectively, "9.25% Nominees"), which either own the respective securities for their own account or hold such securities for others (the "9.25% Beneficial ~~*Noteholders*~~ **Owners"). With respect to the 9.25% Debentures held through Cede & Co. (as nominee for DTC) as registered holder, the Balloting Agent will distribute to DTC and its proxy participants (or their nominees) sufficient solicitation packages with appropriate Ballots and Master Ballots in order to allow solicitation packages to be delivered to each 9.25% Beneficial Owner. The 9.25% Nominees or their agents (including, as applicable, Automatic Data Processing, the "9.25% Nominee's Agents") through which such 9.25% Beneficial Owners hold the 9.25% Debentures shall forward the Solicitation Packages including appropriate Ballots to each such beneficial owners for voting purposes. Each 9.25% Nominee or 9.25% Nominee's Agent (as applicable) shall then summarize the individual votes of its respective 9.25% Beneficial Owners from a 9.25% Beneficial Owner's Ballot on an appropriate Master Ballot, and then return the Master Ballot(s) to the Balloting Agent on or prior to the Voting Deadline.**

~~*(a)*~~ Any beneficial 9.25% Debenture Holder who holds 9.25% Debentures in its own name as of the Voting Record Date should vote on the ~~Plans~~**Reorganization Plan or Liquidation Plan** by completing and signing the enclosed Ballot and returning it directly to Bankruptcy Services, LLC, at the address set forth in Section II.H herein so that it is RECEIVED on or before the Voting Deadline.

~~*(b)* Any beneficial~~

Holders of 9.25% ~~Debenture Holder who holds 9.25%~~ Debentures ~~in a "street name" through a nominee as of the Voting Record Date~~ should ~~vote on the Plans through such nominee by following these instructions:~~

~~(i) Use the Ballot for holders of Claims in Subclass 3B of the Reorganization Plan and/or Subclass 3A of the Liquidation Plan, as appropriate;~~
~~(ii) Complete and sign the Ballot in accordance with the instructions on the Ballot; and~~
~~(iii) Return the Ballot to your nominee as promptly as possible in sufficient time to allow such nominee to process your Ballot, complete a master ballot, and return such master ballot to the balloting agent by the Voting Deadline.~~

~~Any Ballot returned to a nominee by a beneficial 9.25% Debenture Holder will not be counted until such nominee properly completes and delivers to the balloting agent a master ballot that reflects the votes of the beneficial 9.25% Debenture Holder.~~

~~A beneficial 9.25% Debenture Holder who holds through more than one nominee may receive more than one Ballot. In that case, the beneficial 9.25% Debenture Holder should execute a separate Ballot for each block of 9.25% Debentures that it holds through any nominee and return the Ballot to the respective nominee that holds the 9.25% Debentures in record name.~~

~~A beneficial 9.25% Debenture Holder who holds some of its 9.25% Debentures through a nominee and some of its 9.25% Debentures in its own name as the record holder should follow the~~**follow the voting** procedures ~~in subsection G.1(a) above to vote the 9.25% Debentures held in its own name and the procedures in subsection G.1(b) above to vote the 9.25% Debentures held by the nominee(s).~~

~~*2. Nominees*~~

~~Any Person (other than a beneficial owner) who is the registered holder of 9.25% Debentures should vote on behalf of the beneficial holder of such 9.25% Debentures by (a) immediately distributing a copy of this Disclosure Statement and accompanying materials (including appropriate~~ **described in the** Ballots~~) to all beneficial 9.25% Debenture Holders for whom it holds 9.25% Debentures; (b) promptly collecting all such Ballots from the beneficial 9.25% Debenture Holders; (c) compiling and validating the votes of all its beneficial holders on one or more master ballots; and (d) transmitting the master ballot(s) to Bankruptcy Services, LLC at the address set forth in Section II.H herein so that they are RECEIVED on or before the Voting Deadline.~~ **and Master Ballots for further information. If you have questions about these procedures, please refer to Section II.H herein.**

G. ~~H.~~ Voting Procedures for Unknown Holders

With respect to all holders of impaired Claims against and impaired **Equity** Interests in the Debtors' estates who are entitled to vote on either the Reorganization Plan or the Liquidation Plan, but that cannot be identified or located by the Debtors, the Debtors will post copies of this Disclosure Statement, the Short-Form Disclosure Statement, the ~~Reorganization Plan~~**Confirmation Hearing Notice** and the ~~Liquidation Plan~~**Plans** on Covanta's website at www.covantaenergy.com (Corporate Restructuring), and will publish notice of the **Heber Confirmation Hearing and the Plans** Confirmation Hearing in the WALL STREET JOURNAL (National Edition) and USA TODAY (National Edition), once no later than 15 business days after entry of the ~~order approving this~~ Disclosure Statement ~~and the Short-Form Disclosure Statement~~**Order**. ~~Upon~~**With respect to holders entitled to vote either under the Reorganization Plan or the Liquidation Plan, upon** being contacted by holders who previously could not be identified or located, the Debtors will promptly provide each such holder with copies of either this Disclosure Statement or the Short-Form Disclosure Statement (and relevant exhibits thereto), as appropriate, after such holder has adequately evidenced its Claim against or **Equity** Interest in the Debtors' estates.

H. ~~I.~~ Questions About Voting Procedures

If (1) you have any questions about (a) the procedure for voting your Claim or **Equity** Interest, (b) the packet of materials that you have received, or (c) the amount of your Claim or **Equity** Interest or (2) you wish to obtain, at your own expense, unless otherwise specifically required by Federal Rule of Bankruptcy Procedure 3017(d), an additional copy of the Reorganization Plan, the Liquidation **Plan, the Heber Reorganization** Plan, this Disclosure Statement, the Short-Form 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 DEBTORS, THE UNITED STATES TRUSTEE, THE AGENTS TO THE PREPETITION LENDERS AND DIP LENDERS, THE INFORMAL COMMITTEE ~~OF THE HOLDERS OF THE 9.25% DEBENTURES~~ OR THE CREDITORS COMMITTEE.

FOR FURTHER INFORMATION AND INSTRUCTION ON VOTING TO ACCEPT OR REJECT THE REORGANIZATION AND/OR LIQUIDATION PLAN, SEE SECTION ~~[~~XIII~~]~~ (VOTING REQUIREMENTS).

I. ~~J.~~ Tabulation of Votes and Voting Objection Procedures ~~for Voting Objections~~

~~Any objections~~**Votes on the Reorganization Plan and the Liquidation Plan will be counted in accordance with either (i) the Debtors' schedules (as amended) with respect** to Claims ~~for purposes~~**as to which no proofs** of ~~voting to accept or reject the Plans must be~~ **claim have been** filed ~~on~~ **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 (a) disallow** or ~~before [October 20, 2003] at 4:00 p.m. (prevailing Eastern time)~~**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 one Debtor to another Debtor (collectively, "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 ~~Claim will not~~**proof of claim shall** be counted in accordance with ~~Federal Rule of Bankruptcy Procedure 3018(~~a~~)~~ **Claims Objection**, unless temporarily allowed **in a different manner** by the Court ~~for voting purposes~~ after notice and hearing. ~~In the event that an objection is filed, or the Debtors have scheduled~~ **Any party seeking temporary allowance of** a Claim **for voting purposes in a manner different than** as ~~zero, disputed, unliquidated or contingent~~**stated** in ~~the Schedules and the affected creditor believes that it should~~**a Claims Objection shall** be ~~entitled~~**required** to ~~vote on a Plan, then such creditor must serve on the Debtors and~~ file with the Court a motion ~~for an order pursuant to Federal Rule of Bankruptcy Procedure 3018(a) ("Rule 3018(a) Motion"), seeking temporary allowance of such Claim for voting purposes. A Rule 3018(a) Motion must be filed and served~~, 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,~~**14,** 2003~~]~~ at 4:00 p.m. (Prevailing Eastern Time) (the "Rule 3018(a) Motion Deadline"). ~~With regard to~~**Furthermore,** any ~~timely Rule 3018(~~**holder of** a~~) Motion,~~ **Claim that is scheduled as zero, disputed, unliquidated or contingent in** the ~~Debtors will have until [November 17, 2003] at 4:00 p.m. (prevailing Eastern time)~~**Schedules who wishes** to **vote on a Plan must** file a ~~response~~**Rule 3018(a) Motion on or prior to the Rule 3018(a) Motion Deadline**. A ~~hearing regarding timely filed~~ Rule 3018(a) ~~Motions, if any, will~~**Motion must** be ~~held~~**served** on ~~[November 19, 2003] at 2:00 p.m. (prevailing Eastern time).~~ **the Debtors so as to be received by the Rule 3018(a) Motion Deadline.**

J. ~~K.~~ Confirmation ~~Hearing~~Hearings and ~~Deadline~~Deadlines for Objections to Confirmation

Pursuant to section 1128 of the Bankruptcy Code and Federal Rule of Bankruptcy Procedure 3017(c), the Court has scheduled ~~the~~**(i) the Heber Confirmation Hearing for November 19, 2003, at 2:00 p.m. (Prevailing Eastern Time), and (ii) the Plans** Confirmation Hearing for December 3, ~~2003,~~**2003** at 2:00 p.m. (~~prevailing~~**Prevailing** Eastern ~~time~~**Time**)**. Both confirmation hearings 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, Alexander Hamilton Custom House, One Bowling Green, New York, NY 10004-~~1408 (the "~~**1408. The Heber** Confirmation Hearing~~"). The~~ **and the Plans** 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 **Debtors will post a notice of any adjournment of a confirmation hearing on Covanta's website at www.covantaenergy.com (Corporate Restructuring). The** Court has ~~directed~~**established** that the discovery cut-off date relating to confirmation of the ~~Plans will be [~~**Heber Reorganization Plan is November 5, 2003 at 4:00 p.m. (Prevailing Eastern Time) and that**

the discovery cut-off date relating to the Reorganization Plan and Liquidation Plan is November 12, 2003 at 4:00 p.m. (Prevailing Eastern Time).

Pursuant to the Disclosure Statement Order, (i) objections, if any, to confirmation of the Heber Reorganization Plan must be filed with the Court and served so that they are RECEIVED on or before November 12, ~~2003~~**2003,** at 4:00 p.m. (~~prevailing~~**Prevailing** Eastern ~~time~~**Time**)~~]~~ **(the "Heber Confirmation Objection Deadline") by the parties listed below;** and ~~that~~**(ii)** objections, if any, to confirmation of either **the Reorganization** Plan **or Liquidation Plan must** be filed with the ~~Clerk of the~~ Court and served so that they are RECEIVED on or before ~~[~~November 18, 2003, at 4:00 p.m.~~]~~ (~~prevailing~~**Prevailing** Eastern ~~time~~**Time**) (the "**Plans** Confirmation Objection Deadline") by **the parties listed below. Objections, if any, to confirmation of any of the Plans must be served on the following parties**:

Counsel for the Debtors

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

and

Jenner & Block, LLC
One IBM Plaza
Chicago, IL 60611-7603
Attn: Vincent E. Lazar, Esq.
Christine L. Childers, 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.

Counsel to the Agents of the Debtors' prepetition and DIP lenders

O'Melveny & Myers LLP
30 Rockefeller Plaza
New York, NY 10112
Attn: Sandeep Qusba, Esq.

Counsel to the Trustee for the holders of the 9.25% Debentures

Dorsey & Whitney LLP
50 South Sixth Street
Minneapolis, MN 55402-1498
Attn: Christopher Lenhart, Esq.

Counsel for the Informal Committee ~~of the holders of the 9.25% Debentures~~

Akin Gump Strauss Hauer & Feld, L.L.P.
590 Madison Avenue
New York, NY 10022
Attn: Fred S. Hodara, Esq.

*Counsel for the ~~Official~~**Creditors** Committee ~~of Unsecured Creditors~~*

Arnold & Porter
399 Park Avenue
New York, New York 10022
Attn: Daniel M. Lewis, Esq.
Michael J. Canning, Esq.

Responses or objections, if any, to confirmation of **any of** the Plans: (a) shall be in writing; (b) shall state the name and address of the objector and its interest in the Debtors; (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 therefor; (e) shall reference with specificity the text of the Plan(s) to which the responses or objections are made, and **(f)** shall provide proposed language changes or insertions to the Plan(s) to resolve the responses or objections.

Any objections to (i) assumption, assignment or rejection of any contracts or leases pursuant to the Reorganization Plan, the Heber Reorganization Plan or the Liquidation Plan or (ii) Cure Amounts must (a) be in writing, (b) state with particularity the reasons for the objection or response, (c) be filed with the Court and served on co-counsel to the Debtors so as to be filed and received by 4:00 p.m. (Prevailing Eastern Time) on or before the applicable Confirmation Objection Deadline, and (d) state with specificity the Cure Amount the objecting party believes is required and provide appropriate documentation in support thereof.

If a response or objection to the confirmation of the Plan(s) is not timely filed and served before the **applicable** Confirmation Objection Deadline, the responding or objecting party shall be barred from objecting to confirmation of the ~~Plans~~**applicable Plan(s)** and be precluded from being heard at **either** the **applicable** Confirmation Hearing. **Moreover, with respect to objections to the Cure Amounts in the Heber Reorganization Plan, if no objection to a particular Cure Amount is timely received, the Cure Amount set forth on the Exhibits to the Heber Reorganization Plan (except as otherwise provided therein) shall be controlling notwithstanding anything to the contrary in any contract or lease to be assumed or assumed and assigned pursuant to the Heber Reorganization Plan, and the counterparty thereto shall be forever barred from asserting any other claim arising prior to such assumption or assumption and assignment.**

K. ~~L.~~ Additional Copies of **Disclosure Statement, Short-Form** Disclosure Statement and Plans

Additional copies of the Disclosure Statement, the Short-Form Disclosure Statement and the Plans may be obtained from the Debtors' website at http://www.covantaenergy.com (Corporate Restructuring).

III. HISTORY OF THE DEBTORS' BUSINESS OPERATIONS

A. Overview of Business Operations

1. ~~*1.*~~ *Description of Principal Business Units*

Covanta is a holding company whose Subsidiaries, among other activities, develop, construct, own and operate key infrastructure for the conversion of waste-to-energy **("WTE")**, independent power production **("IPP")** and the treatment of water and wastewater **("Water")** in the United States and abroad. The Company's power generation facilities use a variety of fuels, including municipal solid waste, water (hydroelectric), natural gas, coal, geothermal fluid, wood waste, landfill gas, heavy fuel oil and diesel fuel.

Prior to September 1999, the Company conducted its business through operating groups in three principal business units: Energy, Entertainment and Aviation. In September 1999, the Company adopted a plan to discontinue its Entertainment and Aviation operations, pursue the sale or other disposition of these businesses, pay down corporate debt and concentrate on businesses previously conducted through its Covanta Energy Group, Inc. (f/k/a Ogden Energy Group, Inc.) subsidiary. As of the date hereof, the Company's plan to sell discontinued businesses has been largely completed, apart from the disposition of businesses associated with the Arrowhead Pond ~~of Anaheim arena in Anaheim, California ("Arrowhead Pond")~~. Arrowhead Pond will be dealt with pursuant to the terms of the Liquidation Plan.

Currently, the Company's principal business units are Domestic Energy and Water, International Energy and Other.

(a) Domestic Energy and Water Business

The Company's domestic business is composed of the design, construction and long-term operation of key infrastructure for municipalities and others in ~~waste-to-energy, independent power production~~**WTE, IPP** and ~~water and waste water~~**Water**.

(1) Waste-to-Energy Projects

The Company's largest operations are in ~~waste-to-energy ("~~WTE~~")~~ projects, and it currently operates 26 WTE projects, the majority of which were developed and structured contractually as part of competitive procurements conducted by municipal entities. The ~~waste-to-energy~~**WTE** plants combust municipal solid waste as a means of environmentally sound disposal and produce energy that is typically sold as electricity to utilities and other electricity purchasers. The Company processes approximately five percent of the municipal solid waste produced in the United States and therefore represents a vital part of the nation's solid waste disposal industry.

The essential purpose of the Company~~'~~**'**s WTE projects is to provide waste disposal services, typically to municipal clients who sponsored the projects ("Client Communities"). Generally, ~~waste-to-energy~~**WTE** projects provide these services pursuant to long term service contracts ("Service Agreements"). The electricity or steam is sold pursuant to long-term power purchase agreements ("PPAs") with local utilities or industrial customers, with one exception, and most of the resulting revenues reduce the overall cost of waste disposal services to the Client Communities. Each Service Agreement is different to reflect the specific needs and concerns of the Client Community, applicable regulatory requirements and other factors. The terms of the Service Agreements are each 20 or more years, with the majority now in the second half of the applicable term.

Financing for the Company's domestic WTE projects is generally accomplished through tax-exempt and taxable revenue bonds issued by or on behalf of the Client Community. If the facility is owned by a Covanta subsidiary, the Client Community loans the bond proceeds to the subsidiary to pay for facility construction and pays to the subsidiary amounts necessary to pay debt service. For such facilities, project-related debt is included as "project debt (short and long term)" in the Company's consolidated financial statements. Generally, such debt is secured by the revenues pledged under the respective indentures and is collateralized by the assets of Covanta's subsidiary and with the only recourse to Covanta being related to construction and operating performance defaults.

The domestic market for the Company's WTE services has largely matured and is heavily regulated. Other than expansion opportunities for existing projects in connection with which the Company's municipal clients have encountered significantly increased waste volumes without corresponding competitively-priced landfill availability, new opportunities for domestic projects are expected to be scarce for the foreseeable future.

(2) Water and Wastewater Projects

The Company's ~~water and wastewater ("~~Water~~")~~ operations, composed of desalinization, wastewater treatment and purification plants, are its newest business. The Water operations are conducted through wholly-owned subsidiaries which design, construct, maintain, and operate Water treatment facilities and distribution and collection networks for municipalities in the United States.

Currently, the Company operates and maintains eight Water facilities in New York, has designed and built and now operates and maintains a water treatment facility and associated transmission and pumping equipment in Alabama and is completing a desalinization project on behalf of the Tampa Bay Water Authority in Florida.

(3) Independent Power Projects

Since 1989, the Company has been engaged in developing, owning and/or operating twenty ~~independent power production ("~~IPP~~")~~ facilities utilizing a variety of energy sources including water (hydroelectric), natural gas, coal, geothermal fluid, landfill gas, heavy fuel oil and diesel fuel. The electrical output from each facility, with one exception, is sold to local utilities. The Company's revenue from the IPP facilities is derived primarily from the sale of energy and capacity. The Heber Debtors' businesses are in connection with the ownership and operation of the Geothermal Projects, which are IPP facilities that convert geothermal fluid into energy. For further discussion of the Heber Debtors' IPP facilities, see Section III.A.~~2 herein.~~ **2.**

The regulatory framework for selling power to utilities from independent power facilities (including ~~waste-to-energy~~**WTE** facilities) after current contracts expire is in flux, given the energy crisis in California in 2000-2001 and the over-capacity of generation at the present time. Various states and Congress are considering a wide variety of changes to regulatory frameworks, but none has been established definitively at present.

(b) International Energy Business

As with its domestic business, the Company conducts its international energy businesses through wholly-owned subsidiaries. Internationally, the largest element of the Company's energy business is its 26.25% ownership in, and operation of the 470 MW (net) pulverized coal-fired electrical generating facility in Quezon Province, ~~The~~**the** Philippines. The Company has interests in other fossil-fuel generating projects in Asia, a ~~waste-to-energy~~**WTE** project in Italy and two small hydroelectric projects in Costa Rica. In general, these projects provide returns primarily from equity distributions and, to a lesser extent, operating fees. The projects sell the electricity and steam they generate under long-term contracts or market concessions to utilities, governmental agencies providing power distribution, creditworthy industrial users, or local governmental units. In select cases, such sales of electricity and steam may be provided under short-term arrangements as well. Similarly, the Company seeks to obtain long-term contracts for fuel supply from reliable sources.

The ownership and operation of facilities in foreign countries entails significant political and financial uncertainties and other structuring issues that typically are not involved in such activities in the United States. Key international risk factors include government-sponsored efforts to renegotiate contracts, unexpected changes in electricity tariffs, conditions in financial markets, currency exchange rates, currency repatriation restrictions, currency convertibility, changes in laws and regulations and political, economic or military instability, civil unrest and expropriation. Such risks have the potential to cause substantial delays or material impairment to the value of the project being developed or business being operated.

(c) Other Businesses

On December 31, 2001, the Company sold the major portion of its aviation fueling business. The sale included all of the Company's aviation fueling operations at 19 airports in the United States, Canada and Panama. On March 28, 2002, the Company sold its interests in a power plant and an operating and maintenance contractor based in Thailand. Since the Initial Petition Date, the Debtors, with the approval of the Court, have sold or otherwise disposed of its interests in the Argentine Assets, its interests in the Corel Centre and the Team, the remaining aviation fueling and fuel facility management business related to three airports operated by the Port Authority of New York and New Jersey (the "Aviation Fueling Assets"), and other miscellaneous assets related to the entertainment businesses. To date, the Company still holds entertainment assets relating to the businesses associated with the Arrowhead Pond.

2. Description of Geothermal Business

Certain Reorganizing Debtors and Heber Debtors are in the business, either directly or indirectly, of owning and/or operating Geothermal Projects, each of which extracts and converts geothermal fluids into energy in Southern California. Such Debtors and Geothermal Projects include:

- *SIGC Parties*: Covanta Energy Americas, Inc. (the "SIGC Seller") owns equity interests (collectively, the "SIGC Interests") in Covanta SIGC Energy, Inc. ("SIGC Energy I") and Covanta SIGC Energy II, Inc. ("SIGC Energy II"), which entities, in turn, collectively own all equity interests in Heber AMOR 14 Corporation ("AMOR," and with SIGC Energy I and SIGC Energy II, the "Heber Debtor Holding Companies") and all the partnership interests in Second Imperial Geothermal Company, L.P. (the "SIGC Project Company");[96] The SIGC Project Company is the sole lessee of a nominal 48-megawatt geothermal electric power plant (the "SIGC Project"), which is operated by Covanta SIGC Geothermal Operations, Inc. (the "SIGC Operator"). The output of the facility is sold under a long term PPA with ~~the~~ Southern California Edison Company ("SCE").

- *HGC Parties*: Heber Loan Partners (**the** "HGC One Seller"), ERC Energy, Inc. (**the** "HGC Two Seller") and ERC Energy II, Inc. (**the** "HGC Three Seller," and collectively, the "HGC Sellers") own partnership interests (collectively, the "HGC Interests") in Heber Geothermal Company (the "HGC Project Company"). The HGC Project Company owns a nominal 52-megawatt geothermal electric **power** plant (the "HGC Project"), which is operated by the Covanta Imperial Power Service, Inc. (the "HGC Operator"). The output of the HGC Project is sold under a long term PPA with ~~the~~ SCE.

- *HFC Parties*: Covanta Heber Field Energy, Inc. ("HFC One Seller") and Heber Field Energy II, Inc. ("HFC Two Seller," and with the SIGC Seller, the HGC Sellers and HFC One Seller, the "Heber Sellers") own partnership interests (collectively, the "HFC Interests") in Heber Field Company (the "HFC Project Company," and together with SIGC Project Company and HGC Project Company, the "Heber Debtor Project Companies"). The HFC Project Company owns a geothermal fluid facility (the "HFC Project"), which is operated by Covanta Geothermal Operations, Inc. (the "HFC Operator," and with the SIGC Operator and HGC Operator, the "Debtor Operators"). The HFC Project is adjacent to and supplies geothermal fluid to both HGC and SIGC Projects in connection with their respective facilities. HFC Project Company is the lessee ~~of~~**under** more than 200 ~~royalty~~ leases~~, which make up~~ **giving the HFC Project Company the right to extract geothermal fluids from what is known as** the Heber Known Geothermal Resource Area. HFC Project Company's rights in the leases and the geothermal leases themselves are valid so long as geothermal brine is produced. A royalty is paid to the geothermal ~~lease~~**fluid** lessors each month.

In addition, Covanta Power Pacific, Inc., a non-debtor affiliate ("CPPI"), owns equity interests (collectively, the "MP Interests") in non-debtor affiliates Pacific Geothermal Company and Mammoth Geothermal Company, which entities, in turn, collectively own 50% of the partnership interests in Mammoth Pacific, L.P. (the "MP Project Company," and together with the Heber Debtor Project Companies, the "Project Companies"). The MP Project Company owns a nominal 40-megawatt geothermal electric power plant, comprised of three plants (the "MPLP Facilities"). The MPLP Facilities are located on the eastern slopes of the Sierra Nevada Mountains at Casa Diablo Hot Springs in California. The MPLP Facilities have contractual rights to the geothermal fluid resource for a term not less than the term of the PPAs. All three MPLP Facilities sell energy and capacity to SCE under long term PPAs and have recently entered into PPA amendments calling for a five-year fixed-price for the energy sold. Covanta Power Plant Operations, also a non-Debtor subsidiary, provides management services to MPLP on a cost-reimbursement basis.

[96] SIGC Energy I indirectly owns, through its wholly-owned subsidiary AMOR, a 74.999% general partnership interest and a 0.001% limited partnership interest in SIGC Project Company. Covanta SIGC Energy II, Inc. directly owns a 24.999% general partnership interest and a 0.001% limited partnership interest in SIGC Project Company.

The Geothermal ~~Debtor Equity~~Business is comprised of the SIGC Interests, HGC Interests and HFC Interests.

B. ~~**B.**~~ **Other Aspects of Business Operations**

1. ~~*1.*~~ *Insurance*

The Company maintains certain insurance policies essential to the continued operations of the Company. The terms of these policies are characteristic of insurance policies typically maintained by corporate entities that are similar in size and nature to the Company. A summary of the Company's policies and coverage are as follows:

Commercial General Liability Insurance and Excess Liability Insurance includes coverage for third party liability and contractual liability coverage resulting from negligence of the insured.

Property Insurance includes all-risk coverage on a replacement cost basis for physical damage to all buildings and equipment including boilers and machinery, owned, leased or otherwise under the control of the Company; and includes coverage for business interruption and extra expenses likely to be incurred in the event of a property loss.

Automobile Liability Insurance is provided for all owned, non-owned and hired automobiles with coverage for both bodily injury and property damage in compliance with the laws of the jurisdiction in which the vehicle is licensed.

Workers' Compensation Insurance provides coverage for all employees throughout the United States in accordance with the laws of each state in which the Company conducts its business.

Directors and Officers Liability Insurance provides coverage for both Directors' and Officers' liability for wrongful acts actually or allegedly caused by the insured subject to standard exclusions. **The Company is in the process of obtaining extended insurance for its Directors and Officers to cover claims related to the period following expiration of existing Directors and Officers Liability Insurance.**

Political Risk Insurance provides coverage for the Company's equity investments in certain of its international projects.

The company also maintains crime insurance and fiduciary liability insurance on certain of its foreign locations.

2. ~~*2.*~~ *Environmental Matters*

Covanta's business activities in the United States are pervasively regulated pursuant to federal, state and local environmental laws. Federal laws, such as the Clean Air Act and Clean Water Act, and their state counterparts, govern discharges of pollutants to air and water. Other federal, state and local laws comprehensively govern the generation, transportation, storage, treatment and disposal of solid and hazardous waste, and also regulate the storage and handling of petroleum products (such laws and the regulations thereunder, "Environmental Regulatory Laws").

The Environmental Regulatory Laws and other federal, state and local laws, such as the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA" or "Superfund") (collectively, "Environmental Remediation Laws") make Covanta potentially liable on a joint and several basis for any onsite or offsite environmental contamination which may be associated with the Company's activities and the activities at sites, including landfills which the Company's subsidiaries have owned, operated or leased or at which there has been disposal of residue or other waste handled or processed by such subsidiaries or at which there has been disposal of waste generated by the Company's activities. Some state and local laws also impose liabilities for injury to persons or property caused by site contamination. Some Service Agreements provide for indemnification of the

operating subsidiaries from some such liabilities. In addition, other subsidiaries involved in landfill gas projects have access rights to landfills pursuant to certain leases at landfill sites which permit the installation, operation and maintenance of landfill gas collection systems. A portion of these landfill sites is and has been a federally-designated "Superfund" site. Each of these leases provide for indemnification of the Company subsidiary from some liabilities associated with these sites.

The Environmental Regulatory Laws require that many permits be obtained before the commencement of construction and operation of ~~waste-to-energy, independent power~~**WTE, IPP** and ~~water and wastewater projects~~**Water**, and further require that permits be maintained throughout the operating life of the facility. There can be no assurance that all required permits will be issued or re-issued, and the process of obtaining such permits can often cause lengthy delays, including delays caused by third-party appeals challenging permit issuance. Failure to meet conditions of these permits or of the Environmental Regulatory Laws and the corresponding regulations can subject an operating subsidiary to regulatory enforcement actions by the appropriate governmental unit, which could include fines, penalties, damages or other sanctions, such as orders requiring certain remedial actions or limiting or prohibiting operation. To date, Covanta has not incurred material penalties, been required to incur material capital costs or additional expenses, nor been subjected to material restrictions on its operations as a result of violations of environmental laws, regulations or permits.

3. ~~*3.*~~ *Prepetition Legal Proceedings*

The following discussion regarding legal proceedings purports only to identify those legal proceedings commenced prior to the Initial Petition Date that the Debtors, in their reasonable judgment, considered prepetition to be material in nature, unless otherwise noted. Covanta's Form 10-K Annual Report for the fiscal year ended December 31, 2002, accessible on http://investors.covantaenergy.com, also contains information about these legal proceedings.

On June 8, 2001, the ~~EPA~~**Environmental Protection Agency (the "EPA")** named Ogden Martin Systems of Haverhill, Inc., now known as Covanta Haverhill, Inc., as one of 2,000 potentially responsible parties ("PRPs") at the Beede Waste Oil Superfund Site, Plaistow, New Hampshire (the "Site") in connection with alleged waste disposal by PRPs on the Site. The EPA alleges that the costs of response actions completed or underway at the Site total about $17 million and estimates that the total cost of cleanup of the Site will be about $65 million. Covanta is participating in PRP group discussions towards settlement of the EPA's claims. Covanta's share of liability, if any, cannot be determined at this time as a result of uncertainties regarding the source and scope of contamination, the large number of PRPs and the varying degrees of responsibility among various classes of PRPs. Covanta Haverhill, Inc., is not a Debtor.

On April 9, 2001, Ogden Ground Services, Inc. ("Ogden Ground") and Ogden Aviation, Inc., together with approximately 250 other parties, were named by Metropolitan Dade County, Florida (the "County") as PRPs, pursuant to CERCLA, RCRA and state law, with respect to an environmental cleanup at the Miami Dade International Airport. The County alleges that it has expended over $200 million in response and investigation costs and expects to spend an additional $250 million to complete necessary response actions. The lawsuit is currently subject to a tolling agreement between PRPs and the County. Covanta's share of liability, if any, cannot be determined at this time because of uncertainties regarding the source and scope of the contamination, the large number of PRPs and the varying degrees of responsibility among various classes of PRPs. Covanta's liability, if any, arises from its agreement to indemnify various transferees of its divested airport operations with respect to certain known and potential liabilities that may arise out of such operations, and in certain instances to remain liable for certain potential liabilities that were not assumed by the transferee. Ogden Ground has been sold, and the transferee of its businesses is subject to Covanta's indemnification agreement. The Debtors believe that the indemnity of Ogden Ground's transferee, as well as any other such indemnity, are prepetition unsecured obligations. Ogden Aviation, Inc. is a Liquidating Debtor and the above matter is expected to have no impact on the Reorganized Company (as defined herein).

On May 25, 2000 the California Regional Water Quality Control Board, Central Valley Region (the "Board"), issued a cleanup and abatement order to Pacific-Ultrapower Chinese Station ("Chinese Station"), a general partnership in which one of Covanta's subsidiaries owns 50%. The order is in connection with Chinese Station's neighboring property owner's use of ash generated by Chinese Station's Jamestown, California power

plant. Chinese Station completed the cleanup in mid-2001 and submitted its Clean Closure Report to the Board on November 2, 2001. The Board and other state agencies continue to investigate alleged civil and criminal violations associated with the management of the material. Chinese Station believes it has valid defenses, and a petition for review of the order is pending. Settlement discussions in this matter are underway. Chinese Station and Covanta's subsidiary that owns a partnership interest in Chinese station are not Debtors.

On January 4, 2000 and January 21, 2000, United Air Lines, Inc. ("United") and American Airlines, Inc. ("American"), respectively, named Ogden New York Services, Inc. ("Ogden New York"), in two separate lawsuits filed in the Supreme Court of the State of New York, which have been consolidated for joint trial. The lawsuits seek judgment declaring that Ogden New York is responsible for petroleum contamination at airport terminals formerly or currently leased by United and American at New York's Kennedy International Airport. United seeks approximately $1.9 million in certain costs and legal expenses, as well as certain declaratory relief, against Ogden New York and four airlines, including American. American seeks approximately $74.5 million in certain costs and legal fees from Ogden New York and United. Covanta disputes the allegations and believes that the damages sought are overstated in view of the airlines' responsibility for the alleged contamination and that Covanta has defenses under its respective leases and Port Authority permits. **This litigation has been stayed as to the Debtors as a result of their Chapter 11 filing. The Debtors believe that the claims asserted by United and American are prepetition unsecured obligations.** Ogden New York is a Liquidating Debtor~~,~~ and ~~as a result, the such Debtor's Chapter 11 filing has stayed the matters, which are~~**above matter is** expected to have no impact on the Reorganized Company (as defined herein).

On December 23, 1999, an aviation subsidiary of Covanta was named as a third-party defendant in an action filed in the Superior Court of the State of New Jersey alleging that the aviation subsidiary generated hazardous substances at a reclamation facility known as the Swope Oil and Chemical Company Site. Third-party plaintiffs seek contribution and indemnification from the aviation subsidiary and over 90 other third parties, as PRPs, for costs incurred and to be incurred in the cleanup. This action was stayed pending the outcome of first- and second-party claims. The aviation subsidiary's share of liability, if any, cannot be determined at this time because of uncertainties regarding the source and scope of contamination, the large number of PRPs and the varying degrees of responsibility among various classes of PRPs. This matter is expected to have no impact on the Reorganized Company (as defined herein).

In 1985, Covanta, a Reorganizing Debtor, sold its interests in several manufacturing subsidiaries, some of which allegedly used asbestos in their manufacturing processes, and one of which was Avondale Shipyards, now a subsidiary of Northrop Grumman Corporation. Some of these former subsidiaries have been and continue to be parties to asbestos-related litigation. In 2001, Covanta was named a party, with 45 other defendants, to one such case. Before the Debtor~~'~~**'**s bankruptcy filing, Covanta had filed for its dismissal from the case, which is now stayed directly against Covanta by the Chapter 11 Cases. Also, eleven proofs of claim seeking unliquidated amounts have been filed against Covanta in the Chapter 11 Cases based on what appears to be purported asbestos-related injuries that may relate to the operations of former Covanta subsidiaries. Covanta believes that these claims lack merit and plans to object vigorously to such claims.

4. ~~*4.*~~ *Employees; Labor Matters; Benefit Plans*

(a) Employees

As of April 1, 2002, the Company employed approximately 3,200 full-time employees worldwide, of which approximately 2,900 were employed in the United States. As of September 1, 2003, the Company employed approximately 2,400 full-time employees worldwide, of which approximately 2,000 were employed in the United States. The reduction in force was generally the result of the Company's sale of various non-core assets, as well as the Company's decision in September 2002, within its core energy business, to reduce the number of non-plant personnel and close satellite development offices in order to enhance its value. As part of this reduction in force, ~~waste-to-energy~~**WTE**, water and domestic independent power headquarters management were combined and numerous other structural changes were instituted to improve management efficiency.

Of the Company's employees in the United States, approximately 20% are unionized. Currently, the Company is a party to eight (8) collective bargaining agreements: three (3) of these agreements are scheduled to

expire in 2004, one (1) in 2005 and one (1) in 2006. With respect to the remaining three (3) agreements, each of which has recently expired, the Company is currently in negotiations with the applicable collective bargaining representatives and the Company currently expects to reach agreement with each such representative to extend each such agreement on its current or similar terms. In addition, the Company is currently negotiating with a collective bargaining representative regarding the terms of a collective bargaining agreement with respect to certain of the Company's employees at the Edison Bataan Cogeneration facility in the Philippines.

With respect to the Company's Three Mountain Power Project, an electric generating plant to be located in California for which Debtor Three Mountain Power, LLC has received permits but has not begun construction, certain of the Debtors have entered into six (6) labor and associated agreements with certain unions relating to the construction, maintenance and operation of that facility. The Company does not intend to proceed with the construction of the Three Mountain Power Project and is currently in the process of attempting to sell the permits it has obtained in connection therewith. As a result, and due to the fact that the effectiveness of these agreements is contingent on the Company proceeding with development of the Three Mountain Power Project, no active employees of the Company are currently covered by such agreements.

(b) Defined Benefit Pension Plans

(1) The Covanta Energy Pension Plan

The Debtors maintain the Covanta Energy Pension Plan (the "Pension Plan") for certain of their employees. The Pension Plan is a tax-qualified defined benefit pension plan covered by Title IV of ERISA, pursuant to which benefits are payable upon a participant's retirement from the Debtors, disability, or death. Based on the plan's most recent actuarial report, the Pension Plan is currently underfunded by approximately $24 million. The Debtors intend to continue the Pension Plan after the **Reorganization** Effective Date and to administer and operate the Pension Plan in accordance with its terms and the applicable provisions of ERISA and the Internal Revenue Code of 1986, as amended (the "IRC"), including the minimum funding standards of ERISA and the IRC and to pay all insurance premiums payable to the Pension Benefit Guaranty Corporation (the "PBGC"), a wholly-owned United States government corporation that administers the defined benefit pension plan termination insurance program under Title IV of ERISA. The Projections include a reasonable estimate of the cash contributions necessary for the Reorganized Debtors to satisfy their minimum funding obligations under ERISA.

(2) The Service Employees International Union Pension Trust for Employees of Allied Plant Maintenance Company, Inc. Defined Benefit Pension Plan

Ogden Plant Maintenance Company, Inc. (formerly known as Allied Plant Maintenance Company, Inc.), a non-Debtor, sponsors the Service Employees International Union Pension Trust for Employees of Allied Plant Maintenance Company, Inc. Defined Benefit Pension Plan (the "SEIU Pension Plan") for certain of its employees represented by the Service Employees International Union Local 22. The SEIU Pension Plan is a tax-qualified defined benefit pension plan covered by Title IV of ERISA, pursuant to which benefits are payable upon a participant's retirement. No active employees of the Company currently participate in the SEIU Pension Plan. The SEIU Pension Plan was "frozen," effective as of July 7, 1995, and no service since that date has been recognized for any purpose thereunder. At such time, all participants became 100% vested in their accrued benefits. The SEIU Pension Plan is currently underfunded by approximately $560,000, based on the plan's most recent actuarial report. ~~Currently, the Debtors intend to continue to maintain~~**It is currently intended that following the Reorganization Effective Date** the SEIU Pension Plan ~~after the Effective Date~~**will continue to be maintained** as a frozen plan and **that the Company will continue** to meet ~~their~~**any** obligations **it currently has** to such plan under ERISA and the IRC and to the PBGC.

(c) Defined Contribution Retirement Plans

(1) The Covanta Energy Savings Plan

The Debtors maintain the Covanta Energy Savings Plan (the "Savings Plan") for certain of their employees. The Savings Plan is a defined contribution retirement plan intended to be qualified under Section 401 of the IRC. Under the Savings Plan, the Debtors make pre-tax salary deferral contributions (from 1% to 20% of a participant's

pay for each pay period) on behalf of each participant at such participant's election. In addition, the Debtors match 100% of a participant's contributions up to the first 3% of such participant's pay for the payroll period and 50% of a participant's contribution up to the next 2% (in excess of 3% but not more than 5%) of such participant's pay for the relevant payroll period. Each participant determines how his or her contributions are invested amongst the available investment alternatives. The Debtors intend to continue the Savings Plan after the **Reorganization** Effective Date and to meet their obligations with respect to the plan under ERISA and the IRC.

(2) The Resource Recovery 401(k) Plan

The Debtors maintain the Resource Recovery 401(k) Plan (the "Resource 401(k) Plan") for certain of their employees. The Resource 401(k) Plan is a defined contribution retirement plan intended to be qualified under Section 401 of the IRC. Pursuant to the Resource 401(k) Plan, the Debtors make pre-tax salary deferral contributions (from 1% to 15% of a participant's pay for each period) on behalf of each participant at such participant's election. In addition, the Debtors match 100% of a participant's contribution up to the first 3% of such participant's pay for the payroll period and have discretion to make additional contributions to participants' accounts. Each participant determines how his or her contributions are invested amongst the available investment alternatives. Currently, both employee and employer contributions to the Resource 401(k) Plan are "frozen" and participants are not accruing any additional benefits. The Debtors currently intend to merge the outstanding Resource 401(k) Plan account balances into the Savings Plan and expect to have any requisite Internal Revenue Service (the "IRS") approval to do so in the near future.

(3) *The Covanta Energy Group Security Fund*

The Debtors maintain the Covanta Energy Group Security Fund (the "Security Fund") for certain of their union employees, who are not eligible to participate in the Savings Plan, at the (i) Marion ~~waste-to-energy~~**WTE** facility in Marion County, Oregon; (ii) Hennepin ~~waste-to-energy~~**WTE** facility in Hennepin County, Minnesota; (iii) Bristol ~~waste-to-energy~~**WTE** facility in Bristol, Connecticut and (iv) New Martinsville, West Virginia Hydro Facility. Currently, the Security Fund has one hundred nineteen (119) participants. The Security Fund is a defined contribution retirement plan intended to be qualified under Section 401 of the IRC. Pursuant to the Security Fund, the Debtors make pre-tax salary deferral contributions (from 1% to 15% of a participant's pay for each period) on behalf of each participant at such participant's election. In addition, the Debtors generally contribute five cents per hour to each participant's account for all hours worked by such participant (in some instances, such contributions are limited to a standard 40 hour work week). Each participant determines how his or her contributions are invested amongst the available investment alternatives. The Debtors intend to continue the Security Fund after the **Reorganization** Effective Date and to meet their obligations with respect to the plan under ERISA and the IRC.

(4) The Hennepin Money Purchase Plan

The Debtors maintain the Hennepin Money Purchase Plan (the "Hennepin Plan") for certain eligible union employees at the Hennepin ~~waste-to-energy~~**WTE** facility. Currently, the Hennepin Plan has seventy-five (75) participants. The Hennepin Plan is a defined contribution retirement plan intended to be qualified under Section 401 of the IRC. Pursuant to the Hennepin Plan, the Debtors make annual contributions equal to an adjustable percentage of the compensation of all participants. The Hennepin Plan does not provide for employee contributions. Each participant determines how contributions made on his or her behalf are invested amongst the available investment alternatives. The Debtors intend to continue the Hennepin Plan after the **Reorganization** Effective Date and to meet their obligations with respect to the plan under ERISA and the IRC.

(5) The Metropolitan 401(k) Plan

The Debtors have satisfied all outstanding obligations arising under the Metropolitan 401(k) Plan. No benefits are currently accruing under the Metropolitan 401(k) Plan and, as a result, the plan currently has no assets. The Debtors are in the process of formally terminating the Metropolitan 401(k) Plan.

(6) The Resource Recovery Pension Plan

The Debtors maintain the Resource Recovery Pension Plan (the "Resource Pension Plan") for certain eligible employees of Ogden Resource Recovery Support Services, Inc. The Resource Pension Plan is a defined contribution retirement plan intended to be qualified under Section 401 of the IRC. Pursuant to the Resource Pension Plan, the Debtors make annual contributions at a rate of 3% of the compensation of all participants. The Resource Pension Plan does not provide for employee contributions. Each participant determines how contributions made on his or her behalf are invested amongst the available investment alternatives. The Resource Pension Plan was amended, effective December 31, 2001, to freeze the plan and employer contributions were discontinued accordingly at such time. Since December 31, 2001, participants have not accrued any new benefits under the Resource Pension Plan. The Debtors currently intend to continue the Resource Pension Plan and to meet their obligations with respect to the plan under ERISA and the IRC.

(7) The Ogden Environmental and Energy Services 401(k) Plan

The Debtors maintain the Ogden Environmental and Energy Services 401(k) and Profit Sharing Plan (the "Energy Services 401(k) Plan"). The Energy Services 401(k) Plan was "frozen" on November 17, 2000 and currently, no active employees participate therein. The Debtors are currently in the process of terminating the Energy Services 401(k) Plan and distributing outstanding participant account balances thereunder.

(d) The Supplementary Benefit Plan of Ogden Projects, Inc.

Since the 1980s, Ogden Projects, Inc. (now known as Covanta Projects, Inc.), a Debtor, has sponsored the Supplementary Benefit Plan of Ogden Projects, Inc. (the "Supplementary Plan") which provides for supplemental pension benefits and profit sharing and employer-matching contributions to eligible employees of the Company's energy business. The Supplementary Plan is an unfunded, non-qualified plan. Eligible employees are those employees who participate in a certain pension plan (the Pension Plan) and profit sharing plan (the Savings Plan) maintained by Covanta Projects, Inc. each of which is intended to be qualified under Section 401 of the IRC (together, the "Qualified Plans"). As of the Supplementary Plan's latest valuation date there were fifty-six (56) participants. The purpose of the Supplementary Plan is to equalize the pension benefit and contribution formula applicable to the employees participating in the Qualified Plans whose pension benefits and allocated profit sharing or employer contributions are limited as a result of certain IRC provisions.

Pursuant to the Supplementary Plan, participants are paid retirement benefits in an amount equal to the excess of the retirement benefits that would have been paid to such participants under the Pension Plan in the absence of the limitations of Section 415 of the IRC on the amount of benefits that may be provided under tax-qualified plans over the retirement benefits actually paid under the Pension Plan. Retirement benefits payable under the Supplementary Plan are determined at the same time and in the same manner as the retirement benefits payable under the Pension Plan and will be payable in a single cash lump sum. Such benefits are payable at retirement to eligible participants beginning at age 55 (depending on length of service).

With respect to profit sharing and excess employer contributions made pursuant to the Supplementary Plan, the committee administering the Savings Plan, in the ordinary course of business, determines annually the total percentage of an employee's compensation that is eligible for Company contributions under the Savings Plan. The Company then makes an annual contribution (not to exceed such pre-established percentage), either in the form of a profit-sharing or employer matching contribution to the Savings Plan for each eligible employee based upon the performance of the Company's energy business for that year and subject to the limitations imposed by the IRC on the maximum amount of an employee's compensation that may be taken into account when making such contributions. Pursuant to the profit sharing and Company match components of the Supplementary Plan, an employee whose allocated contributions under the Savings Plan are limited as a result of the IRC are paid, in cash, the amount by which the percentage of annual contributions authorized by the committee exceeds the amounts that are actually allocated to such employee's account under the Savings Plan. Distributions with respect to the profit sharing and Company match components of the Supplementary Plan are made to participants on an annual basis.

By order of the Court dated September 18, 2002 (Docket No. 932), the Debtors obtained authorization to continue to make all payments necessary to satisfy in full all obligations owing to eligible employees under the

Supplementary Plan. Accordingly, the Debtors have continued to fulfill such obligations and currently intend to continue the Supplementary Plan following the **Reorganization** Effective Date.

(e) Additional Non-Qualified Pension Plans

Certain of the Debtors sponsor certain pension plans for eligible employees that are not intended to be qualified under the IRC (collectively, the "Non-Qualified Plans"). The Non-Qualified Plans include (i) the Resource Recovery Senior Management Pension Plan (the "Resource Plan"), which is sponsored by Covanta Energy Services, Inc. (f/k/a Ogden Resource Recovery Support Services, Inc.), (ii) the Ogden Select Savings Plan (the "Select Plan"), which is sponsored by Ogden Services Corporation**, a Liquidating Debtor** and (iii) the Ogden Energy Select Savings Plan (the "Energy Select Plan") which is sponsored by Covanta Energy Group. Inc. Each of the Non-Qualified Plans is a defined contribution plan and is maintained as a "top-hat" plan for purposes of ERISA, exempt from substantially all of ERISA's requirements. The assets of each of the Non-Qualified Plans are held in grantor trusts (typically known as "rabbi trusts") structured to permit the deferral of income tax on participants' benefits under the Non-Qualified Plans.

Pursuant to an order of the Court dated September 18, 2002 (Docket No. 938), the Debtors obtained authorization to honor and pay in full all obligations under the Non-Qualified Plans as such obligations have become due or will become due during the Chapter 11 Cases.

(1) The Resource Plan

There are a total of two hundred twelve (212) participants in the Resource Plan. Two hundred five (205) of these participants are currently employed by the Company, while the remaining seven (7) are former employees currently receiving benefit distributions. Pursuant to the terms of the Resource Plan, Covanta Energy Services, Inc. is responsible for making annual contributions for the benefit of each participant equal to 3% of such participant's annual base pay. All contributions to the Resource Plan are currently held in a grantor trust administered by T. Rowe Price, the current assets of which are valued at approximately $1.6 million. The Resource Plan was frozen on December 31, 2001 and no contributions have been made to it since that date. The Debtors intend to continue the Resource Plan after the **Reorganization** Effective Date.

(2) The Select Plan

The purpose of the Select Plan is to enable eligible employees to enhance their retirement security by permitting them to elect to defer receipt of a portion of their compensation to a later date or event. The Select Plan**, which is sponsored by Liquidating Debtor Ogden Services Corporation,** was "frozen" in 1999 and no new contributions have been made to the plan since. Since September 18, 2002, all participants in the Select Plan have received final distribution of their account balances and, consequently, the Company has no outstanding obligations thereunder. The Company is currently in the process of formally terminating the Select Plan.

(3) The Energy Select Plan

The purpose of the Energy Select Plan is to enable eligible employees to enhance their retirement security by permitting them to elect to defer receipt of a portion of their compensation (from 1% to 10% of their annual compensation and up to 100% of any discretionary profit sharing payment they receive) to a later date or event. A total of approximately twenty-five (25) active or former employees participate in the Energy Select Plan. Approximately twenty (20) of these employees are actively employed by Covanta Energy Group, Inc., while the remaining five (5) are not actively employed by the Company but are currently entitled to payment of deferred vested benefits. Deferral contributions to the Energy Select Plan remain in a grantor trust administered by T. Rowe Price, the assets of which are currently valued at approximately $765,000. The Energy Select Plan was frozen on December 31, 2001 and no contributions have been made to it since that date. The Debtors intend to continue the Energy Select Plan after the **Reorganization** Effective Date.

(f) The Key Employee Retention Plan (the "KERP")

On September 18, 2002, the Court approved an order (Docket No. 932), approving the Company's Key Employee Retention Plan, consisting of the Key Employee Severance Plan (the "Severance Plan"), the Special Retention Bonus Plan (the "Retention Plan") and the Long-Term Incentive Plan (the "LTIP").

(1) The Severance Plan

At the time of its Court approval, seventy-four (74) employees of the Debtors, including key executives, were eligible to participate in the Severance Plan. A participant whose employment terminates Without Cause or for Mutual Benefit (as those terms are defined in the KERP) following the Initial Petition Date are eligible to receive a severance benefit pursuant to the Severance Plan. In addition, to receive payment of severance benefits under the Severance Plan, a participant is required to sign a general release of claims against the Company (other than claims for indemnification under indemnification agreements, the Company's Certificate of Incorporation or By-Laws or applicable law and claims for accrued benefits under the Company's employee benefit plans) and comply with certain additional covenants including confidentiality covenants, non-solicitation and non-disparagement covenants and litigation support commitments.

Cash severance benefits are paid in a single lump sum payment. The amount of benefit depends upon the participant's position and ranges from (i) the greater of (x) 50% of a participant's base salary and (y) two (2) weeks' base salary per year of service (not to exceed fifty-two (52) weeks) to (ii) 200% of a participant's base salary (a benefit for which only the CEO of the Company is eligible). A participant in the Severance Plan is also entitled to receive continued medical and dental coverage, provided that such participant pays the regular employee co-payments, for the period corresponding to the percentage of salary payable as cash severance benefits, subject to an eighteen (18) month cap. A participant's right to continue to receive medical or dental coverage ceases immediately if such participant is offered or becomes eligible for coverage under a medical or dental plan of any subsequent employer. In addition, payments under the Severance Plan are to be reduced if the aggregate amount paid to a participant triggers the federal excise tax on parachute payments.

(2) The Retention Plan

At the time of its Court approval, seventy-two (72) employees, including key executives, were eligible to participate in the Retention Plan. Under the Retention Plan, eligible employees will receive a base award under certain limited circumstances, from an aggregate pool of $3.6 million, equal to a percentage of base salary, ranging from 10% to 75% depending upon the employee's position. Awards have, and will continue to, become vested and payable in three installments as described below, subject in each case to the participant's continued employment with the Company until the applicable vesting date. The first installment of 33.3% of the awards vested and was paid to participants on or about September 30, 2002. The second installment of 33.3% of the awards becomes vested and payable on the earlier of (i) September 30, 2003 and (ii) the consummation of the Reorganization Plan. The remaining 33.4% of the awards will become vested and payable on the date of the consummation of the Reorganization Plan. In the event a participant's employment with the Company is terminated by the Company Without Cause or by the participant for Mutual Benefit, or due to the participant's death or disability, a pro rata share of such participant's unpaid award would become immediately vested and payable, unless the unpaid portion is the full, final installment, in which case the remaining portion of the award is payable on the date of the consummation of the Reorganization Plan. In the event of any other termination prior to a vesting date, the unpaid portion of any award is forfeited.

(3) The LTIP

The LTIP covers six (6) senior executives and up to two (2) additional key management employees selected by the Compensation Committee of Covanta's Board of Directors, based on the advice of Covanta's chief executive officer (the "CEO"). The LTIP was implemented to provide incentives to Covanta's senior management to remain with the Debtors throughout the reorganization process and to devote all of their attention and energy to the preservation of the value of the business and assets of the Debtors during the chapter 11 proceedings. Under the LTIP, a participant is entitled to receive payment of his award only if such participant's employment with the Company is terminated by the Company Without Cause or by the participant for Mutual Benefit prior to the one-

year anniversary of the date of entry of the Court's order confirming the Reorganization Plan and provided such participant executes a general waiver and release of all claims under all prepetition agreements, other than claims for indemnification under indemnification agreements, Covanta's Certificate of Incorporation or By-Laws or applicable law and claims for accrued benefits under Covanta's employee benefit plans. Pursuant to the LTIP, an eligible participant who satisfies these conditions will generally be entitled to receive a cash payment upon the termination of such participant's employment and a general release by the Company of all claims against such participant.

The amount of any cash payment to a participant in satisfaction of his or her LTIP award varies depending upon such participant's position, and is generally equal to 150% to 200% of the sum of such participant's (i) salary and (ii) "average bonus" (calculated pursuant to the terms of the LTIP as the sum of (x) the average annual bonus paid to the participant for the two fiscal years immediately preceding the participant's termination and (y) 30% of such participant's salary), minus any amounts the participant is entitled to receive pursuant to the Severance Plan. The maximum aggregate payout under the LTIP is approximately $8.1 million.

(g) The Broad Based Severance Plan

On September 18, 2002, the Court approved the Company's Broad-Based Severance Plan (the "Broad Severance Plan") for rank-and-file employees. By establishing and implementing the Broad Severance Plan, the Debtors formalized their prior severance practice (subject to certain modifications) in order to establish clear guidelines and to encourage the retention of employees during the Chapter 11 Cases.

The Broad Severance Plan authorizes the Company to make severance payments to certain eligible full-time employees whose employment with the Company is terminated involuntarily without Cause (as defined in the Broad Severance Plan) in connection with a job or department elimination, office closing, reduction in force or other appropriate circumstances as determined by the administrator of the Broad Severance Plan. An employee whose employment with the Company is terminated for any other reason is not eligible for severance benefits under the Broad Severance Plan. In addition, any full-time employee who, as of the date of such employee's termination (i) is party to any severance, termination, employment or other agreement with the Company that provides for severance benefits or benefits of a similar nature to severance benefits under any circumstances, (ii) is eligible to participate in or otherwise covered under any other plan or arrangement of the Company, such as the KERP, that provides for severance benefits or benefits of a similar nature to severance benefits under any circumstances or (iii) is covered by any collective bargaining agreement in connection with his or her employment with the Company, is ineligible to participate in the Broad Severance Plan.

In order for an eligible employee to receive severance benefits pursuant to the Broad Severance Plan, he or she must execute and deliver a general release of all claims against the Company. The severance benefit payable to an employee pursuant to the Broad Severance Plan is equal to continued payment of such employee's base salary (as defined in the Broad Severance Plan) for a number of calendar weeks equal to the greater of (i) the product of (x) two (2) multiplied by (y) each year of service completed by such employee prior to his or her date of termination and (ii) four (4) weeks, provided that the salary pay continuation period shall in no event exceed twenty-six (26) weeks. In addition, participants receive continued medical and dental coverage, provided that such participants pay the regular employee co-payments, for the period the cash severance benefits are payable. A participant's right to continue to receive medical or dental coverage ceases immediately if such participant is offered or becomes eligible for coverage under a medical or dental plan of any subsequent employer.

The Debtors intend to continue the Broad Severance Plan after the **Reorganization** Effective Date.

(h) Retiree Medical Programs

In 1992, the Company, pursuant to a resolution of its Board of Directors, terminated its then existing post-retirement medical, dental and life insurance coverage on a going-forward basis, but grandfathered the coverage of those individuals who were generally either then (i) retired, (ii) eligible for early retirement or (iii) specifically designated by the Board of Directors as eligible to continue to receive such post-retirement coverage. Currently, the Company provides post-retirement medical, and in certain cases, dental and life insurance coverage to a small population of its retired employees and only two (2) active employees are eligible to receive post-retirement benefits in the future.

Throughout the course of these Chapter 11 Cases, the Company has generally provided two different levels of post-retirement medical, dental and life insurance coverage depending upon the beneficiary's position. ~~Former~~**A small group of former** senior executives of the Company, commonly referred to as "core retirees" because of the senior positions they held with the Company~~,~~ (as well as their eligible dependents) ~~are entitled to~~**receive** coverage that generally covers the full cost of reasonable and customary medical, dental and vision care expenses (the "Core Retiree Program"). In certain instances, core retirees are required to pay a contribution for such coverage equal to the contributions for active senior executives. Upon attainment of age 65, the Core Retiree Program becomes coordinated with Medicare, which becomes the primary insurer. Typically the Company will reimburse participants for their Medicare Part B premiums. Certain core retirees ~~are~~ also ~~entitled to~~**receive** life insurance coverage that is commonly equal to two (2) times such retiree's annual base salary and bonus.

Certain other retirees of the Company (as well as their eligible dependents) ~~are entitled to~~**receive** coverage that generally covers a portion of the cost for medical, and in some instances dental, expenses (the "Non-Core Retiree Program," and together with the Core Retiree Program, the "Retiree Medical Programs") at the same levels as for similarly situated active employees. Such retirees are generally responsible for paying a monthly contribution for coverage under the Non-Core Retiree Program, the amount of which is reviewed periodically by the Company and remains subject to change to reflect increased costs of such coverage. Upon attainment of age 65, the Non-Core Retiree Program is coordinated with Medicare, which becomes the primary insurer. Certain retirees who participate in the Non-Core Retiree Program ~~are~~ also ~~entitled to~~**receive** varying levels of term life insurance coverage.

The Company is in the process of adjusting certain of the post-retirement medical benefits it currently provides to retirees pursuant to the Core Retiree Program. Please see Section VII.E.~~8~~ **8** hereof for a discussion of such adjustments, as well as the Debtors' general intentions with respect to the Retiree Medical Programs and life insurance coverage following the **Reorganization** Effective Date.

(i) Employment Agreements

Pursuant to applicable provisions of the Bankruptcy Code, the Plans currently contemplate the rejection of all ~~existing~~ prepetition employment agreements **(excluding collective bargaining agreements)**.

(j) Workers' Compensation Program

The Debtors currently maintain workers' compensation programs in all states in which they operate pursuant to the applicable requirements of local law to provide employees with workers' compensation coverage for claims arising from or related to their employment with the Debtors. Until October 2002, Debtor's workers' compensation program was part of a larger insurance program that has been in place since August 1985 (the former workers' compensation program). Under the former workers' compensation program, the insurer provided coverage to workers asserting claims arising from or related to their employment by Debtors or former affiliates of these Debtors. Through payment agreements between Debtor and the insurer, Debtor reimbursed the insurer for certain amounts as required by the terms of the policies. The Debtor's obligation to reimburse these amounts was secured through letters of credit and a bond. In October 2002, Debtor's workers' compensation program changed. The current workers' compensation program is secured by cash and a letter of credit.

The current workers' compensation program expires in October 2003. Debtors are currently considering renewal options. At all times, Debtors will maintain workers' compensation coverage for claims as required by applicable state law.

C. ~~C.~~ Recent Financial Results

Set forth in Exhibit ~~F~~**J** are the following selected historical financial statements for the Company: (i) audited statements of consolidated operations and comprehensive loss for the years ended December 31, 2002, 2001 and 2000 and unaudited statements of consolidated operations and comprehensive loss for the six and three month periods ended June 30, 2003 and 2002; (ii) audited consolidated balance sheets as of December 31, 2002 and 2001 and unaudited consolidated balance sheets as of June 30, 2003; (iii) audited statements of shareholders' equity (deficit) for the years ended December 31, 2002, 2001 and 2000 and unaudited statements of shareholders' equity

(deficit) for the six-month period ended June 30, 2003; and (iv) audited statements of consolidated cash flows for the years ended December 31, 2002, 2001 and 2000 and unaudited statements of consolidated cash flows on a consolidated basis for the six-month periods ended June 30, 2003 and 2002.

The notes that accompany the financial statements attached were replicated from the Form 10-K Annual Report for the period ended December 31, 2002 and the Form 10-Q Quarterly Report for the period ended June 30, 2003.

Covanta filed a voluntary petition for reorganization relief under chapter 11 of the Bankruptcy Code in April 2002. Since that time, the Company's consolidated financial statements, including those attached hereto in Exhibit ~~F~~**J**, have been prepared in accordance with The American Institute of Certified Public Accountants Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"), on a going concern basis. Continuing as a going concern contemplates continuity of operations, realization of assets, and payment of liabilities in the ordinary course of business. The accompanying consolidated financial statements appropriately do not reflect adjustments that might result if the Company is unable to continue as a going concern.

SOP 90-7 requires the segregation of liabilities subject to compromise by the Court as of the bankruptcy filing date, and identification of all transactions and events that are directly associated with the reorganization of the Company. Accordingly, all prepetition liabilities believed to be subject to compromise have been segregated in the consolidated balance sheet and classified as liabilities subject to compromise, at the estimated amount of allowable claims. Liabilities not believed to be subject to compromise are separately classified as current and non-current. Revenues, expenses, including professional fees, realized gains and losses, and provisions for losses resulting from the reorganization are reported separately.

In addition, pursuant to SOP 90-7, the accounting for the effects of the reorganization will occur once the Plans are confirmed by the Court and there are no remaining contingencies material to completing the implementation of the respective Plans. These "fresh start" accounting principles pursuant to SOP 90-7 provide, among other things, for the Company to determine the value to be assigned to the equity of the ~~reorganized~~**Reorganized** Company as of a date selected for financial reporting purposes. Accordingly, the accompanying consolidated financial statements do not reflect: (a) the requirements of SOP 90-7 for fresh start accounting; (b) the realizable value of assets on a liquidation basis or their availability to satisfy liabilities; (c) aggregate prepetition liability amounts that may be allowed for unrecorded claims or contingencies, or their status or priority; (d) the effect of any changes to the Debtors' capital structure or in the Debtors' business operations as the result of an approved plan of reorganization or liquidation; or (e) adjustments to the carrying value of assets (including goodwill and other intangibles) or liability amounts that may be necessary as the result of future actions by the Court.

IV. PREPETITION CAPITAL STRUCTURE OF THE DEBTORS

Prior to the Initial Petition Date, the Company's capital structure consisted primarily of: its common stock and its Series A Cumulative Convertible Preferred Stock (which was listed on the New York Stock Exchange under the ticker symbol COV); letters of credit issued under the Master Credit Facility, of which approximately $105.2 million had been funded; $100 million of 9.25% Debentures due 2022; $63.7 million of 5.75% Convertible Debentures due 2002; $85 million of 6% Convertible Debentures due 2002; and project-level debt consisting primarily of revenue bonds.

A. Prepetition Credit Facility

The Company entered into the Master Credit Facility with its bank group on March 14, 2001. The Master Credit Facility provided the Company with a credit line of approximately $799 million, which consisted of a $146 million secured revolving loan and coverage for $633 million in letter of credit exposure, and coverage for other contingent liabilities, principally in connection with various entertainment and energy facilities.

The Master Credit Facility was secured by a first priority lien on substantially all of the assets of Covanta and**, to the extent permitted,** substantially all of the assets of its existing and future domestic subsidiaries, and by a pledge of 100% of the shares of substantially all of Covanta's existing and future domestic subsidiaries, and 65% of the shares of substantially all of Covanta's foreign subsidiaries.

In conjunction with the Master Credit Facility, the Company also entered into the Intercreditor Agreement with the "pooled" lenders participating fully in the Master Credit Facility and certain "opt-out" lenders who elected not to participate in the Master Credit Facility, but agreed to extend the maturity dates of their facilities and to conform relevant financial covenants to those under the Master Credit Facility. The Intercreditor Agreement, among other things, set forth certain priorities amongst the lenders and established certain arrangements including loss sharing arrangements and ratable paydowns among the various lenders. **More specifically, in the event certain secured pre-Master Credit Facility lenders exchanged or realized their collateral for less than the amount due, a portion of that deficiency is entitled to priority payment before any payments are made to the main lender group. The deficiency would become a "realized deficiency" creating an entitlement for the relevant lenders to a priority payment from any repayment to the main lender group. Under the Intercreditor Agreement, such ratable paydowns are "Senior Obligations", and the main lender group agrees that their claims are junior and subordinate to the Senior Obligations, and that no lender in the main lender group shall accept any distribution, payment or exchange at any time when any of the Senior Obligations are outstanding.**

As of the Initial Petition Date, approximately $105.2 million of funded debt with respect to two funded letters of credit was outstanding under the Master Credit Facility, as well as approximately $518 million in contingent letters of credit. After the Initial Petition Date, an additional $125.1 million of the letters of credit were drawn and $76.1 million of claims arose in connection with other contingent liabilities covered by the Master Credit Facility. On May 15, 2002, pursuant to the Final DIP Order (defined below), $240.8 million of the outstanding letters of credit were replaced with letters of credit issued under the DIP Financing Facility (defined below). The Master Credit Facility was scheduled to mature on May 31, 2002. **After deducting the letters of credit that were replaced under the DIP Financing Facility, the Debtors estimate that approximately $434 million is owed under the Master Credit Facility (including fees and interest).**

B. 9.25% Debentures due 2022

In March 1992 the Company issued and sold $100 million in aggregate principal amount of the 9.25% Debentures. The 9.25% Debentures were issued pursuant to an Indenture dated as of March 1, 1992 between Ogden Corporation and The Bank of New York, as Trustee. Wells Fargo is the current Trustee for the 9.25% Debentures.

The proceeds from the 9.25% Debentures were used to reduce outstanding indebtedness and for general corporate purposes.

On May 15, 2002, pursuant to the Final DIP Order (Docket No. 311), the Debtors, the Prepetition Lenders, and the Informal Committee ~~of 9.25% Debenture Holders~~ stipulated that the claims of the holders of 9.25% Debentures were secured claims. On August 6, 2002, the Creditors Committee filed an adversary proceeding challenging the status of the liens securing the 9.25% Debentures. For a more detailed discussion of the adversary proceeding **and the proposed 9.25% Settlement**, see Section VI.~~D~~C.11.

C. Convertible Debentures

In 1987, the Company issued and sold $85 million in aggregate principal amount of 6% convertible subordinated debentures due June 1, 2002 (the "6% Convertible Debentures"). The 6% Convertible Debentures were registered and sold in a public offering. They were issued in bearer form (the "6% Convertible Bearer Debentures") and in fully registered form (the "6% Convertible Registered Debentures"). The 6% Convertible Bearer Debentures are dated June 18, 1987 and each 6% Convertible Registered Debentures is dated the date of its authentication. Deutsche Bank Trust Company is the fiscal agent for all the 6% Convertible Debentures pursuant to a fiscal agency agreement dated June 1, 1987. The proceeds from the 6% Convertible Debentures were used to reduce outstanding indebtedness and for general corporate purposes. The 6% Convertible Debentures are

convertible into Covanta common stock at the rate of one share for each $39.077 principal amount of debentures, and are redeemable at Covanta's option at 100% of face value.

In 1987, the Company issued and sold $75 million in aggregate principal amount of 5.75% convertible subordinated debentures due October 20, 2002 (the "5.75% Convertible Debentures"). The 5.75% Convertible Debentures were registered and sold in a public offering. They were issued in bearer form (the "5.75% Convertible Bearer Debentures") and in fully registered form (the "5.75% Convertible Registered Debentures"). The 5.75% Convertible Bearer Debentures are dated October 20, 1987 and each 5.75% Convertible Registered Debentures is dated the date of its authentication. Deutsche Bank Trust Company is the fiscal agent for all the 5.75% Convertible Debentures, pursuant to a fiscal agency agreement dated October 15, 1987. The proceeds from the 5.75% Convertible Debentures were used for general corporate purposes. The 5.75% Convertible Debentures are convertible into Covanta common stock at the rate of one share for each $41.772 principal amount of debentures, and are redeemable at Covanta's option at 100% of face value. Prior to 1998, the Company purchased on the open market and subsequently cancelled $11.3 million of the 5.75% convertible debentures.

D. Project Debt

The project debt associated with the financing of the Company's ~~waste-to-energy~~**WTE** facilities is generally arranged by the relevant municipality through the issuance of tax-exempt and taxable revenue bonds. For those ~~waste-to-energy~~**WTE** facilities owned by an operating subsidiary of the Company, the relevant municipality generally is obligated to pay amounts to Covanta's operating subsidiary sufficient to cover debt service on project debt. Generally, such project debt is secured by the revenues pledged under the respective indentures and is collateralized by the assets of Covanta's operating subsidiary and otherwise provides no recourse to Covanta, subject to construction and operating performance guarantees and commitments.

E. Equity Bonds

Certain non-project tax-exempt bonds (the "Equity Bonds") in the aggregate amount of approximately $126 million were issued by five separate Debtor subsidiaries ~~to~~**of** Covanta. Covanta arranged for liquidity and credit support for each Equity Bond in the form of letters of credit that were issued under the Master Credit Facility. Shortly after the Initial Petition Date, the obligations under each of the Equity Bonds were accelerated and the bondholders were paid with the proceeds of draws on the applicable letters of credit. The amount of those draws represents prepetition secured debt of the Company.

F. Equity

Covanta had 49,827,651 shares of common stock and 33,049 shares of Series A cumulative convertible preferred stock outstanding as of June 30, 2002. The Company's shares were traded on the New York Stock Exchange under the symbol "COV" until April 1, 2002. The removal from listing and registration on the New York Stock Exchange became effective at the opening of the trading session of May 17, 2002 pursuant to the order of the SEC.

V. CORPORATE STRUCTURE OF THE DEBTORS

A. The Debtors' Corporate Structure

Covanta is the parent holding company of the 150 debtor subsidiaries. Together with the Company's non-debtor subsidiaries, the Debtors develop, construct, own and operate for others key infrastructure for the conversion of ~~waste-to-energy, independent power production~~**WTE, IPP** and the treatment of ~~water and wastewater~~**Water** in the United States and abroad. Of the entities that have filed as Debtors, ~~88~~**80** will be reorganized pursuant to the Reorganization Plan ~~and 63~~**, six will be reorganized pursuant to the Heber Reorganization Plan, 64** will be liquidated pursuant to the Liquidation Plan**, and one will remain in bankruptcy and will attempt to subsequently consummate a restructuring transaction**. The Reorganization Plan distinguishes between ~~four~~**three** categories of Debtors under such Plan: Covanta, the ultimate parent company; Operating Company Debtors, which are entities that own operating assets that will remain part of the Reorganizing Debtors' business after the **Reorganization**

Effective Date; **and** Intermediate Holding Company Debtors which own no assets other than stock of the Operating Company Debtors~~, and the~~**. The** Heber Debtors~~, who~~ **are Debtors that** own, directly or indirectly, certain businesses in connection with the Geothermal Projects.

B. Management of the Debtors

The current management team of Covanta is comprised of highly capable and seasoned professionals with substantial experience. The following contains brief background descriptions and lists the members of Covanta's management team as of September 8, 2003:

Name	**Position**
Scott G. Mackin	President and Chief Executive Officer
Bruce W. Stone	Senior Vice President, Business Development and Construction
Jeffrey R. Horowitz	Senior Vice President, General Counsel and Secretary
Anthony J. Orlando	Senior Vice President, Business and Financial Management
John M. Klett	Senior Vice President, Domestic Operations
William J. Keneally	Senior Vice President and Chief Accounting Officer
Paul B. Clements	Senior Vice President, International Business Management and Operations
B. Kent Burton	Senior Vice President Policy and International Government Relations
Stephen M. Gansler	Senior Vice President, Human Resources
Louis M. Walters	Vice President and Treasurer
Timothy J. Simpson	Vice President, Associate General Counsel
Seth Myones	Vice President, Business Management, Covanta Waste to Energy, Inc.

Scott G. Mackin has served as President and Chief Executive Officer of Covanta since September 1999. Prior thereto he served as Executive Vice President of Covanta from January 1997 to September 1999 and as President and Chief Operating Officer of Covanta Energy Group, Inc., a Covanta subsidiary, since January 1991. Mr. Mackin joined the Company in 1986.

Bruce W. Stone was named Senior Vice President, Business Development and Construction in March 2003. From January 2001 until March 2003, Mr. Stone served as Covanta's Executive Vice President and Chief Administrative Officer. Previously, Mr. Stone served as Executive Vice President and Managing Director of Covanta Energy Group, Inc., a Covanta subsidiary, a position he held starting in January 1991. Mr. Stone joined the Company in 1975.

Jeffrey R. Horowitz was named Senior Vice President, General Counsel and Secretary of Covanta in August 2001. From June 2001 to August 2001, Mr. Horowitz served as Senior Vice President for Legal Affairs and Secretary and prior to that time as Executive Vice President, General Counsel and Secretary of Covanta Energy Group, Inc, a Covanta subsidiary. Mr. Horowitz joined the Company in 1991.

Anthony J. Orlando was named Senior Vice President, Business and Financial Management in March 2003. From January 2001 until March 2003, Mr. Orlando served as Covanta'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 the Company in 1987.

John M. Klett was named Senior Vice President, Domestic Operations 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 has been responsible for all Covanta Waste to Energy, Inc. facility operations and maintenance. Mr. Klett joined the Company in 1986.

William J. Keneally was named Senior Vice President and Chief Accounting Officer of Covanta in April, ~~2002. Mr. Keneally~~**2002, the year he** joined the Company~~ in 2002.~~**.**

Paul B. Clements was named Senior Vice President, International Business Management and Operations in March 2003. From January 2001 until March 2003, Mr. Clements served as Covanta's Senior Vice President, Independent Power Operations. Mr. Clements previously served as Executive Vice President of Covanta Energy Group, Inc., and President of Covanta Energy West, Inc., both of which are Covanta subsidiaries. Mr. Clements joined the Company in 1988.

B. Kent Burton has served as Senior Vice President - Policy and International Government Relations of Covanta since May 1999. From May 1997 to May 1999 he served as Vice President - Policy and Communications of Covanta and prior thereto he served as Senior Vice President of the Covanta Energy Group, Inc., a Covanta subsidiary, in political affairs and lobbying activities. Mr. Burton joined the Company in 1997.

Stephen M. Gansler was named Senior Vice President, Human Resources of Covanta in March 2003. Mr. Gansler joined the Company in 2001 and served as Vice President, Human Resources of Covanta from March 2001 to March 2003. ~~Mr. Gansler joined the Company in 2001.~~

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

Timothy J. Simpson has served as Vice President, Associate General Counsel and Assistant Secretary of Covanta Energy Corporation 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 the Company in 1992.

Seth Myones has 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 the Company's ~~waste to energy~~**WTE** business. Mr. Myones joined the Company in 1989.

VI. THE CHAPTER 11 CASES

A. Events Leading Up to the Chapter 11 Cases

Prior to September 1999, Covanta had incurred very substantial obligations to financial institutions for letters of credit, including particularly obligations relating to the Corel Centre and Arrowhead Pond (together, the "Arenas"). In February 2000, while it was working to sell its aviation and entertainment assets, the Company also began to negotiate with its lenders. The Company had approximately $140 million of funded debt, as well as exposure to significant additional contingent liabilities arising from the outstanding letters of credit. By the third quarter of 2000, it reached agreement on principal terms with its key lenders. However, delays ensued in completing the Master Credit Facility, principally due to complicated intercreditor issues pertaining to certain liabilities, including certain of those in connection with its entertainment businesses. In March 2001, the Company paid ~~the~~**then** funded debt in full and completed and entered into the Master Credit Facility, in which, among other things, it agreed to maintain stated liquidity levels and to discharge or otherwise provide for its obligations with its banks by May 31, 2002. The Company planned thereafter to seek debt or equity financing from the capital markets in 2001 and to complete the sales of its remaining entertainment and aviation businesses.

At the time the Master Credit Facility was executed, Covanta believed that it would be able to meet the liquidity covenants in the Master Credit Facility, timely discharge its obligations on maturity of the Master Credit Facility and repay or refinance the Convertible Debentures from cash generated by operations, the proceeds from the sale of its non-core businesses and access to the capital markets.

Shortly after the Master Credit Facility was executed, however, the State of California's energy crisis escalated. As of March 31, 2001, Covanta had outstanding approximately $74 million of gross accounts receivable from the California electric utilities, including Pacific Gas & Electric Company, which filed for bankruptcy on April 6, 2001. The delay in payment of these receivables forced the Company to request waivers from the banks from

cash flow covenants. These were granted in consideration of the elimination of access to letters of credit for the Company's core operations in the event of a credit rating agency downgrade below investment grade. In addition, beginning in June 2001, there was a growing belief in the equity markets that the power industry was substantially overbuilt, that demand for new facilities would drop and that energy prices would erode. These factors, along with reductions in energy prices in various regions of the United States, contributed to a downturn in the market for new issues of energy company securities.

B. Need for Restructuring and Chapter 11 Relief

In mid-to-late 2001, Covanta began a wide-ranging review of strategic alternatives given the very substantial maturities of debt in 2002. To this end, in the last six months of 2001 and the first quarter of 2002, Covanta sought potential minority equity investors, conducted a broad-based solicitation for indications of interest in acquiring Covanta among potential strategic and financial buyers and investigated a combined private and public placement of equity securities. These efforts were made more difficult by the December 2, 2001 bankruptcy filing by Enron Corporation (with certain of its subsidiaries and affiliates), at the time the largest energy company in the United States in terms of market capitalization. The Enron bankruptcy, although caused by very different factors than those impacting Covanta, highlighted the significant downturn in the energy sector during 2001, with a significant negative effect on the credit and equity markets for energy companies. Although Covanta had been seeking either to be acquired or to obtain a sizable equity investment, equity investment, no potential acquirer or investor was prepared at that time to commit to a transaction, in particular given the sizable financial obligations regarding the Company's remaining entertainment operations. Furthermore, the sale of certain non-core assets was progressing more slowly and yielding substantially less proceeds than had been anticipated.

On December 21, 2001, in connection with a further amendment to the Master Credit Facility, Covanta issued a press release stating its need for further covenant waivers and that it was encountering difficulties achieving access to short-term liquidity. Following this release, Covanta's debt rating by Moody's and Standard & Poor's was reduced below investment grade on December 27, 2001 and January 16, 2002, respectively. These downgrades further adversely impacted Covanta's access to capital markets. They also triggered Covanta's contingent obligations to provide $100 million in additional letters of credit in connection with two ~~waste-to-energy~~**WTE** projects, and the draw during March of 2002 of approximately $105.2 million in letters of credit related to the Centre and the Team. In addition, Covanta was facing the maturity of the 6% Convertible Debentures in June 2002 and the 5.75% Convertible Debentures in October 2002. On March 1, 2002, Covanta availed itself of the 30-day grace period provided under the terms of the 9.25% Debentures, and did not make the interest payment due at that time.

On April 1, 2002, Covanta and 123 of its domestic subsidiaries filed their respective voluntary petitions for reorganization under the Bankruptcy Code in the Court. Since April 1, 2002, thirty-one (31) additional subsidiaries have filed petitions for reorganization under Chapter 11 of the Bankruptcy Code. In addition, four (4) subsidiaries involved in the aviation fueling business that had filed petitions on April 1, 2002 were sold as part of the Company's disposition of non-core assets, are no longer owned by the Company and the bankruptcy cases filed by these four (4) entities have been dismissed. While the Debtors are authorized to operate in the ordinary course of business, transactions out of the ordinary course of business require Court approval. In addition, the Court has supervised the Debtors' retention of attorneys, accountants, financial advisors and other professionals as required by the Bankruptcy Code.

An immediate effect of the filing of the Debtors' bankruptcy petitions was the imposition of the automatic stay under section 362(a) of the Bankruptcy Code which, with limited exceptions, enjoined the commencement or continuation of all collection efforts by creditors, the enforcement of liens against property of the Debtors and the continuation of litigation against the Debtors. This relief provided the Debtors with the "breathing room" necessary to assess and reorganize its business. The automatic stay remains in effect, unless modified by the Court or applicable law, until the Effective ~~Date~~**Dates** of the Plans.

C. Significant Events During the Bankruptcy Cases

1. Significant Court Orders

The Debtors have obtained numerous orders from the Court that are intended to enable the Debtors to operate in the normal course of business during the Chapter 11 Cases. Among other things, these orders authorize: (i) the retention of professionals to represent and assist the Reorganizing Debtors, Heber Debtors and the Liquidating Debtors in these Chapter 11 Cases, (ii) the use and operation of the Debtors' consolidated cash management system during the Chapter 11 Cases in substantially the same manner as it was operated prior to the commencement of the Chapter 11 Cases, (iii) the payment of prepetition employee salaries, wages, health and welfare benefits, retirement benefits and other employee obligations, (iv) the payment of prepetition obligations to certain critical vendors to aid the Debtors in maintaining the operation of their businesses, (v) the use of cash collateral and the grant of adequate protection to creditors in connection with such use, (vi) the adoption of certain employee benefit plans, including a key employee retention plan and a broad-based severance plan, and (vii) the obtaining of postpetition financing.

2. DIP Financing Facility

In connection with their bankruptcy petitions, the Debtors entered into a Debtor In Possession Credit Agreement with the DIP Lenders as of April 1, 2002 (as amended from time to time, the "DIP Financing Facility"). On April 5, 2002, the Court issued an interim order (Docket No. 65), approving the DIP Financing Facility and on May 15, 2002, a final order approving the DIP Financing Facility (Docket No. 311) (the "DIP Final Order"). Following significant litigation, on August 2, 2002, the Court issued an order (Docket No. 733), that overruled objections by holders of minority interests in two Debtor limited partnerships who disputed the inclusion of the limited partnerships in the DIP Financing Facility. Although the holders of such interests at one of the limited partnerships appealed the order, they reached an agreement with the Company that in effect deferred the appeal. The DIP Financing Facility's current terms are described below.

The DIP Financing Facility consisted initially of a $48.2 million tranche to be utilized for cash borrowings, subject to availability within advance limits in effect from time to time and the issuance of new letters of credit ("Tranche A") and an approximately $240.8 million tranche to be used solely to continue, replace, reissue or renew certain outstanding letters of credit from the Master Credit Facility ("Tranche B"). The DIP Financing Facility is secured by all of the Company's domestic assets not subject to liens of others, 100% of the stock of most of Covanta's domestic subsidiaries and 65% of the stock of certain of its foreign subsidiaries. Obligations under the DIP Financing Facility were granted senior status to other prepetition secured claims and the DIP Financing Facility became the operative debt agreement with Covanta's bank lenders. Currently the DIP Financing Facility expires on ~~October 1, 2003. The Debtors expect the maturity date to be extended through~~ April 1, 2004.

On September 26, 2003, one of the Comapany's insurance providers, AIG, submitted draw notices for two Tranche B letters of credit under the DIP Financing Facility, in a total amount of $22,472,040. To the Debtors' knowledge, the draw notices have not yet been honored but the Debtors expect that they will be honored shortly. The Debtors believe that they will be able to fulfil their reimbursement obligations under the DIP Financing Facility.

(a) First Amendment to Intercreditor Agreement

In conjunction with the DIP Financing Facility, the Company also entered into an amendment of the Intercreditor Agreement with the DIP Lenders and certain other lenders (the "Intercreditor Amendment"), dated as of April 1, 2002. The Intercreditor Amendment, among other things, included new definitions and conforming changes corresponding to the DIP Financing Facility and the chapter 11 filings, and modified certain arrangements and formulas established with respect to distribution of the collateral to various lenders and lender groups.

(b) First Amendment to DIP Financing Facility

On April 1, 2002, the Debtors and the DIP Lenders entered into an amendment to the DIP Financing Facility (the "First Amendment") that provided for, among other things, the designation of the letters of credit associated with the Equity Bonds as "Non-Rolled Tranche B Letters of Credit," and as such, prepetition secured obligations. The First Amendment also provided for the designation of obligations concerning the loss sharing arrangements under the Intercreditor Amendment, which were initially considered Tranche A obligations, as "Tranche C Obligations" and as such, prepetition obligations. The DIP Lenders' commitment amount under Tranche A was reduced to reflect such designation.

(c) Second Amendment to DIP Financing Facility

On May 10, 2002, the Debtors and the DIP Lenders entered into the second amendment to the DIP Financing Facility ~~(the "Second Amendment")~~ that provided for, among other things, the approval of the monthly budget and the Final Borrowing Order of the Court.

(d) Third Amendment to DIP Financing Facility

On October 4, 2002, the Debtors and the DIP Lenders entered into the third amendment to the DIP Financing Facility (the "Third Amendment") that provided for, among other things, reduction of the advance limit for cash borrowings to $14 million~~,~~ **and** approval for the payment of the expenses and fees incurred by the ~~official committee of creditors~~**Creditors Committee**. The Third Amendment also provided for certain insurance premium financing arrangements, for the commencement of voluntary bankruptcy proceedings by Ogden Spain, S.A., for the liquidation of Ogden Entertainment Services of Spain and for the approval of certain designated non-material asset sales. Certain modifications to the agreements relating to the Tampa Bay Water Project were also allowed under the Third Amendment, as were reductions in the "Advance Limits" schedule to the DIP Financing Facility, providing the monthly limitations of the amounts available for borrowing under Tranche A.

(e) Fourth Amendment to DIP Financing Facility

On December 10, 2002, the Debtors and the DIP Lenders entered into the fourth amendment to the DIP Financing Facility (the "Fourth Amendment") that provided for, among other things, approval of certain transactions relating to the cancellation of the $5.3 million letter of credit issued by Covanta to support certain obligations at the MCI Center, a multi-purpose arena located in Washington D.C. The Fourth Amendment also provided for the acknowledgement of the superior priority of a tax lien by Lake County, Florida on property held by Covanta Lake, and for the release of prepetition liens upon the sale of the remaining Aviation Fueling Assets, and for additional investments in the Trezzo (Italy) Waste-to Energy Project.

(f) Fifth Amendment to DIP Financing Facility

On December 18, 2002, the Debtors and the DIP Lenders entered into the fifth amendment to the DIP Financing Facility that provided for, among other things, approval of the participation of the Debtors in a tax transaction relating to the Team. (This tax transaction was never completed.)

(g) Sixth Amendment to DIP Financing Facility

On March 25, 2003, the Debtors and the DIP Lenders entered into the sixth amendment to the DIP Financing Facility (the "Sixth Amendment") that provided for, among other things, the extension of the termination date of the DIP Financing Facility through October 1, ~~2003 (the Company expects this date to be further extended through April 1, 2004)~~ **2003.** The Sixth Amendment provided for a reduction in the "Tranche A Letter of Credit Sublimit" from $14,200,000 to $12,200,000. It also allowed for the release of prepetition liens upon the sale of the Island Power Corporation ~~and~~**,** permitted Covanta to engage in certain tax related restructurings**, and permitted the rejection, if necessary, of contracts related to Covanta Tulsa, Inc**.

(h) *Seventh Amendment to DIP Financing Facility*

On May 23, 2003, the Debtors and the DIP Lenders entered into the seventh amendment to the DIP Financing Facility that provided for, among other things, approval for the restructuring of the obligations relating to the Hennepin ~~waste-to-energy~~**WTE** project and to permit amendments to the corresponding Tranche A and Tranche B Letters of Credit.

(i) *Eighth Amendment to DIP **Financing** Facility*

On August 25, 2003, the Debtors and the DIP Lenders entered into the eighth amendment to the DIP Financing Facility that provided for, among other things, approval of the sale of the Corel Centre.

(j) ***Ninth Amendment to DIP Financing Facility***

On September 15, 2003, the Debtors and the DIP Lenders entered into the ninth amendment to the DIP Financing Facility that provided for, among other things, the extension of the termination date of the DIP Financing Facility to April 1, 2004 and approval of the Onondaga County, New York restructuring (described in Section VI.C.10).

3. *Adequate Protection*

In addition to the various provisions discussed above, the Final DIP Order provides that, in respect of only the Prepetition Liens, the Prepetition Lenders are granted adequate protection in the event that there is any postpetition diminution in the value of their respective interests the Prepetition Collateral resulting from (i) the Debtors' granting of priming liens on and security interests in the Prepetition Collateral in favor of the DIP Agents and DIP Lenders, (ii) the Debtors use of the Prepetition Lenders' cash collateral, the use of the Prepetition Collateral (other than the cash collateral), and (iii) the imposition of the automatic stay. Such adequate protection consists of the following:

(a) The Prepetition Agents and the Prepetition Lenders are granted valid, perfected and non-voidable replacement security interests in and liens upon (the "Replacement Liens") all property of each of the Debtors, and all proceeds and products thereof. The Replacement Liens are subject to certain carve-outs~~,~~**:** the liens granted pursuant to the Final DIP Order to the DIP Agents to secure the obligations of the Debtors under the DIP Financing Facility, valid, enforceable, perfected and non-voidable liens and security interests that existed on the Initial Petition Date (other than the Prepetition Liens and the Project Replacement Liens); and each estate's interest in the proceeds of any avoidance action pursuant to sections 544 to 550 of the Bankruptcy Code.

(b) The Prepetition Agents and the Prepetition Lenders are granted superpriority claims with priority over all administrative expenses ordered pursuant to the Bankruptcy Code, other than fees and expenses arising under section 726(b) of the Bankruptcy Code which are less than $1 million in aggregate. Such superpriority status is subject only to the superpriority claims granted to DIP Agents and DIP Lenders in respect of the obligations of the Debtors under the DIP Financing Facility; each estate's interest in the proceeds of any avoidance action pursuant to sections 544 to 550 of the Bankruptcy Code; and certain carve-outs.

(c) The Debtors are authorized and directed to pay in cash on a monthly basis all reasonable accrued fees and all costs, charges and expenses of Akin, Gump, Strauss, Hauer & Feld, L.L.P and Raymond James & Co. (subsequently replaced by Jeffries & Co.), in their respective capacity as advisors to the ~~informal committee of Debenture Holders~~**Informal Committee** and Wells Fargo Bank Minnesota, N.A., in its capacity as indenture trustee for the 9.25% Debentures and Dorsey & Whitney, in its capacity as counsel to the Indenture Trustee, in connection with the Chapter 11 Cases, on the same terms and conditions that apply to the DIP Lenders.

In addition, by order dated May 13, ~~2002,~~**2002 (Docket No. 287),** General Electric Capital Corporation and certain of its affiliates (collectively ~~"~~**"**GECC~~"~~**"**) was granted adequate protection in the event that there is any postpetition diminution in the value of its interests in property (including cash collateral) used by the Debtors post-petition. Among other things, GECC generally was granted valid, perfected and non-voidable replacement security

interests in and liens upon all property of each of the Debtors in which GECC held a security interest pre-petition, subject to certain carve-outs; ~~the Debtor Heber Field Company~~**HFC One Seller** was required to make monthly payments to GECC consisting of (i) all interest owed to GECC under its pre-petition agreements with GECC, and (ii) 33.33% of monthly cash flow in excess of certain operating and other expenses; the ~~Debtor Second Imperial Geothermal~~**SIGC Project** Company~~, L.P.~~ was required to make most payments required under its pre-petition agreements with GECC (with certain limited exceptions); and the Debtors were authorized and directed to reimburse GECC for its reasonable legal expenses.

4. Assumption and Rejection

As debtors in possession, the Debtors have 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.

During these Chapter 11 Cases, the Debtors obtained several orders of the Court either assuming, or assuming and assigning, certain executory contracts and unexpired leases. For example, in connection with the sale of the Aviation Fueling Assets, on December 18, 2002, the Court entered an order (Docket No. 1203), assigning certain contracts and leases relating to that business to Allied Aviation Holdings, Inc., the purchaser of the Aviation Fueling Assets. Pursuant to the order approving the sale, the Debtors were relieved of any liability for breach of any such assigned contract, whether occurring before or after such assignment.

The Court has also entered orders authorizing the rejection of certain contracts. For example, the Debtors rejected the lease relating to its former headquarters at 2 Penn Plaza in New York, New York and rejected a number of contracts related to a construction project in Nevada.

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 ~~Section 9~~**Article IX** of the ~~Reorganizing~~**Reorganization Plan, Article IX of the Heber Reorganization** Plan and ~~Section~~**Article ~~8~~VIII** of the Liquidating Plan. **With respect to** Reorganizing Covanta and certain other Reorganizing Debtors listed on Schedule 9.1A of the Reorganization Plan, on the **Reorganization** Effective Date all executory contracts and unexpired leases shall be deemed rejected other than those executory contracts or unexpired leases that are specifically designated as assumed on the Rejecting Debtors' Schedule of Assumed Contracts and Leases (to be filed prior to the **Plans** Confirmation Hearing), or as otherwise provided in Section 9.1(a) of the Reorganization Plan. For the ~~Heber Debtors and the~~ Reorganizing Debtors listed on Schedule 9.1B of the Reorganization Plan, on the **Reorganization** Effective Date all executory contracts and unexpired leases shall be deemed assumed other than those executory contracts or unexpired leases that are specifically designated as rejected on the Assuming Debtors' Schedule of Rejected Contracts and Leases (to be filed prior to the **Plans** Confirmation Hearing), or as otherwise provided in Section 9.1(b) of the Reorganization Plan.

For the Heber Debtors, on the Heber Effective Date, all Heber Debtor Contracts, including the Heber Debtor Contracts identified on Exhibit B attached thereto and the mineral rights leases and related agreements identified on Exhibit C attached thereto, shall be deemed assumed by the relevant Heber Debtor, except as otherwise provided in Article IX of the Heber Reorganization Plan. Certain of the Debtor Sellers and certain of the Debtor Operators are also parties, along with the Heber Debtors, to certain of the Heber Debtor Contracts or parties to various other contracts relating to the Geothermal Business. Such Additional Contracts are identified on Exhibit D attached to the Heber Reorganization Plan. In accordance with section 365(f) of the Bankruptcy Code, upon the Heber Effective Date, the Additional Contracts shall be assumed and assigned to the Proposed Buyers pursuant to the terms of the Heber Purchase Agreement or a Heber Alternative Transaction. In addition, upon the Heber Effective Date, the Debtor Operators shall assign to the Proposed Buyers the O&M Contracts identified on Exhibit E.

For Liquidating Debtors, on the **Liquidation** Effective Date all executory contracts and unexpired leases shall be deemed rejected other than those executory contracts or unexpired leases that are specifically designated on Schedule 8 of the Liquidation Plan, or as otherwise provided in Section 8 of the Liquidation Plan.