

Dynegy Acquisition, Inc.
Form S-4/A
January 16, 2007
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As filed with the Securities and Exchange Commission on January 16, 2007

Registration No. 333-139221

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 1 TO
FORM S-4

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

DYNEGY ACQUISITION, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction
of incorporation or organization)*

4911
*(Primary Standard Industrial
Classification Code Number)*
1000 Louisiana Street, Suite 5800

20-5653152
*(I.R.S. Employer
Identification Number)*

Houston, Texas 77002

(713) 507-6400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

J. Kevin Blodgett, Esq.

General Counsel, EVP Administration & Secretary

1000 Louisiana Street, Suite 5800

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Houston, Texas 77002

(713) 507-6400

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Class A Common Stock, par value of \$0.01 per share	444,859,587 shares ⁽¹⁾	\$ 6.78 ⁽³⁾	\$ 3,016,148,000 ⁽³⁾	\$ 322,728 ⁽³⁾⁽⁵⁾
	96,891,014 shares ⁽²⁾	\$ 4.63 ⁽⁴⁾	\$ 448,605,395 ⁽⁴⁾	\$ 48,001 ⁽⁴⁾⁽⁵⁾

- Represents the maximum number of shares of the Class A common stock of Dynegy Acquisition, Inc. (New Dynegy) estimated to be issuable upon the completion of the Merger Agreement Transactions (as defined in the accompanying prospectus) in respect of the maximum number of shares of Dynegy Inc. (Dynegy) Class A common stock estimated to be outstanding immediately prior to the completion of the Merger (as defined in the accompanying prospectus). Pursuant to the Merger Agreement, each share of Dynegy Class A common stock outstanding at the effective time of the Merger will be exchanged for one share of the Class A common stock of New Dynegy.
- Represents the maximum number of shares of the Class A common stock of New Dynegy estimated to be issuable upon the completion of the Merger Agreement Transactions to the holder of Dynegy Class B common stock based on the 96,891,014 shares of Dynegy Class B common stock outstanding as of December 5, 2006. Pursuant to the Merger Agreement, each share of Dynegy Class B common stock outstanding at the effective time of the Merger will be exchanged for one share of the Class A common stock of New Dynegy.
- Pursuant to Rules 457(c) and 457(f)(1) under the Securities Act of 1933, as amended, the registration fee for the shares of the Class A common stock of New Dynegy to be issued in respect of the shares of Dynegy Class A common stock is based on (i) the average of the high and low sales prices of Dynegy Class A

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common stock, as reported on the New York Stock Exchange on December 1, 2006, of \$6.78 per share and (ii) the estimated maximum number of shares of the Class A common stock of Dynege that may be exchanged for the Class A common stock of New Dynege being registered, including the shares of Dynege Class A common stock reserved for issuance pursuant to Dynege's incentive plans as of December 5, 2006.

- (4) Pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended, the registration fee for the 96,891,014 shares of the Class A common stock of New Dynege to be issued to the holder of Dynege Class B common stock is based on the book value of Dynege's Class B common stock as of September 30, 2006 of approximately \$4.63 per share.
- (5) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary proxy statement/prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary proxy statement/prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any state or jurisdiction where the offer or sale is not permitted.

Preliminary Copy Subject To Completion, Dated January 16, 2007

MERGER PROPOSED YOUR VOTE IS IMPORTANT

To our shareholders:

I am pleased to invite you to attend the special meeting of shareholders of Dynegy Inc. (Dynegy) to be held on March , 2007, at :00 a.m., local time, at , Houston, Texas 77002. At the special meeting, you will be asked to consider and vote on a proposal to adopt the merger agreement that Dynegy entered into with, among others, LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Equity Partners, L.P. and LS Power Associates, L.P. as of September 14, 2006, and to approve the merger contemplated by such merger agreement.

If the transactions contemplated by the merger agreement are completed, you will receive one share of the Class A common stock of a new company, currently named Dynegy Acquisition, Inc. and which we refer to as New Dynegy, for each share of Dynegy s common stock held by you immediately prior to the effective time of the merger. Upon the completion of these transactions, New Dynegy s Class A common stock will be listed on the New York Stock Exchange (the NYSE) under the symbol DYN, which is the symbol under which Dynegy s current Class A common stock is traded on the NYSE.

This proxy statement/prospectus describes these transactions and provides specific information concerning the special meeting. You are encouraged to read this entire document carefully.

If you do not submit your proxy, vote in person or instruct your broker or bank how to vote, it will have the same effect as voting AGAINST the adoption of the merger agreement and the approval of the merger.

Sincerely,

Bruce A. Williamson

Chairman and Chief Executive Officer

Dynegy Inc.

For a discussion of certain risk factors that you should consider in evaluating the transactions contemplated by the merger agreement and an investment in New Dynegy s common stock, see Risk Factors beginning on page 18.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this proxy statement/prospectus or passed on the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

We may amend or supplement this proxy statement/prospectus from time to time by filing amendments or supplements as required.

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This proxy statement/prospectus is dated _____, 2007, and is first being mailed to Dynege's shareholders on or about _____, 2007.

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD MARCH 15, 2007

To our shareholders:

Dynegy Inc. ("Dynegy") will hold a special meeting of its shareholders on March 15, 2007 at 10:00 a.m., local time, at 77002, Houston, Texas 77002, to consider and vote on a proposal to adopt the merger agreement, dated as of September 14, 2006, by and among Dynegy, Dynegy Acquisition, Inc. ("New Dynegy"), Falcon Merger Sub Co. ("Merger Sub"), LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Equity Partners, L.P. and LS Power Associates, L.P. ("LS Associates" and, collectively, the "LS Contributing Entities") and to approve the merger of Merger Sub with and into Dynegy. The merger agreement contemplates, among other transactions, that:

Merger Sub, a new wholly owned subsidiary of New Dynegy, will merge with and into Dynegy, as a result of which Dynegy will become a wholly owned subsidiary of New Dynegy;

each share of Dynegy's common stock outstanding immediately prior to the merger will be converted into the right to receive one share of the Class A common stock of New Dynegy pursuant to the merger;

contemporaneously with the merger, the LS Contributing Entities will transfer all of the interests owned by them in entities that own 11 power generation projects to New Dynegy in exchange for (i) 340 million shares of the Class B common stock of New Dynegy, (ii) \$100 million in cash and (iii) \$275 million in aggregate principal amount of junior unsecured subordinated notes of New Dynegy; and

LS Associates will transfer its interests in certain power generation development projects to a newly formed limited liability company (the "Development LLC") and, in connection with the completion of the merger, will contribute 50% of the membership interests in the Development LLC to New Dynegy; after the completion of the merger, LS Associates and New Dynegy intend to contribute their respective interests in certain additional power generation development projects to the Development LLC.

Upon the completion of these transactions, Dynegy's shareholders, in the aggregate, will hold approximately 60%, and the LS Contributing Entities will hold approximately 40%, of the outstanding common stock of New Dynegy, and New Dynegy will assume approximately \$1.9 billion of net debt (debt less restricted cash and investments) of the Contributed Entities (as of September 30, 2006).

A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A. The certificate of incorporation and bylaws of New Dynegy to be in effect following the merger are set forth as Annex B and Annex C, respectively, to this proxy statement/prospectus.

The board of directors of Dynegy has approved the merger agreement and the related transactions and has determined that the transactions, including the merger, are advisable and in the best interests of Dynegy and its shareholders. The board of directors of Dynegy recommends that you vote FOR the adoption of the merger agreement and the approval of the merger.

Only Dynegy's shareholders of record at the close of business on March 15, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. No business other than the proposal described in this notice will be considered at the special meeting or any adjournment or postponement thereof. A complete list of Dynegy's shareholders of record entitled to vote at the special meeting will be available for inspection at the special meeting.

Your vote is very important, regardless of the number of shares you own. Dynegy cannot complete these transactions, including the merger, unless the merger agreement is adopted and the merger is approved by the affirmative vote of two-thirds of the issued and outstanding shares of (i) Dynegy's Class A common stock voting as a class, (ii) Dynegy's Class B common stock voting as a class and (iii) Dynegy's Class A common

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stock and Class B common stock voting together as a class. Please submit your proxy as soon as possible to make sure that your shares are represented at the special meeting.

You have the right to dissent and obtain the estimated fair value of your shares after the merger is completed if you do not vote in favor of the transaction and you follow required procedures explained under The Merger Rights of Dynege's Shareholders Dissenting from the Merger Agreement and the Merger Proposal.

For your shares to be voted, you may complete, sign, date and return the enclosed proxy card or you may submit your proxy by telephone or over the Internet. If you are a holder of record, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. **If you do not submit your proxy, vote in person or instruct your broker or bank how to vote, it will have the same effect as voting AGAINST the adoption of the merger agreement and the approval of the merger.**

By Order of the Board of Directors,

J. Kevin Blodgett

, 2007

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Dynegy from other documents that are not included in or delivered with this proxy statement/prospectus. The Securities and Exchange Commission (the SEC) maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information regarding registrants, like Dynegy, that file reports with the SEC electronically. The SEC's website address is <http://www.sec.gov>. You may also read and copy any document Dynegy files with the SEC at the SEC's public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. The information Dynegy files with the SEC and other information about Dynegy is also available on Dynegy's website at <http://www.dynegy.com>. However, the information on Dynegy's website is not a part of, nor incorporated by reference into, this proxy statement/prospectus. For a listing of the documents incorporated by reference, please see Where You Can Find More Information.

You can also obtain those documents incorporated by reference in this proxy statement/prospectus without charge by contacting Dynegy at:

Dynegy Inc.

1000 Louisiana Street, Suite 5800

Houston, Texas 77002

(713) 507-6400

Attention: Investor Relations Department

In order to ensure timely delivery of requested documents, any request should be made at least five business days prior to the date on which an investment decision is to be made and, in any event, no later than March 1, 2007, which is five business days prior to the special meeting.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

The following questions and answers are intended to briefly address some frequently asked questions regarding the Merger (as defined below) and the other transactions (together with the Merger, the Merger Agreement Transactions) contemplated by the Merger Agreement (as defined below). They should be read together with the section entitled Summary. These questions and answers may not address all questions that may be important to you as a shareholder of Dynegy Inc. (Dynegy). You are urged to read this entire proxy statement/prospectus carefully and the other documents to which Dynegy and New Dynegy (as defined below) refer you.

Q: When and where is the special meeting?

A: The special meeting will take place on March , 2007, at :00 a.m., local time, at , Houston, Texas 77002.

Q: What am I being asked to vote on?

A: You are being asked to vote to adopt the Plan of Merger, Contribution and Sale Agreement (the Merger Agreement), dated as of September 14, 2006, by and among Dynegy, Dynegy Acquisition, Inc. (New Dynegy), Falcon Merger Sub Co. (Merger Sub), LSP Gen Investors, L.P. (Gen Investors), LS Power Partners, L.P. (LS Partners), LS Power Equity Partners PIE I, L.P. (PIE), LS Power Associates, L.P. (LS Associates) and LS Power Equity Partners, L.P. (LS Equity Partners and, collectively with Gen Investors, LS Partners, PIE and LS Associates, the LS Contributing Entities) and approve the Merger (as defined below). The Merger Agreement contemplates, among other transactions, that:

Merger Sub, a new Illinois corporation and a wholly owned subsidiary of New Dynegy, will merge with and into Dynegy (the Merger), as a result of which Dynegy will become a wholly owned subsidiary of New Dynegy;

each share of Dynegy s common stock outstanding immediately prior to the Merger will be converted into the right to receive one share of the Class A common stock of New Dynegy pursuant to the Merger;

the LS Contributing Entities will transfer all of the interests (the Contributions) owned by them in entities that own 11 power generation projects (the Contributed Entities) to New Dynegy in exchange for (i) 340 million shares of the Class B common stock of New Dynegy, (ii) \$100 million in cash and (iii) \$275 million in aggregate principal amount of junior unsecured subordinated notes of New Dynegy (the New Dynegy Notes); and

LS Associates will transfer its interests in certain power generation development projects to a newly formed limited liability company (the Development LLC) and, in connection with the completion of the Merger, will contribute 50% of the membership interests in the Development LLC to New Dynegy; subsequent to the completion of the Merger, LS Associates and New Dynegy intend to contribute their respective interests in certain additional power generation development projects to the Development LLC. Upon the completion of the Merger Agreement Transactions, Dynegy s shareholders, in the aggregate, will hold approximately 60%, and the LS Contributing Entities will hold approximately 40%, of the outstanding common stock of New Dynegy, and New Dynegy will assume approximately \$1.9 billion of net debt (debt less restricted cash and investments) of the Contributed Entities (as of September 30, 2006).

You are only being asked to vote on adoption of the Merger Agreement and the approval of the Merger. You are not being asked to vote on any other of the Merger Agreement Transactions, including the Contributions by the LS Contributing Entities of the Contributed Entities and the anticipated post-Merger contributions by LS Associates and New Dynegy of their respective interests in certain power generation development

projects to the Development LLC. However, because the Merger Agreement Transactions are

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an integral part of the Merger Agreement and the Merger, a vote FOR or AGAINST the adoption of the Merger Agreement and the approval of the Merger will have the effect of approving or disapproving (as the case may be) all of the Merger Agreement Transactions.

Moreover, you are not being asked to vote on the transactions contemplated by the Kendall Agreement (as defined and described beginning on page 185), which will be completed if the Merger Agreement Transactions are not completed. Thus, a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger will not prevent the completion of the transactions contemplated by the Kendall Agreement.

For a more detailed discussion about the Merger, please see The Merger.

Q: What will I receive in the Merger?

A: You will receive one share of New Dynegy's Class A common stock for each share of Dynegy common stock you hold, unless you do not vote to adopt the Merger Agreement and approve the Merger and you exercise and perfect your dissenters' rights under Illinois law. See The Merger Rights of Dynegy's Shareholders Dissenting from the Merger Agreement and Merger Proposal.

Q: Why is Dynegy's board of directors (the Dynegy Board) recommending that I vote FOR the adoption of the Merger Agreement and the approval of the Merger?

A: The Dynegy Board believes that the Merger will provide substantial strategic and financial benefits to Dynegy's shareholders, employees and customers, including:

increased fuel and dispatch diversity of the combined generation portfolios, and in particular, the opportunity to transform the Dynegy portfolio from one with cash flows primarily provided by coal-fired assets and, to a lesser extent, gas-fired peaking assets, to a New Dynegy portfolio with significant cash flows provided by both the existing Dynegy assets as well as efficient gas-fired intermediate-load assets with significant forward contracts. The Dynegy Board believed that stronger and more stable cash flows, and therefore greater financial stability, would result from the combination than could have been achieved from the existing Dynegy portfolio.

increased geographic diversity, particularly through the expansion of Dynegy's Northeast portfolio and the acquisition of a significant portfolio of power generation facilities in the Western United States. The Dynegy Board believed that such increased geographic diversity would be beneficial due to anticipated continued power demand growth in the Northeast and West.

the acquisition of both a portfolio of development projects that could provide future growth to New Dynegy, including the acquisition of the LS Power Group's approximately 40% undivided interest in the Plum Point power generation facility (Plum Point), a large-scale greenfield coal-fired generation facility under construction in Arkansas, and access to the development expertise of the LS Contributing Entities, a power project developer with a proven track record. The Dynegy Board did not believe that Dynegy, as a stand-alone entity, had this level of capability to develop greenfield projects, and believed that it was unlikely that Dynegy could obtain that capability on better terms than through the Development LLC.

immediate improvement to financial measurements tied to cash flow, which the Dynegy Board believed would be viewed favorably by the capital markets.

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the benefits of consolidation to participants in the merchant power generation industry, consisting primarily of greater portfolio diversification and economies of scale. The Dynegy Board believed that New Dynegy should be better positioned to participate in further potential sector consolidation than Dynegy, as a stand-alone entity, would be.

the ability to use stock as a significant part of the transaction consideration, resulting in an improved credit profile. The Dynegy Board believed that New Dynegy's quantitative and qualitative credit

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characteristics, including its ratio of debt to capital, funds flow ratio and the predictability of its cash flow, would represent an improvement over Dynege's current credit characteristics.

the terms of the current shareholder agreement with Chevron U.S.A. Inc. (Chevron) and the resulting impact of the Merger Agreement Transactions on Chevron's share ownership. As a result of the Merger Agreement Transactions, Chevron will hold shares of New Dynege's Class A common stock and will no longer have the special shareholder rights it currently has in Dynege. This was viewed to be beneficial because Dynege sold its natural gas liquids business in 2005, and thus Dynege's business, and New Dynege's business in the future, were no longer as consistent with Chevron's business objectives as in the past.

the tax-free nature of the Merger Agreement Transactions to Dynege's shareholders. The Merger will not result in any adverse tax consequences to a Dynege shareholder that does not have certain unusual tax attributes.

For a more detailed discussion about the Dynege Board's reasons for the Merger, please see The Merger Recommendation of the Dynege Board; Reasons of Dynege for the Merger Agreement Transactions.

Q: Are there any important risks related to the Merger or New Dynege's business of which I should be aware?

A: Yes, there are important risks involved. Before making any decision on whether and how to vote, Dynege urges you to read carefully and in its entirety the section entitled Risk Factors beginning on page 18.

Q: Who will manage New Dynege after the Merger?

A: Dynege's chairman and chief executive officer, Bruce A. Williamson, along with the other members of Dynege's current executive management team and Jason Hochberg, a current executive with the LS Power Group, will lead New Dynege. See Directors and Management of New Dynege.

Q: When do Dynege, New Dynege and the LS Contributing Entities expect to complete the Merger Agreement Transactions?

A: Assuming that the Merger Agreement and the Merger are approved and adopted by Dynege's shareholders and all conditions to the completion of the Merger Agreement Transactions are satisfied, the Merger Agreement Transactions are expected to be completed immediately after the special meeting of the shareholders.

Q: Who is entitled to vote at the special meeting?

A: Dynege's shareholders as of the close of business on _____, 2007, which is the record date for the special meeting, are entitled to vote at the special meeting. As of _____, 2007, there were _____ shares of Dynege's Class A common stock and 96,891,014 shares of Dynege's Class B common stock issued and outstanding and entitled to be voted at the special meeting.

Each share of Dynege's common stock outstanding on the record date will entitle its holder of record on such date to one vote on the Merger Agreement and the Merger.

Q: Who can attend the special meeting?

A: Because of limited seating, only Dynegy's shareholders, their proxy holders and Dynegy's guests may attend the special meeting. If you plan to attend the special meeting, you must be a shareholder of record as of _____, 2007 or, if you have beneficial ownership of shares of Dynegy's common stock held by a bank, brokerage firm or other nominee, you must bring a brokerage statement or other evidence of your

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beneficial ownership of Dynege's common stock as of _____, 2007 to be admitted to the special meeting. For more detailed information about attending the special meeting, please see The Special Meeting Special Meeting Attendance.

Q: What shareholder approvals are needed to approve the proposal?

A: The adoption of the Merger Agreement and the approval of the Merger require the affirmative vote of two-thirds of the issued and outstanding shares of (i) Dynege's Class A common stock voting as a class, (ii) Dynege's Class B common stock voting as a class and (iii) Dynege's Class A and Class B common stock voting together as a class.

Pursuant to the voting agreement, dated as of September 14, 2006, by and among Chevron and certain of the LS Contributing Entities, Chevron has agreed to vote its shares of Dynege's Class B common stock in favor of the Merger Agreement and the Merger. Chevron is the holder of all of the issued and outstanding shares of Dynege's Class B common stock. As of November 30, 2006, the shares of Dynege's Class B common stock held by Chevron represented approximately 19.4% of Dynege's outstanding common stock. In addition, Dynege's executive officers have agreed to vote their shares of Dynege's common stock in favor of the Merger Agreement and the Merger. As of November 30, 2006, Dynege's executive officers had the right to vote less than 1% of the shares of Dynege's common stock outstanding and entitled to vote at the special meeting.

Q: What happens if I sell my shares of Dynege's common stock before the special meeting?

A: The record date for the special meeting is _____, 2007. If you transfer your shares of Dynege's common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting but will transfer the right to receive one share of New Dynege's Class A common stock for each share of Dynege's common stock you hold (if the Merger is completed) to the person to whom you transfer your shares.

Q: If I would like to submit a proxy, what do I need to do now?

A: After carefully reading and considering the information contained in this proxy statement/prospectus, please submit your proxy as soon as possible so that your shares may be represented at the special meeting. If your shares are not held in _____ street name, which means your shares are not held of record by your broker, bank or other nominee, you can submit your proxy (i) by mail by completing, signing and dating the enclosed proxy card and mailing it in the enclosed postage-prepaid envelope for receipt prior to the date of the special meeting or (ii) by telephone or through the Internet until 11:59 p.m. Eastern Time on _____, 2007. Instructions for voting by telephone or through the Internet are contained on the enclosed proxy card.

Q: If my shares are held in _____ street name by my broker, will my broker vote my shares for me?

A: Your broker, bank or other nominee will vote your shares for you only if you provide instructions to it on how to vote. Any failure to instruct your nominee on how to vote with respect to the Merger Agreement and the Merger will have the effect of a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger. You should follow the directions your broker, bank or other nominee provides on how to instruct it to vote your shares. If your broker, bank or other nominee holds your shares and you wish to attend the special meeting, please bring a letter from your broker, bank or other nominee identifying you as the beneficial owner of the shares and authorizing you to vote at the special meeting.

Q: What if I fail to instruct my broker?

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- A. If you fail to instruct your broker to vote your shares of Dynegey's common stock and your broker submits an unvoted proxy, the resulting broker non-vote will have the same effect as a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger.

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Q: What do I do if I want to change my vote or vote in person?

A: You may revoke your vote at any time before the special meeting by:

executing and submitting a revised proxy (including by telephone or over the Internet);

sending written notice of revocation to Dynege's secretary at the address provided at the beginning of this proxy statement/prospectus; or

voting in person at the meeting.

Unless a proxy is properly revoked, shares represented by proxies will be voted at the meeting.

Q: What will happen if I do not send in my proxy or if I abstain from voting?

A: If you do not send in your proxy or if you abstain from voting, it will have the effect of a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger.

Q: Should I send in my stock certificates now?

A: No. If the Merger is completed and you hold stock certificates evidencing your shares of Dynege's common stock, New Dynege will send you written instructions for exchanging your Dynege stock certificates.

Q: How will Dynege solicit proxies?

A: Proxies may be solicited by mail or facsimile, or by Dynege's directors, officers or employees, without extra compensation, in person or by telephone. In addition, Dynege has retained The Altman Group to assist in the solicitation of proxies. Dynege will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of Dynege's common stock.

Q: What rights do I have to dissent from the Merger Agreement and the Merger?

A: If you do not vote in favor of the adoption of the Merger Agreement and the approval of the Merger and the Merger is completed, you may dissent and obtain payment for the estimated fair value of your shares under Illinois law. You must, however, comply with all of the required procedures explained under The Merger Rights of Dynege's Shareholders Dissenting from the Merger Agreement and Merger Proposal and in Annex F to this proxy statement/prospectus.

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Q: Who can help answer my questions?

A: If you have any questions about the special meeting or the Merger Agreement or the Merger Agreement Transactions, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card, you may contact:
Dynegy Inc.

1000 Louisiana Street, Suite 5800

Houston, Texas 77002

(713) 507-6400

Attention: Investor Relations Department

OR

The Altman Group

1200 Wall Street West, 3rd Floor

Lyndhurst, NJ 07071

(800) 311-8393

dyninfo@altmangroup.com

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SUMMARY

This summary is qualified in its entirety by the more detailed information included elsewhere in this proxy statement/prospectus. Because this is a summary, it may not contain all of the information that is material or important to you. You should read this entire proxy statement/prospectus carefully, including the section entitled Risk Factors, as well as Dynege's periodic and other reports filed with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act), before making a decision. See Where You Can Find More Information and Incorporation of Certain Documents by Reference.

We have provided definitions for the power industry terms used in this proxy statement/prospectus in the Glossary of Power Industry Terms beginning on page G-1.

The Companies

DYNEGY INC.

1000 Louisiana Street

Suite 5800

Houston, Texas 77002

(713) 507-6400

Dynege produces and sells electric energy, capacity and ancillary services in key U.S. markets. Dynege's power generation portfolio currently consists of approximately 12,000 megawatts of generating capacity from baseload, intermediate and peaking power plants fueled by a mix of coal, oil and natural gas. Dynege was incorporated in Illinois in 1999. Dynege's Class A common stock is listed on the New York Stock Exchange (the NYSE) under the symbol DYN.

LS CONTRIBUTING ENTITIES

1700 Broadway, 35th Floor

New York, New York 10019

(212) 615-3456

The LS Contributing Entities consist of LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Associates, L.P. and LS Power Equity Partners, L.P. The LS Contributing Entities are part of the LS Power Group, a leading privately held power plant investor, developer and manager. Founded in 1990, the LS Power Group is a fully integrated development, investment and asset management group of companies focused on the power industry. The LS Power Group's power generation portfolio consists of approximately 8,000 megawatts of generating capacity from primarily natural gas-fired power plants and a development portfolio of primarily coal-fired generation projects in various stages of development.

NEW DYNEGY (CURRENTLY NAMED DYNEGY ACQUISITION, INC.)

1000 Louisiana Street

Suite 5800

Houston, Texas 77002

(713) 507-6400

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New Dynege was formed in September 2006 as a Delaware corporation and is currently a wholly owned subsidiary of Dynege. To date, New Dynege has not conducted any activities other than those related to its formation and the completion of the Merger Agreement Transactions. Upon the completion of the Merger Agreement Transactions, New Dynege's name will be changed to Dynege Inc. and its Class A common stock will be listed on the NYSE under the symbol DYN, which is the symbol under which Dynege's Class A common stock is currently listed on the NYSE.

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Organization of New Dynege

The organizational structure of New Dynege will be included in the proxy statement/prospectus to be filed as part of an amendment to the registration statement of which this proxy statement/prospectus forms a part.

New Dynege's Business

General

Upon the completion of the Merger Agreement Transactions, New Dynege's primary business will be the production and sale of electric energy, capacity and ancillary services from its fleet of 30 power generation facilities, with approximately 20,000 MW of generating capacity, operating in 14 states.

In addition to its operating generation facilities, New Dynege will own all of the LS Contributing Entities' approximate 40% undivided interest in Plum Point, a new, 665 MW coal-fired plant under construction in Arkansas. Through its interest in the Development LLC, New Dynege will also own a 50% interest in a portfolio of greenfield development projects totaling more than 7,600 MW of generating capacity and repowering and/or expansion opportunities representing approximately 2,300 MW of generating capacity, thus providing New Dynege with meaningful organic growth prospects.

New Dynege's Competitive Strengths

After giving effect to the Merger Agreement Transactions, New Dynege believes that the key strengths of its business will include:

Scale and Diversity of Assets in Key Regions of the United States. A large portion of Dynege's generating capacity is coal-fired, while New Dynege will have a more balanced portfolio of facilities using coal, natural gas and fuel oil as fuel sources. New Dynege's portfolio will also be more balanced in terms of dispatch type, with a mix of baseload, intermediate and peaking facilities. The addition of the facilities operated by the Contributed Entities in the Western and Northeastern United States will provide greater geographical diversity to the combined power generation fleet. New Dynege should also be well positioned to meet market needs by providing a variety of electric energy, capacity and ancillary services through both short- and long-term arrangements.

Financial Stability. New Dynege will sell electric energy, capacity and ancillary services through a combination of bilateral negotiated forward contracts and spot transactions in regional central markets. New Dynege's commercial strategy will be to construct a balanced portfolio of spot, mid- and long-term sales arrangements. The expected cash flows produced by that mix of arrangements should be greater and more stable than those expected from Dynege and should better support the liquidity and capital needs inherent in New Dynege's debt maturity schedule and the timing of its expected capital expenditures. New Dynege should also have the opportunity to benefit from increasing commodity prices, whether as a result of short-term or long-term increases in demand.

Proven and Mature Asset Development Platform; Repowering and Expansion Opportunities. In addition to the interest in Plum Point, New Dynege expects to benefit from the growth prospects offered by several development activities initiated by the LS Contributing Entities. Dynege does not currently have the personnel and other resources required to undertake new greenfield development projects.

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New Dynege's Competitive Weaknesses

After giving effect to the Merger Agreement Transactions, New Dynege believes that the key weaknesses of its business will include:

Significant Debt Leverage. Although Dynege's capital structure and credit ratings are expected to improve as a result of the Merger Agreement Transactions, New Dynege will remain a highly-leveraged company and its credit ratings are expected to remain below investment grade. Furthermore, even after giving effect to the credit improvements that are anticipated to result from the Merger Agreement Transactions, New Dynege's access to capital markets may be limited, and its need for liquidity to meet collateral obligations will be determined in part by market prices for power and natural gas, which are beyond New Dynege's control and are uncertain.

Exposure to the Merchant Market. As is the case with Dynege, New Dynege will operate some of its facilities as merchant facilities without term power sales agreements. Although the addition of power-generation facilities with long-term power sales arrangements as part of the Merger Agreement Transactions makes New Dynege, as a whole, less susceptible to volatility in power and commodity prices than Dynege currently, New Dynege's revenues and profitability will still remain subject to such volatility to the extent power sales agreements are not in place with respect to portions of its generating capacity.

For further information regarding New Dynege's competitive weaknesses, please see Risk Factors.

Strategy

New Dynege expects that its business strategy will include the following:

Employ a Commodity Cyclical Business Model. New Dynege intends to optimize its ability to sell electricity and capacity into the spot and bilateral markets when pricing is most attractive. This strategy is expected to be achieved through a diverse portfolio of assets using a combination of spot market sales and term contracts that are intended to capture both short-term and long-term market opportunities.

Establish an Appropriate Capital Structure. New Dynege believes that the power industry is a commodity cyclical business with significant commodity price volatility and requiring considerable capital investment. New Dynege believes that maximizing economic returns in this market environment requires a capital structure that can withstand power price volatility as well as a commercial strategy that captures the value associated with both short-term and long-term price trends. New Dynege intends to employ a capital structure that is responsive to the market environment and its commercial strategy.

Focus on Operational Excellence. New Dynege will focus on maintaining and enhancing Dynege's operating track record through increased plant availability, higher dispatch and capacity factors and improved cost controls. New Dynege will also continue Dynege's commitment to operating its facilities in a safe, reliable and environmentally compliant manner.

Positioned for Regional Market Recovery. New Dynege will operate a balanced portfolio of generation assets that is diversified in terms of geography, fuel type and dispatch profile. As a result, New Dynege believes its substantial coal-fired, baseload fleet should continue to benefit from the impact of higher natural gas prices on power prices in the Midwest and Northeast, allowing it to capture greater margins, while New Dynege's efficient combined cycle units should provide meaningful cash flows and should benefit from improved margins as demand increases in the Western and New England markets.

The Merger and the Contributions

The Merger (Page 148)

As part of the Merger, Merger Sub, a new, wholly owned subsidiary of New Dynegey, will merge with and into Dynegey, as a result of which Dynegey will become a wholly owned subsidiary of New Dynegey.

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Dynege Shareholder Vote Required (Page 36)

The adoption of the Merger Agreement and the approval of the Merger will require the affirmative vote of two-thirds of the issued and outstanding shares of (i) Dynege's Class A common stock voting as a class, (ii) Dynege's Class B common stock voting as a class and (iii) Dynege's Class A common stock and Class B common stock voting together as a class. Each share of Dynege's common stock outstanding on the record date will entitle its holder of record on such date to one vote on the adoption of the Merger Agreement and the approval of the Merger.

What Dynege Shareholders Will Receive in the Merger (Page 148)

Upon completion of the Merger, each Dynege shareholder will be entitled to receive one share of Class A common stock, par value \$0.01 per share, of New Dynege for each share of common stock of Dynege owned by such shareholder immediately prior to the closing of the Merger. The shares of Dynege's outstanding Class B common stock, which are held by Chevron, will be exchanged for shares of New Dynege's Class A common stock upon completion of the Merger. The shares of New Dynege's Class A common stock issued to Dynege shareholders in connection with the Merger will constitute approximately 60% of the common stock of New Dynege that will be outstanding upon the completion of the Merger. Upon the completion of the Merger, New Dynege's Class A common stock will be listed on the NYSE under the symbol DYN, which is the symbol under which Dynege's Class A common stock is currently listed on the NYSE.

What the LS Contributing Entities Will Transfer to New Dynege (Page 148)

In connection with the completion of the Merger, the Contributions will be effected by or through:

the sale by the LS Contributing Entities to New Dynege of all of the outstanding equity interests in certain entities that collectively own an operating power plant in Kendall County, Illinois (known as Kendall) (the Kendall Interests), resulting in New Dynege owning the Kendall facility;

the transfer by the LS Contributing Entities to New Dynege of all of the equity interests in certain entities that collectively own nine other operating power plants (known as Ontelaunee, Moss Landing, Morro Bay, South Bay, Oakland, Arlington Valley, Griffith, Bridgeport and Casco Bay) (the Operating Entity Interests), resulting in New Dynege owning those operating power plants, located in Maine, Connecticut, Pennsylvania, Arizona and California;

the transfer by the LS Contributing Entities to New Dynege of all of the equity interests in certain entities that collectively own interests in a power plant being constructed in Osceola, Arkansas (known as Plum Point), resulting in New Dynege owning an approximately 40% undivided ownership interest in Plum Point (the Plum Point interests); and

the transfer by LS Associates to the Development LLC of all of the interests in certain entities that collectively own various power generation development projects (the Development Interests), and the contribution by LS Associates of 50% of the membership interests in the Development LLC to New Dynege, resulting in New Dynege owning a 50% interest in these power generation development projects through the Development LLC.

Following the completion of the Merger, LS Associates and New Dynege intend to contribute their interests in certain other development projects to the Development LLC.

What the LS Contributing Entities Will Receive from New Dynege for the Contributions (Page 149)

In connection with the Contributions, the LS Contributing Entities will receive 340 million shares of Class B common stock, par value \$0.01 per share, of New Dynege, which shares will represent approximately 40% of New Dynege's common stock that will be outstanding upon the completion of the Merger. The LS Contributing

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Entities will also receive an aggregate of \$100 million in cash and \$275 million in aggregate principal amount of the New Dynegy Notes. New Dynegy will have the right to repay the New Dynegy Notes at any time and may elect to do so in connection with the Merger or soon thereafter.

The Merger Agreement

The Merger Agreement, a summary of which is provided beginning on page 148 of this proxy statement/prospectus, is attached as Annex A to this proxy statement/prospectus. You are urged to read the entire Merger Agreement carefully.

Recommendation of Dynegy's Board of Directors (Page 41)

Dynegy's board of directors has unanimously determined that the Merger Agreement and the Merger Agreement Transactions are advisable, fair to and in the best interests of Dynegy's shareholders, and has unanimously approved the Merger Agreement and the Merger Agreement Transactions. Dynegy's board of directors recommends that you vote FOR the adoption of the Merger Agreement and the approval of the Merger.

Opinions of Financial Advisors (Page 43)

In connection with the Merger, Dynegy's board of directors received the written opinions of Credit Suisse Securities (USA) LLC (Credit Suisse) and Greenhill & Co., LLC (Greenhill), each dated September 14, 2006, which provided that, as of that date, and based upon and subject to the matters set forth in their respective opinions, the consideration to be received by the holders of Dynegy's Class A common stock in the Merger was fair, from a financial point of view, to the holders of Dynegy's Class A common stock.

The full text of the written opinions of Credit Suisse and Greenhill are attached hereto as Annex G and Annex H, respectively. The Credit Suisse and Greenhill opinions were provided to Dynegy's board of directors in connection with its evaluation of the consideration to be received by the holders of Dynegy's Class A common stock, do not address any other aspect of the Merger Agreement Transactions and are not recommendations as to how any holder of Dynegy's Class A common stock should vote with respect to the Merger Agreement and the Merger. You are urged to read these opinions, as well as the descriptions of the procedures followed, assumptions made, matters considered and limitations on the reviews undertaken set forth in the section entitled The Merger Opinions of Financial Advisors to Dynegy.

Material U.S. Federal Income Tax Consequences (Page 61)

The parties have structured the Contributions and the Merger to qualify as exchanges under Section 351 of the Internal Revenue Code of 1986, as amended (the Code). The conversion of Dynegy shares to New Dynegy shares will generally not be taxable to Dynegy's shareholders. The completion of the Merger Agreement Transactions (which include the Contributions and the Merger) is conditioned upon, among other things, the LS Contributing Entities receiving an opinion from Cravath, Swaine & Moore LLP regarding the tax treatment of the Merger Agreement Transactions as exchanges under Section 351 of the Code. You are urged to carefully review the discussion set forth under The Merger Material U.S. Federal Income Tax Consequences to Dynegy's Shareholders.

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Regulatory Approvals (Page 65)

Subject to the right, which will lapse on January 22, 2007, of third parties to file for a rehearing with the Federal Energy Regulatory Commission (the FERC) regarding its order, all regulatory approvals required for the Merger Agreement Transactions have been obtained. For further information regarding the submitted filings and the status of the required orders or approvals, see The Merger Regulatory Approvals.

New Dynege Certificate of Incorporation and Bylaws (Annexes B and C)

Effective upon the closing of the Merger Agreement Transactions, New Dynege's certificate of incorporation and bylaws will be amended (as amended, New Dynege's Certificate of Incorporation and New Dynege's Bylaws, respectively) to set forth certain rights, preferences, powers and restrictions of the capital stock of New Dynege and will govern certain aspects of the internal affairs of New Dynege. A summary of these rights is set forth in Other Agreements and Documents Certificate of Incorporation of New Dynege and Other Agreements and Documents Bylaws of New Dynege, respectively. New Dynege's Certificate of Incorporation and New Dynege's Bylaws, in the forms which give effect to the closing date amendments, are attached as Annex B and Annex C, respectively, to this proxy statement/prospectus. You are urged to read these documents, as they will govern your rights as a stockholder of New Dynege.

Dissenters' Rights of Dynege's Shareholders (Page 68)

Dynege's shareholders who do not vote to adopt the Merger Agreement and approve the Merger and who follow the procedures specified under the Illinois Business Corporation Act (the IBCA), which procedures are summarized on page 68 of this proxy statement/prospectus and set forth in their entirety in Annex F to this proxy statement/prospectus, shall have the right to dissent from the Merger Agreement and Merger and obtain payment for the estimated fair value of their shares of Dynege's common stock in the event of the completion of the Merger. Failure to vote against the adoption of the Merger Agreement and approval of the Merger will not waive a shareholder's dissenters' rights, as long as the shareholder has not voted in favor of adoption of the Merger Agreement and approval of the Merger and has complied in all other respects with the IBCA in preserving the shareholder's dissenters' rights.

Table of Contents**Index to Financial Statements****SUMMARY HISTORICAL AND UNAUDITED PRO FORMA CONDENSED****CONSOLIDATED/COMBINED FINANCIAL DATA****Summary Historical Consolidated Financial Data of Dynege**

The following summary historical consolidated financial data of Dynege as of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005 have been derived from Dynege's audited consolidated financial statements incorporated by reference herein. The following summary historical consolidated financial data of Dynege as of December 31, 2001, 2002 and 2003 and for the years ended December 31, 2001 and 2002 have been derived from Dynege's audited consolidated financial statements which are not included in, or incorporated by reference in, this proxy statement/prospectus. The following summary historical consolidated financial data of Dynege as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006 have been derived from Dynege's unaudited condensed consolidated financial statements incorporated by reference herein. Dynege's unaudited condensed consolidated financial statements were prepared on a basis consistent with that used in preparing its audited consolidated financial statements and include all material adjustments that, in the opinion of Dynege's management, are necessary for a fair presentation of Dynege's financial position and results of operations for the unaudited periods.

The summary historical consolidated financial data of Dynege set forth below should be read in conjunction with Dynege's Management's Discussion and Analysis of Financial Condition and Results of Operations and Dynege's historical consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, and in its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, each incorporated by reference herein. Historical results are not necessarily indicative of results that may be expected for any future period. Dynege's historical consolidated financial statements as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, were impacted by significant items in each of the years presented, which are summarized in Dynege's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, in Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Summary Financial Information. Dynege's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, includes restatements of (i) its consolidated balance sheet and consolidated statement of stockholders' equity as of December 31, 2005 and its consolidated statements of operations, cash flows and comprehensive income (loss) for the year ended December 31, 2005 and (ii) its consolidated balance sheet and consolidated statement of stockholders' equity as of December 31, 2004 and periods prior to 2004. These restatements are reflected in all periods presented herein. The historical results of Dynege and of the Contributed Entities are not necessarily indicative of the results that may be expected for New Dynege for any future period.

	2001	Year Ended December 31,			2005	Nine Months Ended September 30, 2005 2006 (unaudited)	
		2002	2003	2004		2005	2006
	(in millions, except per share data)						
Statement of operations data:							
Revenues	\$ 3,635	\$ 2,109	\$ 2,599	\$ 2,451	\$ 2,313	\$ 1,691	\$ 1,620
Depreciation and amortization expense	(368)	(378)	(373)	(235)	(220)	(165)	(174)
Goodwill impairment		(814)	(311)				
Impairment and other charges		(176)	(225)	(78)	(46)	(6)	(107)
General and administrative expenses	(385)	(297)	(315)	(330)	(468)	(421)	(160)
Operating income (loss)	823	(1,146)	(769)	(100)	(838)	(384)	79
Debt conversion expense							(249)
Interest expense	(201)	(241)	(503)	(453)	(389)	(284)	(310)
Income tax benefit (expense)	(320)	337	296	172	395	228	154
Income (loss) from continuing operations	423	(1,217)	(813)	(180)	(804)	(417)	(279)
Income (loss) from discontinued operations	(24)	(1,136)	81	165	912	209	3
Cumulative effect of change in accounting principles	2	(234)	40		(5)		1
Net income (loss)	401	(2,587)	(692)	(15)	103	(208)	(275)
Net income (loss) applicable to common shareholders	359	(2,917)	321	(37)	81	(225)	(284)

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	2001	Year Ended December 31,				Nine Months Ended September 30,	
		2002	2003	2004	2005	2005	2006
		(unaudited)					
	(in millions, except per share data)						
Basic earnings (loss) per share from continuing operations	\$ 1.17	\$ (4.23)	\$ 0.53	\$ (0.53)	\$ (2.13)	\$ (1.13)	\$ (0.65)
Diluted earnings (loss) per share from continuing operations	\$ 1.12	\$ (4.23)	\$ 0.50	\$ (0.53)	\$ (2.13)	\$ (1.13)	\$ (0.65)
Weighted average shares outstanding for basic EPS calculation	326	366	374	378	387	383	446
Weighted average shares outstanding for diluted EPS calculation	340	370	423	504	513	509	512

	As of December 31,					As of September 30,	
	2001	2002	2003	2004	2005	2006	
	(unaudited)						
	(in millions, except per share data)						
Balance sheet data:							
Current assets	\$ 8,944	\$ 7,574	\$ 3,074	\$ 2,728	\$ 3,706	\$ 1,616	
Current liabilities	8,538	6,748	2,450	1,802	2,116	888	
Property, plant and equipment, net	9,269	8,458	8,178	6,130	5,323	5,005	
Total assets	25,074	20,020	12,801	9,843	10,126	7,507	
Long-term debt (excluding current portion)	5,016	5,454	5,893	4,332	4,228	3,362	
Notes payable and current portion of long-term debt	458	861	331	34	71	48	
Total stockholders' equity	4,956	2,256	1,975	1,956	2,140	2,314	
Book value per basic shares outstanding (a)	\$ 13.92	\$ 6.06	\$ 5.24	\$ 5.12	\$ 5.32	\$ 4.63	

(a) Basic shares outstanding at December 31, 2001, 2002, 2003, 2004 and 2005 and at September 30, 2006 were approximately 356 million, 372 million, 377 million, 382 million, 402 million and 500 million, respectively.

Table of Contents**Index to Financial Statements****Summary Historical Combined Financial Data of the Power Generation Business of LS Power Development, LLC and Affiliates**

The following summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates as of December 31, 2005 and for the year ended December 31, 2005 have been derived from the audited historical combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in this proxy statement/prospectus. The following summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates as of December 31, 2004 and for the period from December 1, 2004 until December 31, 2004 have been derived from the unaudited historical combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in the proxy statement/prospectus. Also included are the unaudited predecessor financial statements for the periods from January 1, 2004 until November 30, 2004, January 1, 2003 to December 5, 2003, and December 6, 2003 to December 31, 2003. The following summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006 have been derived from the unaudited condensed combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in this proxy statement/prospectus.

The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flow of the Contributed Entities as described therein. The unaudited condensed combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates were prepared on a basis consistent with that used in preparing its audited combined financial statements and include all material adjustments that, in the opinion of the Contributed Entities management, are necessary for a fair presentation of the Contributed Entities financial position and results of operations for the unaudited periods.

The summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations of the Contributed Entities and the historical combined financial statements and the notes thereto of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in this proxy statement/prospectus. Because of the timing of acquisitions, period-to-period comparisons and analyses of financial condition and results of operations of the Power Generation Business of LS Power Development, LLC and Affiliates may not be helpful for understanding the financial and operational performance of the Contributed Entities as a whole. In particular, the financial condition, results of operations and cash flows of Ontelaunee and the LS Generation Facilities (as defined on page 115) have not been included in the combined financial statements of the Power Generation Business of LS Power Development and Affiliates as of any dates or for any periods prior to their acquisition by the LS Power Group.

	Period from January 1, 2003 to December 5, 2003 (unaudited)	Period from December 6, 2003 to December 31, 2003 (unaudited)	Period from January 1, 2004 through November 30, 2004 (unaudited)	Period from December 1, 2004 until December 31, 2004 (unaudited) (in millions)	Year Ended December 31, 2005	Nine Months Ended September 30,	
						2005 (unaudited)	2006 (unaudited)
Statement of operations data:							
Revenues	\$ 61	\$ 5	\$ 73	\$ 3	\$ 66	\$ 54	\$ 665
Depreciation expense	(23)	(1)	(14)		(7)	(4)	(33)
General and administrative expenses	(2)		(6)		(5)	(2)	(18)
Operating income (loss)	(210)	2	3		(6)	4	93
Interest expense	(21)	(2)	(34)	(4)	(57)	(34)	(105)
Net income (loss)	\$ (232)	\$	\$ (21)	\$ (2)	\$ (49)	\$ (17)	\$ 40

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	2003 (unaudited)	As of December 31, 2004 (unaudited)	2005	As of September 30, 2006 (unaudited)
	(in millions)			
Balance sheet data:				
Current assets	\$ 40	\$ 55	\$ 50	\$ 406
Current liabilities	476	9	158	121
Property, plant and equipment, net	558	142	349	2,145
Total assets	598	475	665	3,272
Long-term debt (excluding current portion)		439	401	2,172
Notes payable and current portion of long-term debt	457	1	145	31
Total owners' equity	\$ 2	\$	\$ 93	\$ 749

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Summary Unaudited Pro Forma Condensed Combined Financial Data of New Dynegy

The following summary unaudited pro forma condensed combined statement of operations data of New Dynegy for the year ended December 31, 2005 and for the nine months ended September 30, 2006 give effect to the Merger Agreement Transactions as if these transactions had been completed on January 1, 2005. The following summary unaudited pro forma condensed combined balance sheet data of New Dynegy as of September 30, 2006 give effect to the Merger Agreement Transactions as if these transactions had been completed on September 30, 2006.

The summary unaudited pro forma condensed combined financial data of New Dynegy for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006 are based on the unaudited pro forma condensed combined financial information set forth elsewhere in this proxy statement/prospectus. See Unaudited Pro Forma Condensed Combined Financial Information. Such financial data do not purport to reflect what New Dynegy's actual results of operations and financial position would have been had the Merger Agreement Transactions in fact occurred (i) as of January 1, 2005 (in the case of the unaudited pro forma condensed combined statement of operations data for the year ended December 31, 2005 and the nine months ended September 30, 2006) or (ii) as of September 30, 2006 (in the case of the unaudited pro forma condensed combined balance sheet data as of September 30, 2006), nor are they necessarily indicative of the results of operations that New Dynegy may achieve in the future.

The summary unaudited pro forma condensed combined financial data of New Dynegy set forth below should be read in conjunction with Dynegy's Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included in Dynegy's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, and in Dynegy's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, each incorporated by reference herein. The summary unaudited pro forma condensed combined financial data of New Dynegy set forth below should also be read in conjunction with Unaudited Pro Forma Condensed Combined Financial Information and the historical financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations of the Contributed Entities included herein. The historical results of Dynegy and of the Contributed Entities are not necessarily indicative of the results that may be expected for New Dynegy for any future period.

The pro forma financial information included herein does not include adjustments for any transactions other than the transactions contemplated by the Merger Agreement Transactions. During 2006, Dynegy executed various debt and equity transactions which are more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Dynegy's Quarterly Report on Form 10-Q for the period ended September 30, 2006. Additionally, the financial condition, results of operations and cash flows of Ontelaunee and the LS Generation Facilities have not been included in the combined financial statements of the Power Generation Business of LS Power Development and Affiliates as of any dates or for any periods prior to their acquisition by the LS Power Group.

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	Pro Forma Year Ended December 31, 2005	Pro Forma Nine Months Ended September 30, 2006
	(unaudited)	
	(in millions, except per share data)	
Statement of operations data:		
Revenues	\$ 2,345	\$ 2,264
Depreciation and amortization expense	(270)	(240)
Impairment and other charges	(46)	(107)
General and administrative expenses	(473)	(178)
Operating income (loss)	(859)	170
Debt conversion expense		(249)
Interest expense	(478)	(440)
Income tax benefit	417	165
Loss from continuing operations	(890)	(263)
Basic loss per share from continuing operations	\$ (1.25)	\$ (0.35)
Diluted loss per share from continuing operations	\$ (1.25)	\$ (0.35)
Weighted average shares outstanding for basic EPS calculation	727	786
Weighted average shares outstanding for diluted EPS calculation	853	852

	Pro Forma As of September 30, 2006
	(unaudited)
	(in millions, except per share data)
Balance sheet data:	
Current assets	\$ 1,884
Current liabilities	1,054
Property, plant and equipment, net	8,459
Goodwill	1,108
Total assets	12,820
Long-term debt (excluding current portion)	5,992
Notes payable and current portion of long-term debt	79
Total stockholders' equity	4,353
Book value per basic shares outstanding (a)	\$ 5.18

(a) Pro forma basic shares outstanding at September 30, 2006 were approximately 840 million.

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RISK FACTORS

Risks Related to the Merger

In addition to the other information included or incorporated by reference in this proxy statement/prospectus, Dynegy's shareholders should carefully consider the matters described below to determine whether to vote to adopt the Merger Agreement and approve the Merger. Many of the risks described below are present with Dynegy's current business activities and opportunities.

The value of the shares of New Dynegy's common stock that you receive upon the completion of the Merger may be less than the value of your shares of Dynegy's common stock as of the date of the Merger Agreement or on the date of the special meeting.

The exchange ratio of Dynegy common stock for New Dynegy Class A common stock in the Merger is fixed at one-to-one and will not be adjusted in the event of any change in the stock price of Dynegy or the value of the Contributed Entities before the Merger. The relative price of shares of Dynegy's common stock and the value of the Contributed Entities may vary significantly between the date of this proxy statement/prospectus, the date of the special meeting and the date of the completion of the Merger. These variations may be caused by, among other things, changes in the businesses, operations and results of Dynegy and the Contributed Entities, market expectations of the likelihood that the Merger will be completed and the timing of completion, the prospects of post-Merger operations, the effect of any conditions or restrictions imposed on or proposed with respect to New Dynegy by regulatory agencies and authorities, general market and economic conditions and other factors. In addition, it is impossible to predict accurately the market price of New Dynegy's common stock to be received by Dynegy's shareholders after the completion of the Merger. Accordingly, the price of Dynegy's common stock on the date of the special meeting may not be indicative of its price immediately before the completion of the Merger and the price of New Dynegy's common stock after the Merger is completed.

The anticipated benefits of combining Dynegy and the Contributed Entities may not be realized, and New Dynegy may face difficulties integrating the Contributed Entities' operations.

Dynegy and the LS Contributing Entities entered into the Merger Agreement with the expectation that the Merger would result in various benefits, including, among other things, synergies and operating efficiencies. However, the achievement of the anticipated benefits of the Merger, including the synergies, cannot be assured or may take longer than expected. In addition, New Dynegy may not be able to integrate the Contributed Entity's operations with Dynegy's existing operations without encountering difficulties, including inconsistencies in standards, systems and controls, and without diverting management's focus and resources from ordinary business activities and opportunities.

Dynegy will incur significant transaction and other related integration costs in connection with the Merger Agreement Transactions.

Dynegy and the LS Contributing Entities expect to incur costs associated with completing the Merger Agreement Transactions and integrating the operations of the two companies, as well as approximately \$45 million in transaction fees in the case of Dynegy, including certain fees and expenses of the LS Contributing Entities for which Dynegy has agreed to be responsible. The estimated \$45 million of transaction costs incurred by Dynegy will be included as a component of the purchase price for purposes of purchase accounting. The amount of transaction fees expected to be incurred by Dynegy is a preliminary estimate and is subject to change.

Dynegy and the Contributed Entities will be subject to business uncertainties and contractual restrictions in advance of the Merger, which could have a material adverse effect on their businesses.

Uncertainty about the effect of the Merger on customers or suppliers may have an adverse effect on Dynegy and the Contributed Entities and, consequently, on New Dynegy. These uncertainties could cause customers,

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suppliers and others that deal with Dynegy and the Contributed Entities to seek to change existing business relationships with Dynegy and the Contributed Entities. In addition, if key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain an employee of New Dynegy, New Dynegy's business could be materially affected. In addition, the Merger Agreement restricts Dynegy and the LS Contributing Entities, without the other party's consent, from making certain acquisitions and taking other specified actions until the Merger occurs or the Merger Agreement terminates. These restrictions may prevent Dynegy and the LS Contributing Entities from pursuing otherwise attractive business opportunities and making other changes to their businesses that may arise prior to completion of the Merger or termination of the Merger Agreement.

Dynegy may waive one or more of the conditions to the Merger Agreement that is important to you without your approval.

Each of the conditions to Dynegy's obligations to complete the Merger may be waived, in whole or in part, by Dynegy, to the extent permitted by applicable law. Dynegy's board of directors will evaluate the materiality of any waiver to determine whether amendment of this proxy statement/prospectus and resolicitation of proxies is necessary. If Dynegy's board of directors determines that a waiver is not significant enough to require resolicitation of its shareholders' proxies, it will have the discretion to complete the Merger without seeking further shareholder approval. See The Merger Agreement and Merger Agreement Transactions Merger Agreement Conditions. Because certain conditions may not be satisfied prior to the date of the special meeting, there is a risk that Dynegy's board of directors may waive a condition that is important to you without your approval.

Certain directors and executive officers of Dynegy may have interests in the Merger different from, or in addition to, the interests of other shareholders of Dynegy.

Certain of the directors and executive officers of Dynegy are parties to agreements or participate in other arrangements that give them interests in the Merger that are different from, or in addition to, your interests as a shareholder of Dynegy. In voting on the Merger Agreement and the Merger, you should consider whether these interests may have influenced the decisions of Dynegy's directors and executive officers in pursuing, executing, approving and recommending the Merger Agreement and the Merger. These different interests are described under The Merger Interests of Dynegy's Directors and Executive Officers in the Merger.

Risks Relating to the Business of New Dynegy

After completion of the Merger, New Dynegy will be subject to many risks and uncertainties. Many of these risks are substantially similar to the risks currently assumed by Dynegy. New Dynegy's risks and uncertainties include the following.

Future changes in commodity prices may materially adversely impact New Dynegy's financial condition, results of operations, cash flows and liquidity.

The price New Dynegy may be able to obtain for the sale of power may not rise at the same rate, or may not rise at all, to match a rise in fuel costs. New Dynegy's profitability will depend in large part on the difference between the price of power and the price of fuel used to generate power, or spark spread. Prices for both electricity and fuel have been very volatile in the past year, and the prices for electricity, coal, natural gas and oil are significantly higher than they were two years ago. New Dynegy will be required to prepay for, or post collateral with respect to, its fuel purchases and out-of-the-money contractual positions. Changes in market prices for natural gas, coal and oil may result from many factors, including the following:

weather conditions, including deviations from average temperatures and major weather events, such as hurricanes;

seasonality;

demand for energy commodities and general economic conditions;

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disruption of electricity, gas or coal transmission or transportation, storage, infrastructure or other constraints or inefficiencies;

the addition of new generating capacity or the retirement of existing generating capacity, or the temporary unavailability of generating capacity for maintenance and other reasons;

availability of competitively priced alternative energy sources;

availability and levels of storage and inventory for fuel stocks;

natural gas, oil, refined products and coal production levels;

the creditworthiness or bankruptcy or other financial distress of market participants;

changes in market liquidity;

natural disasters, wars, embargoes, acts of terrorism and other catastrophic events; and

federal, state and foreign governmental regulation and legislation, including regulatory-imposed price caps.

Adverse changes in market prices for fuel, and a resulting negative impact on market prices for power, could materially adversely impact New Dynege's financial condition, results of operations, liquidity and cash flows.

New Dynege's results of operations may be negatively affected by sustained downturns in the economy, which is beyond its control.

Declines in demand for electricity as a result of economic downturns in the markets in which New Dynege will operate may reduce overall electricity sales and lessen its cash flows.

Lower demand or lower prices for the electricity New Dynege will sell could result from multiple factors that affect the markets where New Dynege will sell electricity, including:

weather conditions, including abnormally mild winter or cool summer weather that causes lower energy usage for heating or cooling purposes, respectively;

supply of and demand for energy commodities;

general economic conditions, including downturns in the United States or other economies which impact energy consumption;

transmission or transportation constraints or inefficiencies that impact New Dynege's merchant energy operations;

availability of competitively priced alternative energy sources, which are preferred by some customers over electricity produced from coal, oil or gas plants, and of energy-efficient equipment which reduces energy demand;

natural gas, oil and other refined products production levels and prices;

electric generation capacity surpluses, which may cause New Dynegy's merchant energy plants to generate and sell less electricity at lower prices and may cause some plants to become non-economical to operate;

capacity and transmission service into, or out of, New Dynegy's markets;

natural disasters, acts of terrorism, wars, embargoes and other catastrophic events to the extent they affect New Dynegy's operations and markets; and

federal, state and foreign energy and environmental regulation and legislation.

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Because some of New Dynegy's power generation facilities will operate without term power sales agreements, and because wholesale power prices are subject to significant volatility, New Dynegy's revenues and profitability will be subject to significant fluctuations.

As is the case with Dynegy, New Dynegy will operate some of its facilities as merchant facilities without term power sales agreements. For those facilities without term power sales agreements, New Dynegy cannot be sure that it will be able to sell any or all of the electric energy, capacity or ancillary services from those facilities at commercially attractive rates or that those facilities will be able to operate profitably. This could lead to decreased financial results as well as future impairments of its property, plant and equipment or to the retirement of certain of its facilities, resulting in economic losses and liabilities.

When New Dynegy elects to sell electric energy, capacity and ancillary services into the wholesale energy spot market or into other power markets on a term basis, New Dynegy will not be guaranteed any rate of return on its capital investments. Rather, New Dynegy's financial condition, results of operations and cash flows are likely to depend, in large part, upon prevailing market prices for power and the fuel to generate such power. Wholesale power markets are subject to significant price fluctuations over relatively short periods of time and can be unpredictable.

Given the volatility of power commodity prices, to the extent that New Dynegy does not secure term power sales agreements for the output of its power generation facilities, its revenues and profitability will be subject to increased volatility, and its financial condition, results of operations and cash flows could be materially adversely affected.

New Dynegy's hedging activities will not fully protect it from exposure to commodity price risks, and it will be vulnerable to decreases in power prices and increases in the price of natural gas, coal and oil. To the extent New Dynegy does engage in hedging activities, its models representing the market may be inaccurate.

As is the case with Dynegy, since a substantial portion of New Dynegy's production capacity may not be hedged and will be subject to commodity price risks, New Dynegy has the potential to receive higher or lower prices for capacity, energy and ancillary services resulting in volatile revenue and cash flow. To the extent that New Dynegy's generated power is not subject to a power purchase agreement or similar arrangement, New Dynegy generally will pursue sales of such generated power based on market prices. Where forward sales are not executed, New Dynegy will be impacted by changes in commodity prices, and, in an environment where fuel costs increase and power prices decrease, New Dynegy's financial condition, results of operations and cash flows may be materially adversely affected. In those instances where New Dynegy does execute forward sales or related financial transactions, its internal models may not accurately represent the markets in which it will participate, potentially causing it to make less favorable decisions.

Unauthorized hedging and related activities by New Dynegy employees could result in significant losses.

New Dynegy intends to continue Dynegy's commercial strategy, which emphasizes forward power sales opportunities to capture attractive market prices in the near term. Since New Dynegy will have a portfolio of both hedged and unhedged assets, New Dynegy intends to adopt various internal policies and procedures, similar to those adopted by Dynegy, designed to monitor hedging activities and positions to ensure that it maintains an overall position that is substantially balanced between its physical assets as compared to its purchase and sales commitments. These policies and procedures will be designed, in part, to prevent unauthorized purchases or sales of products by New Dynegy employees. New Dynegy cannot assure, however, that these steps will detect and prevent all violations of its risk management policies and procedures, particularly if deception or other intentional misconduct is involved. A significant policy violation that is not detected could result in a substantial financial loss for New Dynegy.

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New Dynege will be exposed to the risk of fuel and fuel transportation cost increases and interruptions in fuel supplies because some of the facilities it will own do not have long-term coal, natural gas or liquid fuel supply agreements.

The fuel requirements for some of the power generation facilities New Dynege will own will be purchased under short-term contracts or on the spot market. As a result, New Dynege will face the risks of supply interruptions and fuel price volatility, as fuel deliveries may not exactly match that required for energy sales, due in part to the need to pre-purchase fuel inventories for reliability and dispatch requirements.

Moreover, operation of many of the coal-fired generation facilities New Dynege will own or that will be developed by the Development LLC will be highly dependent on New Dynege's ability to procure coal. Power generators in the Midwest and the Northeast have experienced significant pressures on available coal supplies that are either transportation or supply related. If New Dynege is unable to procure fuel for physical delivery at prices it considers favorable, its financial condition, results of operations and cash flows could be materially adversely affected.

Availability and cost of emission credits could materially impact New Dynege's costs of operations.

New Dynege will be required to maintain, either by allocation or purchase, sufficient emission credits to support its operations in the ordinary course of operating its power generation facilities. These credits will be used to meet New Dynege's obligations imposed by various applicable environmental laws. If New Dynege's operational needs require more than its allocated allowances of emission credits, it may be forced to purchase such credits on the open market, which could be costly. If New Dynege is unable to maintain sufficient emission credits to match its operational needs, it may have to curtail its operations so as not to exceed its available emission credits, or install costly new emissions controls. As New Dynege uses the emissions credits that it has purchased on the open market, costs associated with such purchases will be recognized as operating expense. If such credits are available for purchase, but only at significantly higher prices, the purchase of such credits could materially increase New Dynege's costs of operations in the affected markets.

Competition in wholesale power markets, together with an oversupply of power generation capacity in certain regional markets, may have a material adverse effect on New Dynege's financial condition, results of operations and cash flows.

New Dynege will have numerous competitors, and additional competitors may enter the industry. The power generation business New Dynege will own competes with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities and other energy service companies in the sale of energy, as well as in the procurement of fuel, transmission and transportation services. Moreover, aggregate demand for power may be met by generation capacity based on several competing technologies, as well as power generating facilities fueled by alternative or renewable energy sources, including hydroelectric power, synthetic fuels, solar, wind, wood, geothermal, waste heat and solid waste sources. Regulatory initiatives designed to enhance renewable generation could increase competition from these types of facilities. In addition, a buildup of new electric generation facilities in recent years has resulted in an abundance of power generation capacity in certain regional markets New Dynege will serve.

New Dynege will also compete against other energy merchants on the basis of its relative operating skills, financial position and access to credit sources. Energy customers, wholesale energy suppliers and transporters often seek financial guarantees, credit support such as letters of credit, and other assurances that their energy contracts will be satisfied. Companies with which New Dynege will compete may have greater resources in these areas. In addition, many facilities New Dynege will own are relatively old. Newer plants owned by competitors will often be more efficient than some of the plants New Dynege will own, which may put some of New Dynege's plants at a competitive disadvantage. Over time, some of the plants New Dynege will own may become obsolete in their markets, or be unable to compete, because of the construction of new, more efficient plants.

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Other factors may contribute to increased competition in wholesale power markets. New forms of capital and competitors have entered the industry in the last several years, including financial investors who perceive that asset values are at levels below their true replacement value. As a result, a number of generation facilities in the United States are now in the hands of lenders and investment companies. Furthermore, mergers and asset reallocations in the industry could create powerful new competitors. Under any scenario, New Dynegy will face competition from numerous companies in the industry, some of which have superior capital structures.

Moreover, many companies in the regulated utility industry, with which the wholesale power industry is closely linked, are also restructuring or reviewing their strategies. Several of those companies have discontinued or are discontinuing their unregulated activities and seeking to divest their unregulated subsidiaries. Some of those companies have had, or are attempting to have, their regulated subsidiaries acquire assets out of their or other companies' unregulated subsidiaries. This may lead to increased competition between the regulated utilities and the unregulated power producers within certain markets. The future of the wholesale power generation industry is unpredictable, but may include restructuring and consolidation within the industry, the sale, bankruptcy or liquidation of certain competitors, the re-regulation of certain markets or a long-term reduction in new investment into the industry. To the extent that competition increases, New Dynegy's financial condition, results of operations and cash flows may be materially adversely affected.

New Dynegy will depend on transmission facilities operated by RTOs and ISOs, which could result in an inability to sell and deliver power to the market that may, in turn, adversely affect the profitability of New Dynegy's generation facilities.

Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) have emerged in most of the markets in which New Dynegy will operate and compete. The RTOs and ISOs provide transmission services, administer transparent and competitive power markets and maintain system reliability. Many of these RTOs and ISOs operate real-time and day-ahead markets in which New Dynegy will participate to sell energy. New Dynegy may be affected by changes in market rules, tariffs, market structures, administrative fee allocations and market bidding rules in these RTOs and ISOs. The ISOs or RTOs that oversee most of the wholesale power markets impose, and in the future may continue to impose, price limitations, offer caps and other mechanisms to guard against the potential exercise of market power in these markets. These types of price limitations and other regulatory mechanisms may adversely affect the profitability of New Dynegy's generation facilities that sell energy and capacity into the wholesale power markets.

New Dynegy will not own, control or set the rates for the transmission facilities it will use to deliver energy, capacity and ancillary services to its customers. In addition, transmission capacity may not be available to New Dynegy, the total costs of transmission may exceed its projections or cause it to forego transactions and changes in the transmission grid could reduce its revenues.

New Dynegy will not own or control the transmission facilities required to sell the wholesale power from the generation facilities it will own. If the transmission service from these facilities is unavailable or disrupted, or if the transmission capacity infrastructure is inadequate, New Dynegy's ability to sell and deliver wholesale power may be materially adversely affected. Furthermore, the rates for transmission capacity from these facilities are set by others and the market and thus are subject to changes, some of which could be significant. Moreover, changes in the transmission infrastructure within or connecting individual markets could reduce prices in those markets by increasing the amount of generating capacity competing to serve the same markets. As a result, the business, financial condition, cash flows and results of operations of New Dynegy may be materially adversely affected.

New Dynegy's results of operations may fluctuate on a seasonal and quarterly basis due to weather conditions.

When weather conditions are milder, New Dynegy may sell less power and receive lower prices for its products, and consequently earn less income. Unusually mild weather in the future could diminish New Dynegy's results of operations and impair its financial condition. Weather conditions can affect both the prices New Dynegy pays for fuel and the prices New Dynegy receives for capacity, energy and other services, potentially increasing the volatility of its results of operations.

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An event of loss and certain other events relating to the Dynege Northeast Generation facilities could trigger a substantial obligation that would be difficult for New Dynege to satisfy.

Dynege acquired the Dynege Northeast Generation power generating facilities (DNE) in January 2001 for \$950 million. In May 2001, Dynege entered into an asset-backed sale-leaseback transaction relating to these facilities to provide it with long-term acquisition financing. In this transaction, Dynege sold four of the six generating units comprising these facilities for approximately \$920 million to Danskammer OL LLC and Roseton OL LLC, and Dynege concurrently agreed to lease them back from these entities. New Dynege will have no option to purchase the leased facilities at Roseton or Danskammer at the end of their lease terms, which end in 2035 and 2031, respectively. If one or more of the leases were to be terminated prior to the end of its term because of an event of loss, because it becomes illegal for New Dynege to comply with the lease, or because a change in law makes the facility economically or technologically obsolete, New Dynege would be required to make a termination payment in an amount sufficient to redeem the pass-through trust certificates related to the unit or facility for which the lease is terminated. At December 31, 2005, the termination payment would have been approximately \$1 billion for all of the DNE facilities. It could be difficult for New Dynege to raise sufficient funds to make this termination payment if a termination of this type were to occur with respect to the DNE facilities, resulting in a material adverse effect on New Dynege's financial conditions, results of operations, liquidity or cash flows.

Development, refurbishment and operation and maintenance of power generation facilities involve significant risks that cannot always be covered by insurance or contractual protections and could have a material adverse effect on New Dynege's financial condition, results of operations and cash flows.

New Dynege will be exposed to risks related to breakdown or failure of equipment and processes, shortages of equipment and supply of material and labor, and operating performance below expected levels of output or efficiency. Older equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep it operating at optimum efficiency. This equipment is also likely to require periodic upgrading and improvement. Any unexpected failure, including failure associated with breakdowns, forced outages or any unanticipated capital expenditures could result in reduced profitability. In addition, if New Dynege makes any major modifications to the power generation facilities it will own, as defined under the New Source Review provisions of the federal Clean Air Act, as amended (CAA), New Dynege may be required to install best available control technology or to achieve the lowest achievable emissions rate. Any such modifications would likely result in substantial additional capital expenditures and the potential for regulatory challenges to the ongoing operation of these facilities.

In addition, at some point in the future, older facilities may need to be retired or decommissioned. The costs of decommissioning can be affected by future changes in law and regulations, as well as deviations from the expected physical state of such facilities. Therefore, New Dynege cannot be certain that it will have adequately predicted, or reserved for, the full costs of any such retirements or decommissionings.

Moreover, new Dynege cannot predict with certainty the level of capital expenditures that will be required due to changes in applicable reliability requirements, deteriorating facility conditions and unexpected events (such as natural disasters or terrorist attacks). The unexpected requirement of large capital expenditures could have a material adverse effect on New Dynege's financial condition, results of operations and cash flows. Further, construction, expansion, modification and refurbishment of power generation facilities may interrupt production at the facilities New Dynege will own or result in unanticipated cost overruns and may be impacted by factors outside its control, including:

supply interruptions;

work stoppages;

cost increases for equipment and labor;

labor disputes;

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weather interferences; and

unforeseen engineering, environmental and geological problems.

New Dynegey's operations will be subject to various ordinary and extraordinary operating hazards. New Dynegey may not have adequate insurance or adequate contractual indemnities to cover all of these hazards.

New Dynegey will be subject to various ordinary and extraordinary operating risks. These risks include, but are not limited to:

equipment breakdowns or malfunctions;

explosions;

fires;

terrorist attacks;

product spillage;

nature and weather; and

inadequate maintenance of rights-of-way.

The occurrence of any of these or other similar events could result in damage to or destruction of operating assets and other property, or could result in personal injury, loss of life or pollution of the environment, as well as curtailment or suspension of operations at the affected facility. Any such results could negatively impact New Dynegey's ability to satisfy applicable contractual obligations and otherwise expose it to potentially adverse financial consequences.

Costs associated with the general liability, property and business interruption insurance coverages that New Dynegey intends to maintain have increased significantly during recent periods and may continue to do so in the future. Moreover, occurrence of a significant event not fully insured or otherwise indemnified against by a third party, or the failure of a party to meet its indemnification obligations, could materially adversely affect New Dynegey's financial condition, results of operations and cash flows. New Dynegey's potential inability to maintain or secure levels and types of insurance that it believes to be prudent under then current insurance industry market conditions could have a material adverse effect on its financial condition, results of operations and cash flows if an uninsured loss were to occur. No assurance can be given that New Dynegey will be able to secure or maintain these levels of insurance at rates it considers commercially reasonable.

New Dynegey's business will be subject to complex government regulation. Changes in these regulations or in their implementation may affect New Dynegey's costs of operating its facilities or its ability to operate its facilities or increase competition, any of which may negatively impact its results of operations.

New Dynegey will be subject to extensive federal, state and local laws and regulations governing the generation and sale of energy commodities, as well as discharge of materials into the environment and otherwise relating to the environment and public health and safety in each of the jurisdictions in which it will have operations. Compliance with these laws and regulations will require expenses (including legal representation) and monitoring, capital and operating expenditures, including those related to pollution control equipment, emission credits, remediation obligations and permitting at various operating facilities. Furthermore, these regulations are subject to change at any time, and New Dynegey will

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not be able to predict what changes may occur in the future or how such changes might affect any facet of its business.

The costs and burdens associated with complying with the increased number of regulations may have a material adverse effect on New Dynegey, if it fails to comply with the laws and regulations governing its business or if it fails to maintain or obtain advantageous regulatory authorizations and exemptions. Moreover, increased competition resulting from potential legislative changes, regulatory changes or other factors may create greater risks to the stability of New Dynegey's power generation earnings and cash flows generally. New Dynegey could suffer erosion in market position, revenues and profits as competitors gain access to the service territories of its power generation subsidiaries.

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New Dynege's costs for compliance with existing environmental laws will be significant, and costs for compliance with new environmental laws could adversely affect its financial condition, results of operations and cash flows.

New Dynege's business will be subject to extensive and frequently changing environmental regulation by federal, state and local authorities. Such environmental regulation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Existing environmental laws and regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to New Dynege or the facilities it will own, litigation or regulatory or enforcement proceedings could be commenced and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. Proposals currently under consideration could, if and when adopted or enacted, require New Dynege to make substantial capital and operating expenditures. If any of these events occurs, New Dynege's business, operations and financial condition could be materially adversely affected.

Moreover, many environmental laws require approvals or permits from governmental authorities for the operation of a power generation facility, before construction or modification of a project may commence or before wastes or other materials may be discharged into the environment. The process for obtaining necessary permits can be lengthy and complex and can sometimes result in the establishment of permit conditions that make the project or activity for which the permit was sought unprofitable or otherwise unattractive. Even where permits are not required, compliance with environmental laws and regulations can require significant capital and operating expenditures. New Dynege, either directly or through its ownership in the Development LLC, will be required to comply with numerous environmental laws and regulations, and to obtain numerous governmental permits when it constructs, modifies and operates the facilities it will own. In addition, certain of the facilities New Dynege will own are also required to comply with the terms of consent decrees or other governmental orders.

With the continuing trend toward stricter standards, greater regulation and more extensive permitting requirements, New Dynege's capital and operating environmental expenditures are likely to be substantial and may increase in the future. New Dynege may not be able to obtain or maintain all required environmental regulatory permits or other approvals that it needs to operate its business. If there is a delay in obtaining any required environmental regulatory approvals or permits, or if New Dynege fails to obtain or comply with any required approval or permit, the operation of its facilities may be interrupted or become subject to additional costs and, as a result, New Dynege's business, financial condition, results of operations and cash flows could be materially adversely affected.

Different regional power markets in which New Dynege will compete have changing transmission regulatory structures, which could materially adversely affect New Dynege's performance in these regions.

New Dynege's financial condition, results of operations and cash flows are likely to be affected by differences in market and transmission regulatory structures in various regional power markets. Problems or delays that may arise in the formation and operation of new or maturing RTOs and similar market structures, or changes in geographic scope, rules or market operations of existing RTOs, may affect New Dynege's ability to sell, the prices it receives for or the cost to transmit power produced by its generating facilities. Rules governing the various regional power markets may also change from time to time, which could affect New Dynege's costs or revenues. New Dynege will be unable to assess fully the impact that these uncertainties may have on its business, as it remains unclear which companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover.

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Acts of terrorism could have a material adverse effect on New Dynegy's financial condition, results of operations and cash flows.

New Dynegy's generation facilities and the facilities of third parties on which they rely may be targets of terrorist activities, as well as events occurring in response to or in connection with such activities, that could result in full or partial disruption of the ability to generate, transmit or transport electricity or natural gas or cause environmental repercussions. Energy-related facilities may be at greater risk of future terrorist activities than other potential domestic targets. Any such disruptions or environmental repercussions, if not covered by insurance, could result in a significant decrease in revenues or significant reconstruction or remediation costs, which could have a material adverse effect on New Dynegy's financial condition, results of operations and cash flows.

The Coast Guard developed a security guidance document for marine terminals in the wake of the September 11, 2001 terrorist attacks. The Coast Guard also issued a security circular that defines appropriate countermeasures for protecting marine terminals and explains how the Coast Guard plans to verify that operators have taken appropriate action to implement satisfactory security procedures and plans. Using the guidelines provided by the Coast Guard, the Havana, Danskammer and Roseton facilities have been specifically identified as marine terminals and therefore potential terrorist targets. Future analyses of the security measures employed at such facilities may result in the implementation of additional measures and procedures which have the potential for increasing New Dynegy's costs of doing business. Moreover, New Dynegy cannot be assured that these or other facilities New Dynegy will own will not become the subject of a terrorist attack.

New Dynegy's financial condition, results of operations and cash flows could be adversely impacted by strikes or work stoppages by unionized employees.

A majority of the employees at facilities New Dynegy will own or lease will be subject to collective bargaining agreements with various unions that expire in 2007 and 2008. If union employees strike, participate in a work stoppage or slowdown or engage in other forms of labor strife or disruption, New Dynegy could experience reduced power generation or outages if replacement labor is not procured. The ability to procure such replacement labor is uncertain. Strikes, work stoppages or an inability to negotiate future collective bargaining agreements on favorable terms could have a material adverse effect on New Dynegy's financial condition, results of operations and cash flows.

Dynegy, as New Dynegy's predecessor registrant, has reported two material weaknesses in its internal control over financial reporting, one of which caused a restatement, and both of which, if not remedied, could adversely affect New Dynegy's internal controls and financial reporting.

In connection with Dynegy's management's assessments of the effectiveness of its internal control over financial reporting as of December 31, 2004 and 2005 and September 30, 2006, Dynegy's management concluded that, as of such dates, it did not maintain effective internal control over its financial reporting due to a material weakness in its processes, procedures and controls related to the preparation, analysis and recording of the income tax provision. Dynegy's management's assessment of the effectiveness of its internal control over financial reporting as of December 31, 2005 was audited by PricewaterhouseCoopers LLP, which expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of its internal control over financial reporting as of December 31, 2005.

In addition, in connection with Dynegy's management's assessment as of September 30, 2006, Dynegy's management concluded that, as of September 30, 2006, it did not maintain effective internal control over its financial reporting due to a material weakness in its processes, procedures and controls related to the calculation and analysis of its risk management asset and liability balances. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of Dynegy's annual or interim financial statements would not be prevented or detected.

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These control deficiencies have resulted in the restatement of Dynege's 2005, 2004 and 2003 annual consolidated financial statements. Further, these control deficiencies could have resulted in a misstatement of the income tax provision and related deferred tax accounts and disclosures that would result in a material misstatement to its annual or interim consolidated financial statements that would not be prevented or detected.

The material weakness related to the calculation and analysis of Dynege's risk management asset and liability balances resulted in an adjustment to its condensed consolidated financial statements as of and for the three months ended March 31, 2006 prior to being reported in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006. Further, this control deficiency could result in a misstatement of revenue and the related risk management asset and liability balances that would result in a material misstatement of Dynege's annual or interim consolidated financial statements that would not be prevented or detected.

Certain of the corrective processes, procedures and controls that Dynege has implemented or is in the process of implementing with respect to its tax accounting and tax reconciliation processes, procedures and controls relate to annual controls that cannot be tested until the preparation of its 2006 annual tax provision. Moreover, the controls that Dynege has implemented or is in the process of implementing related to the accuracy of its risk management asset and liability balances have not been in place for an adequate period of time to test and conclude that they are operating effectively. Accordingly, Dynege cannot assure you that these processes, procedures and controls will result in remediation. Failure to remediate these material weaknesses, or the identification of additional material weaknesses, could result in materially inaccurate financial reports and negatively impact the market's view of New Dynege's control environment and, potentially, New Dynege's stock price and ability to access the capital markets.

New Dynege will have significant debt that could negatively impact its business, and its credit ratings are anticipated to be less than investment grade.

New Dynege will be highly leveraged, and will have pledged substantially all of its assets to secure its debt. At September 30, 2006, New Dynege would have total pro forma net debt of \$5.2 billion, which includes:

debt outstanding under Dynege's Fourth Amended and Restated Credit Agreement, as amended, which includes a \$470 million revolving credit facility that is currently undrawn, and a \$200 million term facility that is currently fully drawn;

\$1.05 billion principal amount of 8.375% Senior Unsecured Notes due 2016 issued by Dynege Holdings, Inc., Dynege's wholly owned subsidiary (DHI);

\$275 million in aggregate principal amount of the New Dynege Notes; and

\$1.9 billion in net debt (debt less restricted cash and investments) assumed by New Dynege from the Contributed Entities. New Dynege's significant level of debt could:

make it difficult to satisfy its financial obligations, including debt service requirements;

limit its ability to obtain additional financing to operate its business;

limit its financial flexibility in planning for and reacting to business and industry changes;

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impact the evaluation of its creditworthiness by counterparties to commercial agreements and affect the level of collateral it is required to post under such agreements;

place it at a competitive disadvantage compared to less leveraged companies;

increase its vulnerability to general adverse economic and industry conditions, including changes in interest rates and volatility in commodity prices; and

require it to dedicate a substantial portion of its cash flows to payments on its debt, thereby reducing the availability of its cash flow for other purposes including its operations, capital expenditures and future business opportunities.

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New Dynege may incur additional indebtedness as part of completing the Merger and in the future. If new debt is added to the current debt levels of New Dynege and its subsidiaries, the related risks that New Dynege and its subsidiaries face could increase significantly.

The payment of dividends on New Dynege's common stock will be restricted and, moreover, subject to the discretion of New Dynege's board of directors.

The financing agreements under which certain of New Dynege's subsidiaries will be borrowers and New Dynege will be a guarantor will contain certain restrictions on the payment of dividends on New Dynege's Class A common stock similar to those to which Dynege is currently subject. See "Market Price and Dividend Information" Dividend Policy. Moreover, even if permitted under New Dynege's financing agreements, dividend payments on New Dynege's Class A common stock will be at the discretion of New Dynege's board of directors. Dynege has not paid a dividend on any class of its common stock since 2002.

New Dynege's Bylaws provide that, so long as the holders of New Dynege's Class B common stock own greater than 15% of the total combined voting power of New Dynege, New Dynege shall not make dividend payments or similar distributions or change policies regarding dividends or similar distributions if all of the directors of New Dynege who are elected by holders of New Dynege's Class B common stock voting as a separate class (the "Class B Directors") present at the meeting at which such action is considered vote against such action, other than dividends or distributions made in the form of (i) cash, provided that at the time of declaration of such dividend, New Dynege has received indicative ratings that, after giving effect to such cash dividend, its senior unsecured credit ratings would be BB- (with stable outlook) or better from Standard & Poor's Ratings Services ("S&P") and Ba3 (with stable outlook) or better from Moody's Investor Service ("Moody's"), or (ii) New Dynege's common stock.

New Dynege's access to the capital markets may be limited.

New Dynege may require additional capital from outside sources from time to time. The timing of any capital-raising transaction may be impacted by unforeseen events, such as strategic growth opportunities, legal judgments or regulatory requirements, which could require it to pursue additional capital in the near term. New Dynege's ability to obtain capital and the costs of such capital are dependent on numerous factors, including:

general economic and capital market conditions;

covenants in its existing debt and credit agreements;

credit availability from banks and other financial institutions;

investor confidence in it and the regional wholesale power markets;

its financial performance and the financial performance of its subsidiaries;

its levels of indebtedness;

its requirements for posting collateral under various commercial agreements;

its maintenance of acceptable credit ratings;

its cash flow;

provisions of tax and securities laws that may impact raising capital; and

long-term business prospects.

New Dynegy may not be successful in obtaining additional capital for these or other reasons. The failure to obtain additional capital from time to time may have a material adverse effect on New Dynegy's financial condition, results of operations and cash flows, and on its ability to execute its business strategy. An inability to access capital may limit New Dynegy's ability to pursue development projects, plant improvements or acquisitions that it may rely on for future growth.

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If New Dynege issues a material amount of its common stock in the future or certain New Dynege stockholders sell a material amount of New Dynege's common stock, New Dynege's ability to use its net operating losses to offset its future taxable income may be limited under Section 382 of the Code.

New Dynege's ability to utilize previously incurred net operating losses (NOLs) of Dynege to offset future taxable income would be reduced if New Dynege were to undergo an ownership change within the meaning of Section 382 of the Code. In general, an ownership change occurs whenever the percentage of the stock of a corporation owned by 5-percent shareholders (within the meaning of Section 382 of the Code) increases by more than 50 percentage points over the lowest percentage of the stock of such corporation owned by such 5-percent shareholders at any time over the preceding three years. Under certain circumstances, sales or dispositions of New Dynege's common stock by the Contributed Entities, Chevron or other stockholders could trigger an ownership change, and New Dynege will have limited control over the timing of any such sales or dispositions of New Dynege's common stock. Any such future ownership change could result in limitations, pursuant to Section 382 of the Code, on New Dynege's utilization of NOLs to offset its future taxable income.

More specifically, depending on prevailing interest rates and New Dynege's market value at the time of such future ownership change, an ownership change under Section 382 of the Code would establish an annual limitation which might prevent full utilization of the deferred tax assets attributable to Dynege's previously incurred NOLs against the total future taxable income of a given year. The Merger will increase the likelihood that previously incurred NOLs will become subject to the limitations set forth in Section 382 of the Code. If such an ownership change were to occur, New Dynege's ability to raise additional equity capital may be limited.

The magnitude of such limitations and their effect on New Dynege is difficult to assess and depends in part on New Dynege's value at the time of any such ownership change and prevailing interest rates. For accounting purposes, at December 31, 2005, Dynege's net operating loss deferred tax asset attributable to its previously incurred NOLs was valued at approximately \$270 million. Dynege believes that it has generated material incremental NOLs in 2006.

The ultimate outcome of unresolved legal proceedings and investigations relating to the past activities of Dynege and its subsidiaries cannot be predicted. Any adverse determination could have a material adverse effect on New Dynege's financial condition, results of operations and cash flows.

Dynege is, or has in recent years been, a party to various material litigation matters and regulatory matters arising out of its business operations. These matters include, among other things, certain actions and investigations by the FERC and related regulatory bodies, litigation with respect to alleged actions in the western power and natural gas markets, purported class action suits with respect to alleged violations of the Employee Retirement Income Security Act of 1974 (ERISA) and various other matters. The ultimate outcome of pending matters cannot presently be determined, nor can the liability that could potentially result from a negative outcome in each case reasonably be estimated.

Risks Associated with New Dynege Class A Common Stock

The interests of the LS Control Group may conflict with your interests and, with respect to the Development LLC, the interests of New Dynege.

After the Merger, the LS Control Group (as defined on page 170) will own approximately 40% of the voting power of New Dynege and will have the right to nominate up to three members of the 11-member board of directors of New Dynege. By virtue of such stock ownership and board representation, the LS Control Group will have the power to influence New Dynege's affairs and the outcome of matters required to be submitted to stockholders for approval. Moreover, by virtue of such stock ownership and board representation and its 50 percent membership interest (via the LS Power Group) in the Development LLC, the LS Control Group will have the power to influence the affairs of the Development LLC.

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The LS Control Group may have interests that differ from those of holders of New Dynege's Class A common stock, and these relationships could give rise to conflicts of interest, including:

conflicts between the LS Control Group and other stockholders of New Dynege, whose interests may differ with respect to the strategic direction or significant corporate transactions of New Dynege; and

conflicts related to corporate opportunities that could be pursued by New Dynege, on the one hand, or by the LS Control Group, on the other hand.

Likewise, with respect to the Development LLC, the LS Control Group may have interests that differ from those of New Dynege (as the owner of the remaining 50 percent membership interest in the Development LLC), which may give rise to conflicts of interests.

Further, New Dynege's Certificate of Incorporation will renounce any interest in and waive any claim that a corporate or business opportunity taken by the LS Control Group constitutes a corporate opportunity of New Dynege unless such corporate or business opportunity is expressly offered to one of Dynege's directors or officers who is a director or officer of New Dynege.

See Other Agreements and Documents Corporate Opportunity Agreement and Comparison of Rights of Dynege's Shareholders and New Dynege's Stockholders Waiver of Corporate Opportunity Doctrine.

The LS Control Group's significant interest in New Dynege could be determinative in matters submitted to a vote by New Dynege's stockholders. In addition, the rights granted to the LS Shareholders (as defined on page 169) under the Shareholder Agreement (as defined on page 169) and New Dynege's Bylaws will provide them significant influence over New Dynege. Such influence could result in New Dynege either taking actions that New Dynege's other stockholders do not support or failing to take actions that New Dynege's other stockholders do support.

The LS Control Group's ownership interest in New Dynege, together with its rights under the Shareholder Agreement and New Dynege's Bylaws, will provide it with significant influence over the conduct of New Dynege's business. Unless substantially all of New Dynege's public stockholders vote together on matters presented to New Dynege's stockholders from time to time, the LS Control Group will have the power to determine the outcome of matters submitted to a vote of all common stockholders.

Rights granted to the LS Control Group under the Shareholder Agreement and New Dynege's Bylaws that will provide it with significant influence over New Dynege's business include:

the ability to nominate up to three directors to New Dynege's board of directors based on its percentage ownership interest in New Dynege; and

the requirement that New Dynege not pursue any of the following actions if all directors nominated by the LS Control Group present at the relevant board meeting vote against such action:

any amendment of New Dynege's Certificate of Incorporation or New Dynege's Bylaws;

any merger or consolidation of New Dynege and certain dispositions of its assets or businesses, certain acquisitions, binding capital commitments, guarantees and investments and certain joint ventures with an aggregate value in excess of a specified amount;

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payment of dividends or similar distributions by New Dynegy;

engagement by New Dynegy in new lines of business;

any liquidation or dissolution of New Dynegy, or certain bankruptcy-related events;

the issuance of any New Dynegy equity securities, with certain exceptions for issuances of New Dynegy's Class A common stock;

incurrence of any indebtedness in excess of a specified amount;

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hiring, or termination of the employment of, New Dynege's chief executive officer (other than Bruce A. Williamson);

entry into any agreement or other action that limits the activities of any holder of New Dynege's Class B common stock or any of its affiliates; and

entry into other material transactions with a value in excess of a specified amount.

Such influence could result in New Dynege either taking actions that New Dynege's other stockholders do not support or failing to take actions that New Dynege's other stockholders do support. See Other Agreements and Documents Bylaws of New Dynege, Other Agreements and Documents Shareholder Agreement and Comparison of Rights of Dynege's Shareholders and New Dynege's Stockholders Blocking Rights.

New Dynege's stockholders may be adversely affected by the expiration of the transfer restrictions in the Shareholder Agreement, which would enable the LS Control Group to, among other things, transfer a significant percentage of its New Dynege common stock to a third party.

The transfer provisions in the Shareholder Agreement, subject to specified exceptions (see Other Agreements Shareholder Agreement Transfer Restrictions), restrict the LS Control Group from transferring shares of New Dynege common stock. These restrictions will expire upon the earlier of:

two years from the date the Merger is completed;

the date the stockholders party to the Shareholder Agreement cease to own at least 15% of the total combined voting power of New Dynege's outstanding securities; and

subject to certain conditions, the date a third party offer is made to acquire more than 25% of New Dynege's assets or voting securities.

In addition, if the transfer restrictions in the Shareholder Agreement are terminated, the LS Control Group will be free to sell their shares of New Dynege common stock, subject to certain exceptions, to any person on the open market, in privately negotiated transactions or otherwise in accordance with law. These sales or transfers could create a substantial decline in the price of shares of New Dynege common stock. See Other Agreements and Documents Shareholder Agreement.

Risks Associated with the Development of Power Generation Projects

Plum Point, which is currently under construction, may not be completed, and construction of other development projects in which New Dynege will have an ownership interest after the closing of the Merger Agreement Transactions may never be initiated or completed.

Pursuant to the Merger Agreement Transactions, New Dynege will acquire all of the LS Power Group's ownership interest in Plum Point, which is currently in the construction phase, with an expected completion date in 2010. New Dynege will also acquire 50% of the ownership interest in the Development LLC, which will own the various greenfield projects and expansion or replacement projects contributed to the Development LLC by the LS Power Group and Dynege. After the closing of the Merger Agreement Transactions, additional development projects will be contributed from time to time by the LS Power Group and by New Dynege to the Development LLC. However, as a result of economic and other conditions, Plum Point may not be completed, and the development projects may not be pursued or completed, and higher costs than those that are anticipated may be incurred with respect to any of the projects. These projects also generally require various governmental and other approvals, which may not be received. New Dynege's inability to complete the Plum Point project, or the Development LLC's inability to complete a development project on time or within budget, may adversely affect New Dynege's financial condition, results of operations and cash flows.

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In addition, the development and construction of power generation facilities may be adversely affected by one or more factors commonly associated with large infrastructure projects, including, but not limited to, changes

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in the forecasted financial viability of new-build generation in a region, shortages of equipment, materials and labor, delays in delivery of equipment and materials, labor disputes, litigation, failure to obtain necessary governmental and regulatory approvals and permits, adverse weather conditions, unanticipated increases in costs, natural disasters, accidents, local and political opposition, unforeseen engineering, design, environmental or geological problems and other unforeseen events or circumstances. Any one of these events could result in delays in, or even the abandonment of, the development of the affected power generation facility. Such events may also result in cost overruns, payments under committed contracts associated with the affected project, and/or the write-off of equity investment in the project. Any such development may materially adversely affect New Dynege's financial condition, results of operations and cash flows.

The development and construction of power generation facilities is highly dependent on third parties that provide services under contract. There is no assurance that such third parties would fulfill their obligations under the relevant contracts.

The Development LLC will be highly dependent on third party contractors for the development and construction of power generation facilities. Any material breach by these parties of their obligations under the relevant contracts could adversely affect the development and construction efforts of the Development LLC, and could in turn affect the Development LLC's ability to perform its obligations under committed contracts, such as power sales agreements and fuel supply agreements, associated with the affected project. This may result in penalty payments by the Development LLC under such committed contracts, which may adversely affect the operations of the Development LLC and, as a result, the financial condition, results of operations and cash flows of New Dynege.

The future operation and performance of the various development projects owned by the Development LLC, if completed, are subject to a wide variety of factors and cannot be predicted with certainty at this time.

If a development project is successfully completed by the Development LLC, the operation and performance of the completed facility could be affected by many factors, including start-up problems, the breakdown or failure of equipment or processes, the performance of the completed facility below expected levels of output or efficiency, failure to operate at design specifications, labor disputes, changes in law, failure to obtain necessary permits or to meet permit conditions, government exercise of eminent domain power or similar events and catastrophic events including fires, explosions, earthquakes and droughts. The occurrence of such events could significantly reduce or eliminate the revenues from, or significantly increase the expenses associated with, any such completed facility and, as a result, negatively impact New Dynege's financial condition, results of operations and cash flows.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus includes or incorporates by reference statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements. All statements included or incorporated by reference in this proxy statement/prospectus, other than statements of historical fact, that address activities, events or developments that New Dynege or its management expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements represent New Dynege's reasonable judgment regarding the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause, among other statements, the actual results and financial position of New Dynege and the effects and consequences of the Merger Agreement Transactions to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They may use words such as anticipate, estimate, project, forecast, plan, may, will, should, expect and other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

completion of the Merger Agreement Transactions and the success of the business of New Dynege after the completion of the Merger Agreement Transactions;

the successful integration of Dynege and the Contributed Entities after the Merger;

the anticipated benefits of combining Dynege and the Contributed Entities;

beliefs and assumptions about costs relating to the Merger and integrating Dynege and the Contributed Entities after the Merger;

projected operating or financial results, including anticipated cash flows from operations, revenues and profitability;

beliefs and assumptions about economic conditions and the demand and prices for electricity;

beliefs about commodity pricing;

intended hedging activities and the results of such activities;

sufficiency of coal, oil and natural gas inventories and transportation;

the level of creditworthiness of counterparties;

the availability and costs of transmission facilities;

weather conditions, including the economic and operational effects of mild weather;

obligations resulting from the occurrence of events relating to DNE's facilities;

risks associated with the refurbishment and operation of power generation facilities;

developments in the electric industry, such as changes in regulation and increased competition;

expectations regarding environmental matters, including costs of compliance and availability and adequacy of emission credits;

acts of terrorism;

relationships with unionized employees and potential union-related disruptions;

strategies to remediate the material weakness existing in Dynege's accounting for income taxes and risk management assets and liabilities;

the availability of net operating losses to offset future taxable income;

beliefs and assumptions relating to liquidity, including the ability to satisfy or refinance debt maturities and other obligations before or as they come due;

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strategies to address New Dynegy's substantial leverage, to access capital markets or to obtain additional financing on more favorable financing terms;

beliefs about the outcome of legal and administrative proceedings, including the matters involving the western power and natural gas markets, environmental matters and the investigations relating primarily to past trading practices;

the interests and actions of the LS Control Group and the implications of the LS Control Group's significant influence over New Dynegy;

expectations regarding capital expenditures, interest expense and other payments;

the price of coal, oil and natural gas that New Dynegy will purchase and the price of electric power that New Dynegy will sell, and any hedging arrangements that New Dynegy may put in place to capture or mitigate changes in those prices;

plans to achieve fuel-related, general and administrative and other targeted cost savings;

measures to compete effectively with industry participants;

beliefs and assumptions about market competition, generation capacity and regional recovery of the wholesale power generation market;

positioning New Dynegy, including the Development Assets (as defined on page 116) held by the Development LLC, for future growth;

expectations of completion of development projects; and

measures to complete the exit from the customer risk management business and the costs associated with this exit.

Any or all of the forward-looking statements may turn out to be wrong, and actual results may differ materially from those expressed or implied by such forward-looking statements. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, many of which are beyond New Dynegy's control, including those set forth in Risk Factors. The areas of risk and uncertainty described above should be considered in connection with any written or oral forward-looking statements that may be made after the date of this proxy statement/prospectus by New Dynegy, Dynegy or the LS Contributing Entities or anyone acting for any or all of them. Neither Dynegy, New Dynegy nor the LS Contributing Entities undertakes any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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THE SPECIAL MEETING

General

The Dynege Board is using this proxy statement/prospectus to solicit proxies from the holders of shares of Dynege's common stock for use at the special meeting. This proxy statement/prospectus and accompanying proxy card are first being mailed to Dynege's shareholders on or about _____, 2007.

Date, Time and Place of the Special Meeting

Dynege will hold its special meeting of shareholders on March _____, 2007, at _____:00 a.m., local time, at _____, Houston, Texas 77002, or at any reconvened meeting after an adjournment or postponement of the special meeting.

Purpose of the Special Meeting

At the special meeting, holders of Dynege's common stock will be asked to adopt the Merger Agreement and approve the Merger.

The Dynege Board has unanimously approved the Merger Agreement and the Merger Agreement Transactions, including the Merger, and recommends that Dynege's shareholders vote **FOR** the adoption of the Merger Agreement and the approval of the Merger.

Record Date and Outstanding Shares

The Dynege Board has fixed the close of business on _____, 2007 as the record date for determining holders of outstanding shares of Dynege's common stock entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting. As of the record date, there were outstanding _____ shares of Dynege's Class A common stock and 96,891,014 shares of Dynege's Class B common stock. Dynege's Class A common stock and Dynege's Class B common stock are the only classes of outstanding securities entitled to notice of, and to vote at, the special meeting. Each holder of Dynege's common stock is entitled to one vote at the special meeting for each share of Dynege's common stock held by that shareholder at the close of business on the record date. Pursuant to the IBCA and Dynege's bylaws, shares of Dynege's common stock held by Dynege (*i.e.*, treasury stock) may not be voted at the special meeting and are not to be counted in determining the total number of outstanding shares of Dynege's common stock entitled to vote at the special meeting.

Quorum

The presence of the holders of a majority of the shares of Dynege's common stock outstanding, represented in person or by proxy and entitled to vote, is necessary to constitute a quorum at the special meeting.

Vote Required

Adoption of the Merger Agreement and approval of the Merger requires the affirmative vote of two-thirds of the issued and outstanding shares of (i) Dynege's Class A common stock voting as a class, (ii) Dynege's Class B common stock voting as a class and (iii) Dynege's Class A and Class B common stock voting together as a class. In accordance with the rules of the NYSE, brokers and nominees who hold shares in street name for customers may not exercise their voting discretion with respect to the adoption of the Merger Agreement and the approval of the Merger. Thus, absent specific instructions from the beneficial owner of such shares, brokers and nominees may not vote such shares with respect to the adoption of the Merger Agreement and the approval of the Merger. Shares represented by these broker non-votes will not vote, effectively counting as an **AGAINST** vote. Abstentions also have the same effect as shares voted **AGAINST** the proposal to adopt the Merger Agreement and approve the Merger.

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Voting by Chevron and Dynege's Executive Officers

Pursuant to the voting agreement, dated as of September 14, 2006, entered into by and among Chevron and certain of the LS Contributing Entities (the Chevron Voting Agreement), Chevron has agreed to vote its shares of Dynege's Class B common stock in favor of adopting the Merger Agreement and approving the Merger. Chevron is the holder of all of the issued and outstanding shares of Dynege's Class B common stock. As of November 30, 2006, the issued and outstanding shares of Dynege's Class B common stock represented approximately 19.4% of the total number of shares of Dynege's common stock issued and outstanding.

As of the record date, Dynege's executive officers had the right to vote less than 1% of the shares of Dynege's common stock outstanding and entitled to vote at the special meeting. Each Dynege executive officer (Bruce A. Williamson, Stephen A. Furbacher, Holli C. Nichols, Lynn A. Lednický and J. Kevin Blodgett) has entered into a voting agreement, dated as of September 14, 2006 (the Officers Voting Agreement), with the LS Contributing Entities in which he or she has agreed to vote, or cause to be voted, the shares of Dynege's common stock owned by him or her for the adoption of the Merger Agreement and approval of the Merger.

Solicitation of Proxies

Dynege will bear the cost of soliciting proxies. Proxies may be solicited by mail or facsimile, or by Dynege's directors, officers or employees, without extra compensation, in person or by telephone. Dynege has retained The Altman Group to assist in the solicitation of proxies for a fee of \$100,000 plus out-of-pocket expenses. If the solicitation period is no longer than five weeks, the fee will be reduced to \$83,000. Dynege will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of Dynege's common stock.

Questions concerning the proposal to be acted upon at the special meeting should be directed to Dynege's Investor Relations Department at (713) 507-6400 or to The Altman Group at dyninfo@altmangroup.com. Additional copies of this proxy statement/prospectus or the proxy card may be obtained from Dynege's Investor Relations Department at its principal executive office or from The Altman Group. The mailing address of Dynege's Investor Relations Department is 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, and the telephone number is (713) 507-6400. The mailing address of The Altman Group is 1200 Wall Street West, 3rd Floor, Lyndhurst, NJ 07071, and the telephone number is (800) 311-8393. For a period of at least ten days prior to the special meeting, a complete list of shareholders entitled to vote at the special meeting will be available for inspection during ordinary business hours at Dynege's executive offices by shareholders of record for proper purposes and will be on file at a registered office and subject to inspection by any shareholder for a proper purpose.

Revocation of Proxies

The enclosed proxy, even though executed and returned, may be revoked at any time prior to the voting of the proxy by:

executing and submitting a revised proxy (including a telephone or Internet vote);

sending written notice of revocation to Dynege's Secretary at the address provided at the beginning of this proxy statement/prospectus; or

voting in person at the special meeting.

In the absence of a revocation, shares represented by proxies submitted in response to this solicitation will be voted at the special meeting.

Voting by Telephone or Internet

Shareholders of record can simplify their voting and reduce Dynege's costs by voting their shares by telephone or through the Internet. The telephone and Internet voting procedures are designed to authenticate

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shareholders' identities, allow shareholders to vote their shares and confirm that their instructions have been properly recorded. If your shares are held in the name of a bank or broker, the availability of telephone and Internet voting will depend upon the voting processes of the bank or broker. Accordingly, shareholders should follow the voting instructions on the form they receive from their bank or broker.

Shareholders who elect to vote by telephone or through the Internet may incur telecommunications and Internet access charges and other costs for which they are solely responsible. The telephone and Internet voting facilities for shareholders of record will close at 11:59 p.m., Eastern Time, on _____, 2007. Instructions for voting by telephone or through the Internet are contained on the enclosed proxy card. Voting your shares by telephone or through the Internet will not affect your right to vote in person if you decide to attend the special meeting; however, if you attend and vote at the special meeting, any votes you cast previously via telephone or the Internet will automatically be revoked and superseded by the votes cast at the special meeting.

Voting by Mail

Shareholders who elect to vote by mail are asked to sign, date and return the enclosed proxy card using the postage-paid envelope provided. The persons named as proxies on the proxy card were designated by the Dynege Board. All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the shareholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the adoption of the Merger Agreement and approval of the Merger.

Special Meeting Attendance

Because of limited seating, only shareholders, their proxy holders and Dynege's guests may attend the special meeting. If you plan to attend the special meeting, you must be a shareholder of record as of _____, 2007 or, if you have beneficial ownership of shares of Dynege's common stock held by a bank, brokerage firm or other nominee, you must bring a brokerage statement or other evidence of your beneficial ownership of Dynege's common stock on _____, 2007 to be admitted to the special meeting.

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THE MERGER

Background of the Merger Agreement Transactions

In mid-2005, after an extensive analysis by Dynegy of the strategic options for itself and its two unregulated businesses, power generation and natural gas liquids, the Dynegy Board decided to exit the natural gas liquids business. As a result of this decision, in October 2005 Dynegy sold the natural gas liquids business to Targa Resources for approximately \$2.475 billion. During 2005, and in anticipation of the sale of its natural gas liquids business and receipt of the proceeds therefrom, Dynegy also assessed its options in the power generation sector of the energy business. These options included restructuring Dynegy to focus on generation activities, or a larger-scale consolidation transaction that could involve either public or private entities.

In that context, during late 2005 Dynegy engaged in a number of exploratory discussions regarding potential transactions with other companies in the power generation sector as well as with potential investors who were active in the sector. Those discussions included the exploration of various merger, acquisition and sale transactions. Discussions of potential transactions were held with several parties, including the LS Power Group. Each of these entities signed confidentiality agreements and received non-public information with which to evaluate a potential acquisition of, or merger with, Dynegy. Although discussions and information exchanges with all of these parties continued through the fall, by mid-November 2005, no definitive proposal had been received from any of them. Absent any definitive proposal, Dynegy's management and Board determined that these potential transactions were not viable and elected to move Dynegy forward as a stand-alone entity focused on the generation business. As part of this decision, Dynegy completed a series of liability management activities whereby it reduced outstanding debt, retired a preferred security and issued both unsecured debt and equity.

On June 2, 2006, Messrs. Williamson and Lednický from Dynegy met with Mr. Segal, the Chairman and Chief Executive Officer of the LS Power Group, and Mr. Bartlett, the President of LS Power Equity Advisors, L.P., in New York City to discuss the potential for a transaction between the LS Contributing Entities and Dynegy. Shortly prior to these discussions, the LS Power Group acquired assets from subsidiaries of Duke Energy. The potential transaction discussed involved a contribution by the LS Power Group of its operating entities, including the entities it had just acquired from subsidiaries of Duke Energy, in return for Dynegy stock. In addition, the executives discussed the potential for including certain development projects being pursued by the LS Contributing Entities. After that meeting, Dynegy and the LS Contributing Entities began preliminary due diligence investigations of each other based on publicly available and other general information.

On June 26, 2006, the LS Power Group and Dynegy entered into a mutual confidentiality agreement.

During July 2006, Dynegy and the LS Power Group exchanged non-public information and continued to conduct preliminary due diligence investigation activities. In addition, during that month, the parties discussed the principal terms and related issues that had arisen to date with respect to the proposed transaction. The principal terms included the amount of New Dynegy stock to be issued to the LS Power Group and the rights and restrictions attending such stock, New Dynegy's and the LS Power Group's relative ownership in the Development LLC and the rights of, and restrictions on, New Dynegy and the LS Power Group in connection with their respective interests in the Development LLC. Related issues included whether the New Dynegy stock issued to the LS Power Group would be a special class of stock, and the mechanics, timing and limitations under which members of the LS Power Group could sell the stock they would receive or distribute such stock to their investors. An additional issue involved the potential tax implications related to potential limitations on New Dynegy's utilization of Dynegy's historic tax losses if the LS Power Group were to hold more than approximately 40% of the outstanding stock of New Dynegy.

Based on the progress reached with respect to these preliminary matters, more detailed due diligence investigations began and the LS Power Group opened an electronic data room to Dynegy on July 28, 2006.

On July 17, 2006, Dynegy management presented an overview of the potential transaction with the LS Power Group at a regularly scheduled Dynegy Board meeting. The presentation included a discussion of Dynegy

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management's due diligence completed to date, the issues being negotiated in the potential transaction and Dynegy management's analysis of the economic attributes of the Contributed Entities. At that time, the Dynegy Board authorized management to continue negotiations with the LS Power Group regarding the potential transaction. Detailed due diligence investigations proceeded throughout the month of August 2006, while representatives of Dynegy and the LS Power Group continued to discuss the material terms of the potential transaction. These material terms included the matters described above, with particular attention being paid to governance and approval rights of the Class B Directors to be nominated by members of the LS Power Group, the ability of the LS Power Group to monetize the New Dynegy common stock it was expected to receive and governance and funding of the Development LLC.

At a special meeting of the Dynegy Board in New York City on August 10, 2006, Dynegy's management provided the Dynegy Board with a summary of the status of the negotiations and due diligence review with respect to the proposed transaction. The Dynegy Board also met with Mr. Segal and other executives of the LS Power Group to discuss various matters relating to a potential transaction, including the governance practices of the Dynegy Board and the role the Class B Directors would have on New Dynegy's Board of Directors.

Executives from both Dynegy and the LS Power Group met again in New York City on August 11, 2006. Key issues discussed included the number of Class B Directors to be nominated by members of the LS Power Group as holders of New Dynegy's Class B common stock, the actions over which these directors would have approval rights, the amount of cash consideration to be paid to the LS Power Group and ownership levels of each party in the Development LLC. It was agreed that the Development LLC would be a 50/50 joint venture. No agreement was reached on other remaining issues. Despite this lack of agreement, both Dynegy and the LS Power Group agreed that more detailed negotiations were appropriate.

After the August 11 meeting, the parties began discussing the potential to add unsecured subordinated junior notes as a form of consideration in the transaction.

On August 16, 2006 and August 28, 2006, respectively, Credit Suisse and Greenhill were retained as financial advisors to Dynegy. Given the size and transforming nature of the transaction being discussed, Dynegy's management and Board believed that it could benefit from two financial advisors. Credit Suisse and Greenhill both had long-standing relationships with Dynegy, but in different roles. Credit Suisse had historically acted as both a financial advisor and arranger for capital raising transactions. Greenhill had historically provided financial advice in connection with merger and acquisition transactions, including those discussed with third parties in the fall of 2005 described above.

Initial draft transaction documents were exchanged beginning the week of August 14, 2006. During the weeks of August 21 and 28, 2006, members of management of Dynegy, its legal advisor, Akin Gump Strauss Hauer & Feld LLP, and financial advisors met with members of management of the LS Power Group and their legal advisor, Cravath, Swaine & Moore LLP, in New York City to discuss definitive documentation.

On August 24, 2006, Dynegy management provided the Dynegy Board with a status update on the negotiations with and due diligence review of the LS Power Group. Topics discussed with the Dynegy Board included the results of due diligence to date, and a review of those items that had generally been agreed between Dynegy and the LS Power Group as well as those items on which no agreement had been reached. Open items included the total amount and forms of consideration (stock, debt and cash) to be received by the LS Power Group, the number of New Dynegy Board members to be appointed by the holders of Class B common stock and the actions over which these directors would have approval rights. The Dynegy Board took no action related to a potential transaction at that time but supported management's continued negotiations with the LS Power Group.

On September 6, 2006, Messrs. Williamson and Segal met and exchanged views as to the appropriate financial consideration for the potential transaction, the apportionment of such consideration among stock, debt and cash, and the actions over which the Class B Directors would have approval rights.

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On September 8, 2006, Mr. Segal met with an advisory committee that represents certain of the owners of the LS Power Group. That committee gave approval to proceed with a potential transaction, subject to reaching specified final terms.

On September 10, 2006, the Dynege Board held a special meeting to review the status of the transaction and to discuss the major terms of and matters associated with the transaction. At that meeting, Dynege's management sought and received the views of the Dynege Board concerning various matters related to the rights the LS Power Group would be given with respect to their ownership position in New Dynege. In addition, both Credit Suisse and Greenhill gave presentations to the Dynege Board as to their methodology in considering the fairness of the potential transaction using an assumed valuation that was substantially consistent with the price that was finally agreed upon. The assumed valuation these financial advisors used in the presentations was based on the earlier negotiations (at which no agreement was reached) regarding amount and form of consideration between Dynege and the LS Power Group. At that meeting, the Dynege Board authorized Dynege management to agree upon a transaction having certain parameters that were consistent with those upon which final agreement was reached, subject to further Dynege Board approval.

From September 11 through September 14, 2006, members of Dynege and the LS Power Group management and their legal advisors and Dynege's financial advisors met in New York City to finalize documentation for the transaction. On September 12, 2006, Messrs. Williamson and Segal tentatively agreed via telephone that the consideration to be paid to the LS Power Group would consist of 340 million shares of New Dynege's Class B common stock, \$100 million in cash and \$275 million in aggregate principal amount of the New Dynege Notes. This agreement was subject to Dynege Board approval and completion of definitive documentation.

On September 14, 2006, the Dynege Board met again at a regularly scheduled meeting and Dynege's management updated the Dynege Board as to the status of its due diligence review, the negotiations and other aspects of the proposed merger, and Akin Gump delivered its final due diligence report. At that meeting, Credit Suisse and Greenhill each also reviewed with the Dynege Board their respective financial analyses of the consideration to be received by the holders of Dynege Class A common stock in the Merger and rendered to the Dynege Board their oral opinions, which were confirmed by the delivery of written opinions from Credit Suisse and Greenhill, each dated September 14, 2006, to the effect that, as of that date and based on and subject to the factors, assumptions and limitations described in the respective opinions, the consideration to be received by the holders of Dynege Class A common stock in the Merger as tentatively agreed between Messrs. Williamson and Segal on September 12, 2006 was fair, from a financial point of view, to such holders. For a discussion of the opinions of Credit Suisse and Greenhill, see *Opinions of Financial Advisors to Dynege*.

At the September 14, 2006 meeting, the Dynege Board unanimously approved execution of the transaction documents containing the pricing terms tentatively agreed upon by Messrs. Williamson and Segal on September 12. Documentation was completed and signed early on the morning of September 15.

On September 15, 2006, the transaction was announced before the market opened.

Recommendation of the Dynege Board; Reasons of Dynege for the Merger Agreement Transactions

Recommendation of the Dynege Board

The Dynege Board unanimously determined that the Merger Agreement and the Merger Agreement Transactions are advisable, fair to and in the best interests of Dynege's shareholders. Accordingly, the Dynege Board unanimously approved the Merger Agreement and the Merger Agreement Transactions, and recommends that Dynege's shareholders vote **FOR** the adoption of the Merger Agreement and the approval of the Merger. For a discussion of the interests of the directors and management of Dynege in the Merger Agreement Transactions, see *Interests of Dynege's Directors and Executive Officers in the Merger*.

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Reasons of Dynege for the Merger Agreement Transactions

The Dynege Board, in reaching its decision to approve the Merger Agreement Transactions, consulted with Dynege's management, its financial advisors and its legal advisor, and considered the following factors as generally supporting its decision to approve the Merger Agreement Transactions:

increased fuel and dispatch diversity of the combined generation portfolios, and in particular, the opportunity to transform the Dynege portfolio from one with cash flows primarily provided by coal-fired assets and, to a lesser extent, gas-fired peaking assets, to a New Dynege portfolio with significant cash flows provided by both the existing Dynege assets as well as efficient gas-fired intermediate-load assets with significant forward contracts. The Dynege Board believed that stronger and more stable cash flows, and therefore greater financial stability, would result from the combination than could have been achieved from the existing Dynege portfolio.

increased geographic diversity, particularly through the expansion of Dynege's Northeast portfolio and the acquisition of a significant portfolio of power generation facilities in the Western United States. The Dynege Board believed that such increased geographic diversity would be beneficial due to anticipated continued power demand growth in the Northeast and West.

the acquisition of both a portfolio of development projects that could provide future growth to New Dynege, including the acquisition of the LS Power Group's approximately 40% undivided interest in Plum Point, a large-scale greenfield coal-fired generation facility under construction in Arkansas, and access to the development expertise of the LS Contributing Entities, a power project developer with a proven track record. The Dynege Board did not believe that Dynege, as a stand-alone entity, had this level of capability to develop greenfield projects, and believed that it was unlikely that Dynege could obtain that capability on better terms than through the Development LLC.

immediate improvement to financial measurements tied to cash flow, which the Dynege Board believed would be viewed favorably by the capital markets.

the benefits of consolidation to participants in the merchant power generation industry, consisting primarily of greater portfolio diversification and economies of scale. The Dynege Board believed that New Dynege should be better positioned to participate in further potential sector consolidation than Dynege, as a stand-alone entity, would be.

the ability to use stock as a significant part of the transaction consideration, resulting in an improved credit profile. The Dynege Board believed that New Dynege's quantitative and qualitative credit characteristics, including its ratio of debt to capital and the predictability of its cash flow, would represent an improvement over Dynege's current credit characteristics.

the balance of rights and restrictions in the Shareholder Agreement with the LS Contributing Entities. While the LS Control Group would have a significant share ownership position in New Dynege, the terms of the Shareholder Agreement would restrict the exercise of certain of the rights otherwise associated with such a position.

the terms of the current shareholder agreement with Chevron and the resulting impact of the Merger Agreement Transactions on Chevron's share ownership. As a result of the Merger Agreement Transactions, Chevron will hold shares of New Dynege's Class A common stock and will no longer have the special shareholder rights it currently has in Dynege. This was viewed to be beneficial because Dynege sold its natural gas liquids business in 2005, and thus Dynege's business, and New Dynege's business in the future,

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were no longer as consistent with Chevron's business objectives as in the past.

the tax-free nature of the Merger Agreement Transactions to Dynegy's shareholders. The Merger will not result in any adverse tax consequences to a Dynegy shareholder that does not have certain unusual tax attributes.

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the financial presentations of Credit Suisse and Greenhill. The two firms provided separate opinions, dated September 14, 2006, to the Dynegy Board as to the fairness, from a financial point of view, to the holders of Dynegy's Class A common stock of the consideration to be received in the Merger, as more fully described below under Opinions of Financial Advisors to Dynegy. The Dynegy Board also considered the following factors relating to potential adverse consequences of the proposed transaction to Dynegy:

the presence of a large shareholder holding a separate class of shares and having special rights associated with those shares;

the actions, such as asset sales or the issuance of equity, New Dynegy may have to take to meet its capital needs, including the repayment of the New Dynegy Notes, the funding of planned development activities and the provision of adequate liquidity to support New Dynegy's cash and collateral needs;

the potential that the transaction would not be consummated, and the resulting expenditure of resources without receipt of the expected benefits;

the limited ability of Dynegy to terminate the Merger Agreement and related agreements based on changed circumstances affecting either Dynegy or the LS Contributing Entities; and

the absence of contractual indemnities for breaches of representations and warranties by the LS Contributing Entities.

The Dynegy Board determined that these negative factors were outweighed by the potential benefits of the Merger Agreement Transactions.

This discussion of the information and factors considered by the Dynegy Board is for illustrative purposes only and is not intended to be exhaustive. In making its determination to approve the Merger Agreement Transactions, the Dynegy Board did not assign any relative or specific weights to the various factors that it considered in reaching its determination that the Merger Agreement and the Merger Agreement Transactions are advisable and fair to, and in the best interests of, Dynegy and Dynegy's shareholders. Rather, the Dynegy Board viewed its position and recommendation as being based on the totality of the information presented to it, and the factors it considered. In addition, individual members of the Dynegy Board, in making their decisions, may have given different weight to different information and factors.

Opinions of Financial Advisors to Dynegy

Opinion of Credit Suisse

Dynegy retained Credit Suisse to act as Dynegy's financial advisor in connection with the Merger. In connection with Credit Suisse's engagement, Dynegy requested that Credit Suisse evaluate the fairness, from a financial point of view, to the holders of Dynegy's Class A common stock of the consideration to be received in the Merger. On September 14, 2006, the Dynegy Board met to review the proposed Merger, the proposed Contributions of the Contributed Entities and the terms of the Merger Agreement. During this meeting, Credit Suisse reviewed with the Dynegy Board certain financial analyses as described below and rendered an oral opinion to the Dynegy Board, which opinion was confirmed by delivery of a written opinion dated September 14, 2006, to the effect that, as of that date and based on and subject to the factors, assumptions and limitations described in Credit Suisse's opinion, the consideration to be received by the holders of Dynegy's Class A common stock in the Merger was fair, from a financial point of view, to the holders of Dynegy's Class A common stock.

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The full text of Credit Suisse's written opinion, dated September 14, 2006, to the Dynege Board, which sets forth, among other things, the procedures followed, assumptions made, matters considered and limitations on the scope of the review undertaken by Credit Suisse in rendering its opinion, is attached as Annex G hereto and is incorporated herein by reference in its entirety. Holders of Dynege's Class A common stock are encouraged to read this opinion carefully in its entirety. Credit Suisse's opinion was provided to the Dynege Board for its information in connection with its evaluation of the consideration to be received by the holders of Dynege's Class A common stock in the Merger and relates only to the fairness, from a financial point of view, of the consideration to be received in the Merger to the holders of Dynege's Class A common stock. Credit Suisse's opinion does not address any other aspect or implication of the proposed Merger, Contributions or related transactions or any agreement, arrangement or undertaking entered into in connection with such transactions or otherwise and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act on any matter relating to the proposed Merger or Contributions. The summary of Credit Suisse's opinion herein is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Credit Suisse reviewed the Merger Agreement (including the exhibits thereto) and certain publicly available business and financial information relating to Dynege and the Contributed Entities. Credit Suisse also reviewed certain other information relating to Dynege and the Contributed Entities, including financial forecasts relating to Dynege and the Contributed Entities and information relating to certain anticipated tax benefits provided to or discussed with Credit Suisse by Dynege, and held discussions with the managements of Dynege and the LS Contributing Entities regarding the business and prospects of Dynege and the Contributed Entities, respectively. Credit Suisse also considered certain financial and stock market data of Dynege and certain financial data of the Contributed Entities, and compared that data with similar data for certain other companies that focus primarily on the power generation sector and whose businesses Credit Suisse deemed similar to those of Dynege and the Contributed Entities and considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced. Credit Suisse considered Dynege's existing articles of incorporation, bylaws and shareholder agreement with Chevron. Credit Suisse also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which it deemed relevant.

In connection with its review, Credit Suisse did not assume any responsibility for independent verification of any of the foregoing information and relied on such information being complete and accurate in all material respects. With respect to the financial forecasts for Dynege and the Contributed Entities that Credit Suisse reviewed, the management of Dynege advised Credit Suisse, and Credit Suisse assumed, that such forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Dynege as to the future financial performance of Dynege and the Contributed Entities, including certain tax benefits anticipated by the management of Dynege and the amount, realization and timing thereof. Credit Suisse also, with Dynege's consent, (i) relied on the estimates of the management of Dynege as to the range of values for certain development assets being contributed to New Dynege by the LS Contributing Entities, and (ii) did not make any distinction between New Dynege's Class A common stock and New Dynege's Class B common stock, and did not give effect to any relative premium or discount based on control, liquidity, voting rights or other rights, restrictions or aspects relating thereto or the voting power of any holder thereof as a result of the Merger and the Contributions. Credit Suisse assumed, with Dynege's consent, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Merger and the Contributions, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Dynege, the Contributed Entities, New Dynege or the Merger and the Contributions and that the Merger and the Contributions will be completed in accordance with the terms of the Merger Agreement without waiver, modification or amendment of any material term, condition or agreement thereof. Dynege also informed Credit Suisse, and Credit Suisse assumed, that the Merger and Contributions will be treated as tax-free exchanges for federal income tax purposes as contemplated by the Merger Agreement.

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In addition, Credit Suisse was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Dynegy or the Contributed Entities, nor was Credit Suisse furnished with any such evaluations or appraisals. Credit Suisse's opinion addressed only the fairness, from a financial point of view, to the holders of Dynegy's Class A common stock of the exchange ratio and did not address any other aspect or implication of the Merger and the Contributions or any agreement, arrangement or understanding entered into in connection with such transactions or otherwise. Credit Suisse's opinion was necessarily based upon information made available to it as of the date of the opinion and financial, economic, market and other conditions as they existed and could be evaluated on the date of the opinion. Credit Suisse did not express any opinion as to what the value of shares of New Dynegy's Class A common stock actually will be when issued to the holders of Dynegy's Class A common stock pursuant to the Merger or the prices at which shares of New Dynegy's Class A common stock or New Dynegy's Class B common stock or any other securities of New Dynegy will trade or be transferable at any time. Credit Suisse's opinion did not address the relative merits of the Merger and the Contributions as compared to alternative transactions or strategies that might be available to Dynegy, nor did it address the underlying business decision of Dynegy to proceed with the Merger and related transactions. Except as described above, Dynegy imposed no other limitations on Credit Suisse with respect to the investigations made or procedures followed in rendering its opinion.

In preparing its opinion, Credit Suisse performed a variety of financial and comparative analyses, including those described below. The summary of Credit Suisse's analyses described below is not a complete description of the analyses underlying Credit Suisse's opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Credit Suisse made qualitative judgments with respect to the analyses and factors that it considered. Credit Suisse arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, Credit Suisse believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Credit Suisse considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Dynegy and the LS Contributing Entities. No company, transaction or business used in Credit Suisse's analyses as a comparison is identical to Dynegy or the Contributed Entities, their businesses or the proposed Merger and Contributions, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in Credit Suisse's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Credit Suisse's analyses are inherently subject to substantial uncertainty.

Credit Suisse was not requested to, and it did not, recommend the specific form or amount of consideration payable in the proposed Merger and Contributions, which consideration was determined through negotiation between Dynegy and the LS Contributing Entities, and the decision to enter into the Merger and related transactions was solely that of the Dynegy Board and the LS Contributing Entities. Credit Suisse's opinion and financial analyses were only one of many factors considered by the Dynegy Board in its evaluation of the proposed Merger and Contributions and should not be viewed as determinative of the views of the Dynegy Board or Dynegy's management with respect to the Merger, the exchange ratio or the consideration to be received in the Merger Agreement Transactions by the LS Contributing Entities.

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The following is a summary of the material financial analyses reviewed with the Dynegy Board in connection with Credit Suisse's opinion dated September 14, 2006. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse's financial analyses.**

Credit Suisse's analyses were based on an implied aggregate consideration payable by New Dynegy to the LS Contributing Entities in connection with the proposed Contributions of approximately \$2,384 million, consisting of:

340 million shares of New Dynegy's Class B common stock, valued at \$5.91 per share based on the closing price of Dynegy's Class A common stock on September 12, 2006;

the New Dynegy Notes; and

\$100 million in cash.

Credit Suisse performed the following Discounted Cash Flow Analysis, Selected Companies Analysis and Selected Precedent Transactions Analysis of the Contributed Entities and Dynegy, and the following Contribution Analysis, each of which is a standard valuation methodology customarily undertaken in transactions of this type. The main purpose of each of these analyses was to derive an implied reference range of percentage equity ownership in New Dynegy for the LS Contributing Entities, which we refer to as the implied equity ownership reference range for the LS Contributing Entities, and compare that range with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution (i.e., 40.5% aggregate equity ownership in New Dynegy).

In each of the Discounted Cash Flow Analysis, Selected Companies Analysis and Selected Precedent Transactions Analysis, the implied equity ownership reference range for the LS Contributing Entities was calculated based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynegy.

Discounted Cash Flow Analysis

Credit Suisse performed separate discounted cash flow analyses of the Contributed Entities and Dynegy and derived implied equity reference ranges for the Contributed Entities and Dynegy. Generally, a discounted cash flow analysis is designed to provide insight into the potential value of a company based on its estimated future cash flows and expenditures. As summarized below under the caption Implied Aggregate Consideration Reference Range, the results of the discounted cash flow analyses were used to derive a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in the Contribution, which range was then compared with the implied aggregate equity reference range derived for the Contributed Entities. As summarized below under the caption Implied Equity Ownership Reference Range, the results of the discounted cash flow analyses were also used to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynegy, which range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution.

The Contributed Entities. Credit Suisse performed a discounted cash flow analysis of the Contributed Entities to calculate the estimated present value of the stand-alone, unlevered, after-tax free cash flows that the Contributed Entities could generate from calendar years 2007 through calendar year 2015. Unlevered, after-tax free cash flows represent the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations of the applicable entity. Estimated financial data for the Contributed Entities were

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based on Dynege management's estimates. Credit Suisse calculated a range of estimated terminal values for the Contributed Entities by multiplying the Contributed Entities' estimated earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA, a financial measure commonly used to estimate terminal values when performing a discounted cash flow analysis, for calendar year 2015 by selected multiples ranging from 8.5x to 10.0x. Terminal value is an estimate of the value of the applicable entity beyond the projected period. The estimated after-tax free cash flows and terminal values were then discounted to present value using discount rates of 8.5% to 9.5%. This analysis indicated the following implied aggregate equity reference range for the Contributed Entities, as compared with the implied aggregate consideration payable by New Dynege to the LS Contributing Entities in connection with the Contributions:

Implied Aggregate Equity**Reference Range for the Contributed Entities**

\$1,777 million \$2,475 million

Implied Aggregate Consideration**Payable for the Contributions**

\$2,384 million

Dynege. Credit Suisse also performed a discounted cash flow analysis of Dynege to calculate the estimated present value of the stand-alone, unlevered, after-tax free cash flows that Dynege could generate from calendar year 2007 through calendar year 2011. Estimated financial data for Dynege were based on Dynege management's estimates. Credit Suisse calculated a range of estimated terminal values for Dynege by multiplying Dynege's estimated EBITDA for calendar year 2011 by selected multiples ranging from 8.0x to 9.5x. The estimated after-tax free cash flows and terminal values were then discounted to present value using discount rates of 10.5% to 11.5%. This analysis indicated the following implied aggregate equity reference range for Dynege:

Implied Aggregate**Equity Reference Range for Dynege**

\$2,497 million \$3,562 million

Implied Aggregate Consideration Reference Range. Credit Suisse derived a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions, based on the New Dynege Notes and cash components of the aggregate consideration and a range of implied values for the equity component of the aggregate consideration derived from the implied equity reference range for Dynege indicated by the discounted cash flow analysis. This analysis indicated the following implied aggregate consideration reference range, as compared with the implied aggregate equity reference range for the Contributed Entities based on the discounted cash flow analysis:

Implied Aggregate**Consideration Reference Range**

\$2,074 million \$2,793 million

Implied Aggregate Equity Reference**Range for the Contributed Entities**

\$1,777 million \$2,475 million

Implied Equity Ownership Reference Range. Based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynege, as indicated by the discounted cash flow analysis, Credit Suisse derived an implied equity ownership reference range in New Dynege for the LS Contributing Entities, taking into account the New Dynege Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. The resulting implied equity ownership reference range was then compared with the percentage equity ownership in New Dynege that the LS Contributing Entities would receive in the Contributions:

Implied Equity Ownership**Reference Range for the LS Contributing Entities**

30.6% 49.7%

LS Contributing Entities**Equity Ownership in New Dynege**

40.5%

Selected Companies Analysis

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Credit Suisse performed separate selected companies analyses of the Contributed Entities and Dynegy and derived implied equity reference ranges for the Contributed Entities and Dynegy. Generally, a selected

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companies analysis is designed to provide insight into the potential value of a company based on a review of the market prices of other companies in the relevant industry in relation to the financial metrics of those companies. As summarized below under the caption *Implied Aggregate Consideration Reference Range*, the results of the selected companies analyses were used to derive a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in the Contribution, which range was then compared with the implied aggregate equity reference range derived for the Contributed Entities. As summarized below under the caption *Implied Equity Ownership Reference Range*, the results of the selected companies analyses were also used to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynegy, which range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution.

The Contributed Entities. Credit Suisse reviewed financial and stock market information of the following five selected publicly traded companies in the electric power generation industry:

Mirant Corporation;

NRG Energy, Inc.;

Reliant Energy, Inc.;

TXU Corp.; and

Dynegy Inc.

Credit Suisse also reviewed financial and operational information for the following four selected privately held gas-fired generation companies:

Boston Generating, LLC;

Lake Road Generating Company, LP;

Liberty Electric Power LLC; and

Mach Gen, LLC.

Credit Suisse reviewed, among other things, enterprise values as a multiple of estimated EBITDA, and estimated after-tax free cash flow yield as a percentage of equity values, for calendar years 2006, 2007 and 2008 for the selected publicly traded companies. Credit Suisse also reviewed enterprise values as a multiple of electric power generation capacity for the selected privately held gas-fired generation companies. Credit Suisse then applied selected ranges of multiples derived from the selected companies to the corresponding financial and operational data for the Contributed Entities in order to derive an implied aggregate equity reference range for the Contributed Entities. All current market data were based on closing stock prices on September 12, 2006. Estimated financial data for Dynegy were based on Dynegy management's estimates and publicly available research analysts' estimates, and estimated financial data for the other selected publicly held companies were based on publicly available research analysts' estimates. Estimated financial data for the Contributed Entities were based on Dynegy management's estimates. This analysis indicated the following implied aggregate equity reference range for the Contributed Entities, as compared with the implied aggregate consideration payable by New Dynegy for the Contributions:

Implied Aggregate Equity

Implied Aggregate Consideration

Reference Range for the Contributed Entities

Payable for the Contributions

\$1,648 million \$2,677 million

\$2,384 million

Dynegy. Credit Suisse reviewed financial and stock market information of *Dynegy* and the following four selected publicly traded companies in the electric power generation industry:

Mirant Corporation;

NRG Energy, Inc.;

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Reliant Energy, Inc.; and

TXU Corp.

Credit Suisse reviewed, among other things, enterprise values as a multiple of estimated EBITDA, and estimated after-tax free cash flow yield as a percentage of equity values, for calendar years 2006, 2007 and 2008 for the selected companies. Credit Suisse then applied selected ranges of multiples derived from the selected companies to the corresponding financial and operational data for Dynege in order to derive an implied aggregate equity reference range for Dynege. All current market data were based on closing stock prices on September 12, 2006. Estimated financial data for Dynege were based on Dynege management's estimates, and estimated financial data for the selected companies were based on publicly available research analysts' estimates. This analysis indicated the following implied aggregate equity reference range for Dynege:

Implied Aggregate

Equity Reference Range for Dynege

\$2,248 million \$3,448 million

Implied Aggregate Consideration Reference Range. Credit Suisse derived a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions, based on the New Dynege Notes and cash components of the aggregate consideration and a range of implied values for the equity component of the aggregate consideration derived from the implied equity reference range for Dynege indicated by the selected companies analysis. This analysis indicated the following implied aggregate consideration reference range, as compared with the implied aggregate equity reference range for the Contributed Entities based on the selected companies analysis:

Implied Aggregate

Implied Aggregate Equity Reference

Consideration Reference Range

Range for the Contributed Entities

\$1,906 million \$2,717 million

\$1,648 million \$2,677 million

Implied Equity Ownership Reference Range. Based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynege, as indicated by the selected companies analysis, Credit Suisse derived an implied equity ownership reference range in New Dynege for the LS Contributing Entities, taking into account the New Dynege Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. The resulting implied equity ownership reference range was then compared with the percentage equity ownership in New Dynege that the LS Contributing Entities would receive in connection with the Contributions:

Implied Equity Ownership Reference

LS Contributing Entities

Range for LS Contributing Entities

Equity Ownership in New Dynege

29.3% 55.1%

40.5%

Selected Precedent Transactions Analysis

Credit Suisse performed separate selected precedent transactions analyses of the Contributed Entities and Dynege and derived implied equity reference ranges for the Contributed Entities and Dynege. Generally, a selected precedent transactions analysis is designed to provide insight into the potential value of a company based on a review of the financial terms implied by the selected transactions. As summarized below under the caption **Implied Aggregate Consideration Reference Range**, the results of the selected precedent transactions analyses were used to derive a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in the Contribution, which range was then compared with the implied aggregate equity reference range derived for the Contributed Entities. As summarized below under the caption **Implied Equity Ownership Reference Range**, the results of the selected precedent transactions analyses were also used to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynege, which range was then compared with the percentage equity ownership in New Dynege that the LS Contributing Entities would receive in the Contribution.

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The Contributed Entities. Credit Suisse reviewed the purchase price multiples implied in the following 25 selected transactions in five geographical regions involving gas-fired power generation assets:

West

Buyer	Seller	Plant/Portfolio
LS Power Group	PPL Corporation	Griffith (50%)
LS Power Group	Duke Energy Corporation	DENA Portfolio
NRG Energy, Inc.	Dynege Inc.	West Coast Power (50%)
Nevada Power Company	Pinnacle West Capital Corporation	Silverhawk (75%)
Sempra Energy, Inc.	Reliant Energy, Inc.	El Dorado (50%)

Northeast

Buyer	Seller	Plant/Portfolio
Duke Energy North America, LLC	UIL Holdings Corporation	Bridgeport Energy (33.3%)
Dynege	Exelon Corporation	Independence

South (ERCOT)

Buyer	Seller	Plant/Portfolio
Centrica Plc	TECO Energy, Inc.	Frontera
Public Service Enterprise Group Incorporated	TECO Energy, Inc.	Odessa (50%) / Guadalupe (50%)
Centrica Plc	FPL Energy, LLC	Bastrop Energy Center
Calpine Corporation	NRG Energy, Inc.	Brazos Valley

Southeast

Buyer	Seller	Plant/Portfolio
Duke Energy Corporation	Dynege Inc.	Rockingham
Westar Energy, Inc.	Oneok, Inc.	Spring Creek
Matlin Patterson Global Opportunities Partners LP	Duke Energy Corporation	Southeast Portfolio
Entergy Corporation	Cleco Corporation	Perryville

Midwest

Buyer	Seller	Plant/Portfolio
Exelon Corporation	Peoples Energy Corporation	Southeast Chicago Energy Project (29%)
Dynege Inc.	NRG Energy, Inc.	Rocky Road (50%)
Ameren Corporation	Aquila, Inc.	Portfolio
Ameren Corporation	NRG Energy, Inc.	Audrain
LS Power Group	Calpine Corporation	Ontelaunee Energy Center
American Electric Power Company, Inc.	Reliant Energy, Inc.	Ceredo Generating Station
American Electric Power Company, Inc.	Public Service Electric and Gas Company	Waterford
Cinergy Corporation	Allegheny Energy, Inc.	Wheatland
ArcLight Capital Partners, LLC / Tyr Capital, LLC	Allegheny Energy, Inc.	Lincoln
LS Power Group	NRG Energy, Inc.	Kendall

Credit Suisse reviewed, among other things, the purchase price paid or proposed to be paid in the selected transactions as a multiple of the electric power generation capacity of the target companies or assets, as the case may be. Credit Suisse then applied selected ranges of multiples derived from the selected transactions to the

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corresponding operational data for the applicable assets of the Contributed Entities in order to derive an implied aggregate equity reference range for the Contributed Entities. Financial and operational data of the selected transactions were based on publicly available information. The financial and operational data of the Contributed Entities were based on information provided by Dynegy's management. This analysis indicated the following implied aggregate equity reference range for the Contributed Entities, as compared with the implied aggregate consideration payable by New Dynegy in connection with the Contributions:

Implied Aggregate Equity Reference Range for the Contributed Entities	Implied Aggregate Consideration Payable for the Contributions
\$954 million \$2,016 million	\$2,384 million

Dynegy. Credit Suisse reviewed the purchase price multiples implied in the 25 selected transactions listed above, as well as the following selected transactions in four geographical regions involving coal-fired power generation assets:

Midwest

Buyer	Seller	Plant/Portfolio
Duquesne Light Holdings, Inc.	Pepco Holdings, Inc.	Portfolio
Buckeye Power, Inc.	Ohio Valley Electric Corporation	Clifty Creek, Kyger Creek
UGI Utilities, Inc.	Allegheny Energy, Inc.	Conemaugh (4.86%)
Mirant Corporation	Potomac Electric Power Company	Portfolio
PPL Corporation / Allegheny Energy, Inc.	Potomac Electric Power Company	Conemaugh (9.72%)
Reliant Energy Utilities, Inc.	Sithe Energies, Inc.	GPU Portfolio

Northeast

Buyer	Seller	Plant/Portfolio
Dominion Resources, Inc.	USGen New England, Inc.	Brayton Point / Salem Harbor
NRG Energy, Inc.	Wisconsin Energy Corporation	Bridgeport / New Haven Harbor

West

Buyer	Seller	Plant/Portfolio
Red Hawk Energy, LLC	NRG Energy	Mt. Poso Cogeneration (39.5%)
The AES Corporation	Southern California Edison Corporation / Nevada Power Company	Mohave (70%)
TransAlta Corp.	PacifiCorp and other sellers	Centralia

South (ERCOT)

Buyer	Seller	Plant/Portfolio
American National Power	Sempra Generation Company	Coletto Creek
PNM Resources, Inc.	Sempra Energy, Inc.	Twin Oaks Power
Brownsville Public Utilities Board	American Electric Power Company	Oklaunion (7.8%)
Sempra Energy, Inc. / Carlyle/Riverstone	American Electric Power Company Portfolio	Coletto Creek
Global Energy & Power Fund II, LP		
Golden Spread Electric Cooperative, Inc.	American Electric Power Company	Oklaunion (7.8%)
Sempra Energy, Inc.	Texas-New Mexico Power Company	Twin Oaks Power

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Credit Suisse reviewed, among other things, the purchase price paid or proposed to be paid in the selected transactions as a multiple of the electric power generation capacity of the target companies or assets, as the case may be. Credit Suisse then applied selected ranges of multiples derived from the selected transactions to the corresponding operational data for the applicable assets of Dynegy in order to derive an implied aggregate equity reference range for Dynegy. Financial and operational data of the selected transactions were based on publicly available information. The financial and operational data of Dynegy were based on information provided by Dynegy's management. This analysis indicated the following implied aggregate equity reference range for Dynegy:

**Implied Aggregate
Equity Reference Range for Dynegy**
\$1,891 million \$3,415 million

Implied Aggregate Consideration Reference Range. Credit Suisse derived a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions, based on the New Dynegy Notes and cash components of the aggregate consideration and a range of implied values for the equity component of the aggregate consideration derived from the implied equity reference range for Dynegy indicated by the selected precedent transactions analysis. This analysis indicated the following implied aggregate consideration reference range, as compared with the implied aggregate equity reference range for the Contributed Entities based on the selected precedent transactions analysis:

**Implied Aggregate
Consideration Reference Range**
\$1,663 million \$2,695 million

**Implied Aggregate Equity Reference
Range for the Contributed Entities**
\$954 million \$2,016 million

Implied Equity Ownership Reference Range. Based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynegy, as indicated by the selected precedent transactions analysis, Credit Suisse derived an implied equity ownership reference range in New Dynegy for the LS Contributing Entities, taking into account the New Dynegy Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. The resulting implied equity ownership reference range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contributions:

**Implied Equity Ownership
Reference Range for LS Contributing Entities**
16.0% 52.0%

**LS Contributing Entities Equity
Ownership in New Dynegy**
40.5%

Contribution Analysis

Credit Suisse performed a contribution analysis of the Contributed Entities and Dynegy, which is a comparison of the relative contributions of selected cash flow measures from the Contributed Entities and Dynegy to the combined entity. Through a review of the relative estimated contributions by the Contributed Entities and Dynegy of selected cash flow measures to New Dynegy, Credit Suisse was able to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynegy, which range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution.

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Credit Suisse reviewed the estimated contributions by the Contributed Entities, on the one hand, and Dynegy, on the other hand, to New Dynegy's estimated EBITDA and after-tax free cash flow for calendar years 2007 and 2008. Based on the estimated relative contribution by each entity, Credit Suisse then derived an implied equity ownership reference range for the LS Contributing Entities, taking into account the New Dynegy Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. Estimated financial information for the Contributed Entities and Dynegy were based on Dynegy management's estimates. This analysis indicated the following results:

	Implied Equity Ownership Reference Range for LS Contributing Entities		LS Contributing Entities Equity Ownership in New Dynegy
Based on Estimated EBITDA Contribution	26.9%	28.5%	40.5%
Based on Estimated Free Cash Flow Contribution	44.4%	48.5%	40.5%

Miscellaneous

Dynegy selected Credit Suisse based on Credit Suisse's qualifications, experience and reputation, and its familiarity with Dynegy and its business. Credit Suisse is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

From time to time, Credit Suisse and its affiliates in the past have provided, are currently providing and in the future may provide investment banking and other financial services to Dynegy unrelated to the proposed Merger and Contributions, for which services Credit Suisse and its affiliates have received, and would expect to receive, compensation. Credit Suisse and its affiliates also from time to time in the past have provided, are currently providing and in the future may provide investment banking and other financial services to one or more of the Contributed Entities and their respective affiliates, including their respective portfolio companies and managed funds, for which services Credit Suisse and its affiliates have received, and would expect to receive, compensation. In addition, Credit Suisse and its affiliates may provide investment banking and other financial services to New Dynegy subsequent to the completion of the Merger Agreement Transactions, for which services Credit Suisse and its affiliates would expect to receive compensation. Credit Suisse is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, Credit Suisse and its affiliates may acquire, hold or sell, for its own and its affiliates' accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of any of Dynegy and the Contributed Entities, as well as provide investment banking and other financial services to such entities. Neither Credit Suisse nor its affiliates are currently providing any investment banking or other financial services directly to the LS Contributing Entities or any of their respective affiliates in connection with the Merger or the Contributions.

Dynegy has agreed to pay Credit Suisse a customary fee for its financial advisory services in connection with the Merger and the Contributions, which is currently estimated to be approximately \$23 million, a significant portion of which is contingent upon the completion of the Merger and the Contributions and a portion of which became payable upon delivery of Credit Suisse's opinion. Dynegy also has agreed to reimburse Credit Suisse for its reasonable expenses, including the fees and expenses of legal counsel and any other advisor retained by Credit Suisse. In addition, Dynegy has agreed to indemnify Credit Suisse and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Opinion of Greenhill

Pursuant to an engagement letter, dated November 18, 2005, as amended and restated by the engagement letter dated August 28, 2006, Dynegy retained Greenhill to provide financial advisory services and to render an

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opinion to the Dynegy Board that the conversion of each outstanding share of Dynegy's Class A common stock and Dynegy's Class B common stock into the right to receive one share of New Dynegy's Class A common stock pursuant to the Merger (the Dynegy Merger Consideration) and after giving effect to the Contributions in exchange for cash, New Dynegy's Class B common stock and the issuance of the New Dynegy Notes (the LS Consideration), was fair, from a financial point of view, to the holders of Dynegy's common stock (other than Chevron and the LS Contributing Entities). On September 14, 2006, Greenhill delivered its oral opinion to the Dynegy Board, subsequently confirmed in writing, that, as of that date and based upon and subject to the limitations and assumptions stated in its opinion, the Dynegy Merger Consideration, after giving effect to the acquisition of the Contributed Entities and the issuance and payment of the LS Consideration, was fair, from a financial point of view, to the holders of Dynegy's common stock (other than Chevron and the LS Contributing Entities).

Greenhill's opinion was directed to, and provided for the use and benefit of, the Dynegy Board in connection with its consideration of the Merger. Greenhill's opinion to the Dynegy Board was one of the factors taken into consideration by the Dynegy Board in making its determination to approve the Merger Agreement. Greenhill did not recommend to Dynegy any specific amount or form of consideration or advise Dynegy that the amount or form of consideration provided in the Merger Agreement constituted the only appropriate amount or form of consideration for the proposed Merger Agreement Transactions.

The full text of Greenhill's written opinion, dated September 14, 2006, is attached as Annex H hereto and incorporated herein by reference. The summary of Greenhill's opinion that follows is qualified in its entirety by reference to the full text of the opinion. You are urged to read the opinion carefully and in its entirety to learn about the assumptions made, general procedures followed, matters considered and limits on the scope of the review undertaken by Greenhill in rendering its opinion.

In arriving at its opinion, Greenhill, among other things:

reviewed the drafts of the Merger Agreement and certain related documents dated as of September 14, 2006;

discussed past and current operations, financial conditions and prospects of the Contributed Entities with senior executives at the LS Contributing Entities and Dynegy;

reviewed certain publicly available financial statements of Dynegy;

reviewed certain other publicly available business and financial information relating to Dynegy and the Contributed Entities that Greenhill deemed relevant;

reviewed certain information, including financial forecasts and other financial and operating data concerning Dynegy and the Contributed Entities, prepared by management of Dynegy and the LS Contributing Entities, respectively, as well as the variations on such projections prepared by Dynegy;

discussed the information regarding the strategic, financial and operational benefits anticipated from the Merger and the acquisition of the Contributed Entities and the prospects of Dynegy (with and without the Merger and the acquisition of the Contributed Entities) prepared by management of Dynegy;

performed a discounted cash flow valuation of the Contributed Entities;

performed a discounted cash flow valuation of Dynegy;

reviewed the historical market prices and trading activity for Dynegy's common stock and analyzed its implied valuation multiples;

compared the value of the consideration furnished by the LS Contributing Entities with the trading valuations of certain publicly traded companies that they deemed relevant to an analysis of the Contributed Entities collectively;

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participated in discussions and negotiations among representatives of Dynege and its legal advisors and the LS Contributing Entities and its legal and financial advisors; and

performed such other analyses and considered such other factors as Greenhill deemed appropriate.

Greenhill also held discussions with the Dynege Board and Dynege's legal counsel to discuss the Merger, the acquisition of the Contributed Entities, the LS Consideration and the results of Greenhill's analysis and examination, and considered such other matters that it deemed relevant to its inquiry.

At the instruction of Dynege, in conducting its review and analysis and rendering its opinion, Greenhill assumed and relied upon, without independent verification, the accuracy and completeness of the information supplied or otherwise made available to it by the respective representatives and management of Dynege and the LS Contributing Entities for the purposes of its opinion and further relied upon the assurances of the representatives and management of Dynege and the LS Contributing Entities that they were not aware of any facts or circumstances that would make this information inaccurate or misleading. With respect to the respective financial projections of Dynege and the LS Contributing Entities and other data with respect to Dynege and the LS Contributing Entities that were furnished or otherwise provided to it, Greenhill assumed that these projections, estimates and data were reasonably prepared on a basis reflecting the best currently available estimates and good faith judgments of the respective managements of Dynege and the LS Contributing Entities as to those matters. At the instruction of Dynege, Greenhill relied upon financial forecasts, projections and valuations of those assets to be contributed to the Development LLC (as contemplated in the Merger Agreement) prepared by Dynege's management (which Greenhill also assumed was reasonably prepared on a basis reflecting the best currently available estimates and good faith judgments of the management of Dynege). Greenhill expressed no opinion with respect to these projections and data or the assumptions upon which they were based. In addition, Greenhill did not make any independent valuation or appraisal of the assets or liabilities of Dynege or the LS Contributing Entities, nor was Greenhill furnished with any such valuations or appraisals.

Greenhill assumed that the Merger Agreement Transactions would be completed without waiver of any material terms or conditions set forth in the Merger Agreement. Greenhill assumed that none of the Merger Agreement Transactions that may occur following the completion of the Merger will have any impact on the value of the merger consideration. Greenhill assumed that all material governmental, regulatory or other consents and approvals necessary for the completion of the Merger and the other Merger Agreement Transactions will be obtained without any effect on Dynege or the LS Contributing Entities or on the contemplated benefits of the transactions in any way materially adverse to Greenhill's analysis.

Greenhill's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Greenhill as of, the date of its opinion. Greenhill's opinion noted that subsequent developments may affect its opinion and Greenhill does not have any obligation to update, revise or reaffirm its opinion. With respect to the quantitative information, to the extent that it is based on market data, such information is based on market data as it existed on or before September 14, 2006, and is not necessarily indicative of current market conditions.

Greenhill was not requested to opine as to, and its opinion does not in any manner address, the underlying business decision to proceed with or effect the Merger Agreement Transactions. Greenhill was also not requested to opine as to, and its opinion does not in any manner address, the relative merits of those transactions in comparison to any other business strategies or transactions that may be available to Dynege or in which Dynege might engage or as to whether any transaction might be more favorable to Dynege as an alternative to those transactions. Greenhill did not express any opinion as to any aspect of the Merger Agreement Transactions, other than the fairness, as of the date of its opinion, of the Dynege Merger Consideration to be received by holders of Dynege's common stock pursuant to the Merger Agreement and after giving effect to the Contributions of the Contributed Entities and the issuance and payment of the LS Consideration, from a financial point of view to those holders (other than Chevron and the LS Contributing Entities). Greenhill's opinion does not address the

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reincorporation, as a result of the Merger Agreement Transactions, of Dynegy from Illinois to Delaware or any resultant change in the rights of a shareholder under Illinois law relative to Delaware law by virtue thereof or the terms and conditions of the Shareholder Agreement to be entered into by New Dynegy and the LS Contributing Entities and to become effective on the closing of the Merger, except to the extent, in each case, those matters affected as expressly stated in its opinion.

In connection with its review and analysis and rendering its opinion, Greenhill performed a number of analyses, including a stand-alone valuation analysis of Dynegy, a stand-alone valuation analysis of the Contributed Entities and a pro forma combined company (*i.e.*, New Dynegy) valuation. Set forth below is a summary of the material financial analyses performed and material factors considered by Greenhill to arrive at its opinion. Greenhill performed certain procedures, including each of the financial analyses described below, and reviewed with the Dynegy Board and senior management the assumptions upon which these analyses were based, as well as other factors. Although this summary describes the material analyses made by Greenhill in arriving at its opinion, it does not purport to describe all of the analyses performed or factors considered by Greenhill in this regard.

In connection with certain of the analyses discussed below, Greenhill selected a separate group of publicly traded companies that focus primarily in the merchant power generation sector, for each of Dynegy and the Contributed Entities, that engage in businesses reasonably comparable to those of Dynegy and the Contributed Entities, respectively. None of the selected companies is identical to Dynegy or the Contributed Entities. Accordingly, Greenhill's analysis of the selected companies necessarily involved complex considerations and judgments concerning the differences in financial and operating characteristics and other factors that would necessarily affect the analysis of the operating statistics, trading multiples and other financial ratios and valuations of the selected companies. In evaluating the comparable merchant power generation companies, Greenhill made judgments and assumptions concerning industry performance, general business, economic, market and financial conditions and other matters. Greenhill also made judgments as to the relative comparability of these companies to Dynegy and the Contributed Entities and judgments as to the relative comparability of the various valuation parameters with respect to the companies.

The preparation of an opinion regarding fairness is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. The preparation of an opinion regarding fairness does not involve a mathematical evaluation or weighing of the results of the individual analyses performed, but requires Greenhill to exercise its professional judgment, based on its experience and expertise, in considering a wide variety of analyses taken as a whole. Each of the analyses conducted by Greenhill was carried out in order to provide a different perspective on the financial terms of the proposed merger and add to the total mix of information available. Greenhill did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion about the fairness of the Dynegy Merger Consideration to the holders of Dynegy's common stock (other than Chevron and the LS Contributing Entities). Rather, in reaching its conclusion, Greenhill considered the results of the analyses in light of each other and ultimately reached its opinion based on the results of all analyses taken as a whole. Greenhill did not place particular reliance or weight on any particular analysis (and the order of analyses described below does not represent their relative importance or weight), but instead concluded that its analyses, taken as a whole, provided the basis for its determination. Accordingly, notwithstanding the separate factors summarized below, Greenhill believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, would create an incomplete view of the evaluation process underlying its opinion. No company or transaction used in the below analyses as a comparison is directly comparable to the Contributed Entities or Dynegy. In performing its analyses, Greenhill made numerous assumptions with respect to industry performance, business and economic conditions and other matters. Because the analyses performed by Greenhill are inherently subject to uncertainty, and are based upon numerous factors or events beyond the control of the parties or their respective advisors, these analyses are not necessarily indicative of future actual

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values or results, which may be significantly more or less favorable than suggested by these analyses. Consequently, none of Dynegy, the Contributed Entities, Greenhill or any other person assumes responsibility if future results are materially different from those suggested by these analyses. The analyses do not purport to be appraisals or to reflect the prices at which Dynegy could be sold in another transaction.

The financial analyses summarized below include information presented in tabular format. In order to fully understand Greenhill's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Greenhill's financial analyses.

Stand Alone Valuation of Dynegy

Dynegy Comparable Company Analysis. Greenhill reviewed enterprise value (a company's equity market value plus the value of its debt obligations net of its cash and cash equivalents) as multiples of estimated EBITDA, commonly referred to as EBITDA trading multiples, of Dynegy and the merchant power generation companies listed below. The companies chosen by Greenhill were:

AES Corporation;

Mirant Corp.;

NRG Energy Inc.;

Reliant Energy Inc.; and

TransAlta Corporation.

Greenhill chose to evaluate the EBITDA trading multiples of these companies because the EBITDA trading multiple of a merchant power generation company is among the most widely accepted metrics for the valuation of such an enterprise. Although no company is directly comparable to Dynegy, Greenhill selected these companies because it believed that they had characteristics that were instructive for purposes of its analysis. This analysis indicated the following mean and median trading multiples for the selected companies:

Mean and Median Enterprise Value/EBITDA		
2006E	2007E	2008E
Mean 8.9x	Mean 9.2x	Mean 8.7x
Median 8.8x	Median 9.7x	Median 8.3x

Greenhill reviewed the trading multiples for the selected companies. Greenhill then applied a range of selected multiples derived from the selected companies to corresponding financial data of Dynegy for the corresponding periods. In the case of management estimates, Greenhill made adjustments to the EBITDA estimates and to Dynegy's total debt balance to reflect the treatment of operating leases on certain facilities as long term debt. This analysis indicated the following enterprise valuation range and value per share for Dynegy:

Statistic	Implied Enterprise Value of Dynegy	Implied Equity Value of Dynegy's Common Stock Per Share
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Consensus EBITDA Forecast	\$ 4,460 million	\$6,682 million	\$	3.34	\$7.76
Management Estimates	\$ 4,997 million	\$7,928 million	\$	2.83	\$8.66

As of September 14, 2006, the last trading day prior to the announcement of the execution of the Merger Agreement, the closing price of Dynege's Class A common stock on the NYSE was \$5.76 per share. For the purposes of preparing its fairness opinion, Greenhill used the price of \$5.91, the closing price of Dynege's Class A common stock as of September 12, 2006.

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Research Analysts Price Targets Analysis. Greenhill reviewed and analyzed, and the table below presents, future public market trading price targets for Dynegy during the period between May 9, 2004 and September 7, 2006. These targets reflect each analyst's estimate of the future public market trading price of Dynegy's common stock at the end of the 12-month period beginning the date of each of the respective research reports and the current recommendation given for Dynegy's common stock.

Research Firm	Date	Recommendation	Target Share Price
Dahlman Rose & Co.	September 7, 2006	Buy	\$ 7.00
Banc of America	September 1, 2006	Neutral	\$ 6.00
Calyon Securities	August 31, 2006	Neutral	\$ 7.00
Matrix USA	August 18, 2006	Buy	
Lehman Brothers	August 16, 2006	Equal Weight/ Neutral	\$ 6.00
BroadWall Capital	August 11, 2006	Hold	\$ 5.50
RBC Capital Markets	August 10, 2006	Outperform	\$ 7.00
JPMorgan	July 26, 2006	Overweight	
Davenport & Co.	June 7, 2006	Neutral	
Citigroup	May 16, 2006	Hold	
Natexis Bleichroeder	May 9, 2006	N/A	\$ 6.00
First Global	September 29, 2004	Buy	

Seven of the 12 equity analysts that cover Dynegy have price targets which range from \$5.50 - \$7.00 per share.

Stand-Alone Valuations of the LS Contributing Entities

The LS Contributing Entities Comparable Company Analysis. Greenhill reviewed enterprise value as multiples of estimated EBITDA, commonly referred to as trading multiples, of the LS Contributing Entities and merchant power generation companies listed below. The companies chosen by Greenhill were:

AES Corporation;

Dynegy;

Mirant Corp.;

NRG Energy Inc.;

Reliant Energy Inc.; and

TransAlta Corporation.

Greenhill chose to evaluate the EBITDA trading multiples of these companies because the EBITDA trading multiple of a merchant power generation company is among the most widely accepted metrics for the valuation of such an enterprise.

Although no company is directly comparable to the LS Contributing Entities, Greenhill selected these companies because it believed that they had characteristics that were instructive for purposes of its analysis. This analysis indicated the following mean and median trading multiples for the selected companies:

**Mean and Median Enterprise
Value/EBITDA
2007E**
Mean 9.0x
Median 8.9x

**Mean and Median Enterprise
Value/EBITDA
2008E**
Mean 8.7x
Median 8.6x

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Greenhill reviewed the trading multiples for the selected companies. Greenhill then applied a range of selected multiples derived from the selected companies to corresponding financial data of the LS Contributing Entities for the corresponding periods. This analysis indicated the following valuation range of the equity value for the LS Contributing Entities:

Comparable Market EBITDA Multiples

\$1,052 million \$1,762 million

The LS Contributing Entities Discounted Cash Flow. A discounted cash flow analysis is a traditional method of evaluating the value of an asset using estimates of the future cash flows of the asset and taking into consideration the time value of money with respect to those future cash flows by calculating their present value. Present value refers to the current value of one or more future cash payments from the asset, which we refer to as that asset's cash flows, and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. Other financial terms used below include weighted average cost of capital, which refers to an average which represents the estimated expected return on all of a company's securities. Using discounted cash flow methodology, Greenhill calculated the present values of the estimated future cash flows for the LS Contributing Entities. In this analysis, Greenhill assumed a weighted average cost of capital of 7.5% and 8.5% and EBITDA terminal multiples of 9.5x and 8.5x, respectively, for high and low valuations of the operating portfolio of the LS Contributing Entities. This analysis indicated the following implied base case and downside case discounted cash flow valuations:

Discounted Cash Flow Valuation Summary

Base Case

Downside Case DCF

DCF Equity Value

\$1,987 million \$2,477 million

Equity Value

\$1,854 million \$2,341 million

Selected Precedent Transactions Analysis. Greenhill reviewed publicly available financial information relating to the following two transactions in the merchant power generation sector:

Completion Date	Acquirer	Target
December 2004	A private equity consortium (including Blackstone, Hellman & Friedman, KKR and Texas Pacific Group)	Texas Genco (assets held by CenterPoint Energy Inc.)
October 2005	NRG Energy Inc.	Texas Genco (assets held by a private equity consortium including Blackstone, Hellman & Friedman, KKR and Texas Pacific Group)

Greenhill determined that given the limited comparability of the selected precedent transactions in the merchant power generation sector, the precedent transactions would be of limited assistance in any comparative analysis with the LS Contributing Entities.

The majority of other transactions involving unregulated power plants have been done on an asset basis. As such, traditional financial results, such as earnings and EBITDA, are typically unavailable. In addition, no asset involved in such transactions is identical to the LS Contributing Entities or its business. Greenhill noted the complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the values of these assets, and determined that these precedent transactions would be of limited assistance in any comparative analysis with the LS Contributing Entities.

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Greenhill analyzed certain financial data on a pro forma basis for Dynegy and the LS Contributing Entities as a combined company following the Merger and the acquisition of the Contributed Entities. Greenhill used the forecasts for Dynegy and the LS Contributing Entities provided by Dynegy's executive management team to construct a financial model that examines the impact of the combination on Dynegy's financial condition. Specifically, Greenhill examined the impact of the combination on Dynegy's free cash flow per share and credit ratios. Free cash flow refers to the amount of cash a company has left over after it has paid all of its expenses and funded its capital expenditures.

Free Cash Flow Accretion Analysis

Free Cash Flow Accretion/(Dilution) Analysis Base Case (per share)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dynegy Standalone	\$ 0.37	\$ 0.32	\$ 0.14	\$ 0.48	\$ 0.72	\$ 0.37	\$ 0.53	\$ 0.26	\$ 0.06
Pro Forma	\$ 0.42	\$ 0.33	\$ 0.35	\$ 0.51	\$ 0.49	\$ 0.50	\$ 0.58	\$ 0.42	\$ 0.34

Free Cash Flow Accretion/(Dilution) Analysis Downside Case (per share)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dynegy Standalone	(\$ 0.15)	(\$ 0.25)	(\$ 0.58)	(\$ 0.38)	\$ 0.15	\$ 0.26	\$ 0.40	\$ 0.11	(\$ 0.11)
Pro Forma	\$ 0.09	(\$ 0.05)	(\$ 0.15)	(\$ 0.05)	\$ 0.30	\$ 0.49	\$ 0.60	\$ 0.44	\$ 0.20

Greenhill determined that the transaction is accretive to Dynegy's shareholders on a free cash flow per share basis in both the base case model and downside case model.

Pro Forma Credit Impact. Credit impact refers to an effect on a company's overall capacity to meet its financial obligations. Based on the analysis performed, and the assumptions and qualifications underlying such analysis, Greenhill determined that under the base case model, the credit impact of the transaction is roughly neutral, and that enhanced cash flow certainty may result in the credit profile being considered stronger overall.

Based on the analysis performed, and the assumptions and qualifications underlying such analysis, Greenhill determined that under the downside case model, the credit impact for Dynegy is significantly positive.

Contribution Analysis. Greenhill reviewed estimated future operating and financial data, including, among other things, EBITDA, free cash flow (FCF), discounted cash flow equity value and net megawatts of generation capacity for Dynegy and the LS Contributing Entities. Greenhill then performed a contribution analysis, calculating the percentage of the estimated EBITDA (for 2007 and 2008), free cash flow (for 2007 and 2008), discounted cash flow equity value (at both low and high ends of the range determined appropriate by Greenhill) and net megawatts of generation capacity that would be contributed by each of Dynegy and the LS Contributing Entities to New Dynegy. The following table sets forth the results of this analysis:

Pro Forma Contribution Analysis Base Case

	Dynegy	LS Contributing Entities
2007E EBITDA	71%	29%
2008E EBITDA	70%	30%
2007E FCF	57%	43%
2008E FCF	56%	44%
DCF Equity Value (High)	45%	55%
DCF Equity Value (Low)	41%	59%

Net Generation (Megawatts)	60%	40%
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Pro Forma Contribution Analysis Downside Case

	Dynege	LS Contributing Entities
2007E EBITDA	64%	36%
2008E EBITDA	65%	35%
2007E FCF	*	*
2008E FCF	*	*
DCF Equity Value (High)	15%	85%
DCF Equity Value (Low)	*	*
Net Generation (Megawatts)	60%	40%

* LS Contributing Entities account for more than 100% of the specified metric.

Greenhill noted that following the Merger Agreement Transactions, the LS Contributing Entities will own 40% of New Dynege's outstanding shares. Greenhill also noted that inclusive of the \$375 million cash and debt consideration, the LS Contributing Entities will receive approximately 45% of the value of the Merger Agreement Transactions.

Engagement of Greenhill

Dynege hired Greenhill based on its qualifications and expertise in providing financial advice to companies and on its reputation as a nationally recognized investment banking firm. Greenhill had no prior material relationship with Dynege or the LS Contributing Entities within the past two years. Pursuant to the engagement letter between Dynege and Greenhill, Greenhill will receive a fee of up to \$8 million from Dynege. A portion of this fee is contingent on (i) the signing of the Merger Agreement (20%), (ii) the adoption of the Merger Agreement and the approval of the Merger by Dynege's shareholders (20%) and (iii) the completion of the Merger and the acquisition of the Contributed Entities. To date, Greenhill has received 20% of its fee (*i.e.*, the portion contingent on the signing of the Merger Agreement).

Material U.S. Federal Income Tax Consequences to Dynege's Shareholders

The following summary discusses the anticipated material U.S. federal income tax consequences of the Merger Agreement Transactions to Dynege's shareholders and of holding or disposing of New Dynege's Class A common stock that will be received by Dynege's shareholders in the Merger Agreement Transactions, provided in both cases that such shareholders hold their shares of Dynege common stock as capital assets. This summary does not deal with special situations. For example, the summary does not address:

tax consequences to holders who may be subject to special tax treatment, such as expatriates, brokers and dealers in securities or currencies, financial institutions, mutual funds, tax-exempt entities, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, and insurance companies;

tax consequences to Dynege's shareholders who acquired their shares of Dynege common stock pursuant to the exercise of employee stock options or warrants or otherwise as compensation;

tax consequences to persons holding Dynege common stock as part of a hedging, integrated, constructive sale or conversion transaction, a straddle or other risk reduction transaction;

tax consequences to holders of outstanding Dynege stock options;

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tax consequences to U.S. holders , as defined below, of Dynegy common stock whose functional currency is not the U.S. dollar;

tax consequences to certain non-U.S. holders , as defined below, subject to special rules such as controlled foreign corporations , passive foreign investment companies and foreign personal holding companies ;

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alternative minimum tax consequences, if any; and

any state, local, foreign or other tax consequences.

If a partnership holds Dynege common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding Dynege common stock, you are strongly encouraged to consult your own tax advisor as to your tax treatment as a partner.

This summary is based on the Code, its legislative history, Treasury Department regulations, IRS rulings, and judicial decisions, all as of the date hereof. Any of these authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

This summary is not binding on the IRS and no ruling will be sought from the IRS as to the tax consequences of the Merger Agreement Transactions. This summary is not a complete analysis or description of all potential U.S. federal income tax consequences of the Merger Agreement Transactions. There can be no assurance that the IRS or the courts will agree with the statements and conclusions in the summary. **Accordingly, you are strongly encouraged to consult your own tax advisor concerning the specific U.S. federal income and estate tax consequences to you of the Merger Agreement Transactions relating to your own personal tax situation and any consequences arising under the laws of any state, local, foreign or other taxing jurisdiction.**

Considerations for U.S. Holders of Dynege Common Stock

The following is a summary of the material U.S. federal income tax consequences if you are a U.S. holder of Dynege common stock. Certain considerations for non-U.S. holders of Dynege common stock are described under *Considerations for Non-U.S. Holders of Dynege Common Stock* below. U.S. holder means a beneficial owner of Dynege common stock that is for U.S. federal income tax purposes:

a citizen or resident of the United States;

a corporation, or a partnership or other entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any political subdivision of the United States;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if (i) it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

You will not recognize gain or loss on the exchange of your Dynege common stock for New Dynege Class A common stock pursuant to the Merger. Your tax basis in New Dynege's Class A common stock received in the Merger will be the same as your basis in Dynege's common stock exchanged in the Merger. Your holding period for New Dynege's Class A common stock received in the Merger will include the period for which you held Dynege's common stock exchanged in the Merger.

Distributions, if any, on New Dynege Class A common stock will constitute dividends for U.S. federal income tax purposes to the extent of New Dynege's current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent that a U.S. holder receives a distribution on common stock that exceeds New Dynege's current and accumulated earnings and profits, the distribution will be treated first as a non-taxable return of capital reducing the holder's tax basis in New Dynege's Class A common stock. Any distribution in excess of the U.S. holder's tax basis in the common stock will be treated as capital gain. Dividends paid to an individual U.S. holder in taxable years beginning before 2009 that constitute qualified dividend income generally will be taxable at a preferential rate of 15%.

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A U.S. holder of New Dynege's Class A common stock will generally recognize gain or loss upon the sale, exchange, redemption or other taxable disposition of such common stock measured by the difference between:

the amount of cash and the fair market value of any property received; and

the U.S. holder's tax basis in such stock.

Gain or loss on the disposition of New Dynege's Class A common stock will be capital gain or loss and will be long-term capital gain or loss if the holding period of the common stock disposed of exceeded one year. Net long-term capital gain recognized by non-corporate U.S. holders prior to 2011 is generally taxable at a maximum rate of 15%. The deductibility of net capital losses is subject to limitations.

Considerations for Non-U.S. Holders of Dynege Common Stock

The following is a summary of the material U.S. federal income tax consequences if you are a non-U.S. holder of Dynege common stock. Non-U.S. holder means a beneficial owner of a share of common stock that is not a U.S. holder. Special rules may apply to certain non-U.S. holders such as controlled foreign corporations, passive foreign investment companies, and foreign personal holding companies. All non-U.S. holders are strongly urged to consult their own tax advisors to determine the U.S. federal, state, local, and other tax consequences that may be relevant to them.

You will not recognize gain or loss on the exchange of your Dynege's common stock for New Dynege Class A common stock pursuant to the Merger. Your tax basis in New Dynege's Class A common stock received in the Merger will be the same as your basis in Dynege's common stock exchanged in the Merger. Your holding period for New Dynege's Class A common stock received in the Merger will include the period for which you held Dynege's common stock exchanged in the Merger.

Any dividends paid to you with respect to your shares of New Dynege's Class A common stock generally will be subject to U.S. federal withholding tax at a 30% rate or such lower rate as may be specified by an applicable treaty. However, dividends that are effectively connected with the conduct of a trade or business within the United States or, where an applicable tax treaty so provides, are attributable to a U.S. permanent establishment, generally are not subject to the withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates. Certain certification and disclosure requirements must be complied with for effectively connected income to be exempt from withholding. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable treaty.

A non-U.S. holder of shares of New Dynege Class A common stock that wishes to claim the benefit of an applicable treaty rate is required to satisfy applicable certification and other requirements. If you are eligible for a reduced rate of U.S. withholding tax under an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Gain on Disposition of Dynege Common Stock

Generally, the exchange of stock in a United States real property holding corporation by a non-U.S. holder for stock in another United States real property holding corporation in a tax-free exchange like the Merger will not be treated as a disposition for U.S. federal income tax purposes. However, the exchange of stock in a United States real property holding corporation by a non-U.S. holder for stock in a U.S. corporation that is not a United States real property holding corporation, even in a tax-free exchange like the Merger, may be subject to U.S. federal income taxation on any gain realized subject to the exceptions described below. A non-U.S. holder of stock in a U.S. corporation generally will not be subject to U.S. federal income tax on any gain realized on a disposition of such stock, provided that (i) the gain is not otherwise effectively connected with a trade or business conducted by the non-U.S. holder in the U.S. (and, in the case of an applicable treaty, is not attributable to a

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permanent establishment maintained by the non-U.S. holder in the U.S.), (ii) in the case of a non-U.S. holder who is an individual and who holds the common stock as a capital asset, such holder is present in the U.S. for less than 183 days in the taxable year of the sale or other disposition and certain other conditions are met and (iii) in the case of a corporation that is a United States real property holding corporation, such stock is considered to be regularly traded on an established securities market, within the meaning of Section 897 of the Code and the applicable Treasury Regulations, at any time during the calendar year in which the sale or other disposition occurs, and the non-U.S. holder does not actually or constructively own, at any time during the five-year period ending on the date of the sale or other disposition, more than 5% of such stock. Dynege believes that it might be, and that New Dynege might be, a United States real property holding corporation for U.S. federal income tax purposes. It is likely that Dynege's common stock will be considered regularly traded on an established securities market.

Information Reporting and Backup Withholding

Generally, the amount of dividends paid to you and the amount of tax, if any, withheld from those payments must be reported to the IRS and to you in information returns. If the provisions of certain income tax treaties apply to dividend payments made to you, copies of those information returns may be made available to the tax authorities of the country where you reside.

In general, if you are not a U.S. person you will not be subject to backup withholding with respect to payments that are made to you provided that:

there is no actual knowledge or reason to know that you are a U.S. person, as defined under the Code, that is not an exempt recipient; and

you have provided your name and address, and certified under penalties of perjury, that you are not a U.S. person, which certification may be made on the appropriate IRS Form W-8BEN; W-8ECI, W-8EXP or W-8IMY or substitute IRS Form W-8BEN, W-8ECI, W-8EXP or W-8IMY.

If you are a U.S. person, you generally will not be subject to backup withholding if you provide a taxpayer identification number and other information, certified under penalties of perjury, or otherwise establish, in the manner prescribed by law, an exemption from backup withholding.

Information reporting and, depending on the circumstances, backup withholding at a rate of 28%, subject to future adjustment under applicable law, will apply with respect to the proceeds of the sale or other disposition of New Dynege Class A common stock within the United States or conducted through certain U.S.-related financial intermediaries, unless:

the payor of the proceeds receives the statement described above and does not have actual knowledge or reason to know that you are a U.S. person, as defined under the Code, that is not an exempt recipient;

you provide the payor with a taxpayer identification number and other information, certified under penalties of perjury; or

you otherwise establish, in the manner prescribed by law, an exemption from backup withholding.

Backup withholding is not an additional income tax. Any amounts withheld from a payment to a holder under the backup withholding rules will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

This summary is not a complete analysis or description of all potential U.S. federal income tax consequences of the Merger Agreement Transactions. This summary does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition it does not address any non-income tax or any foreign, state or local tax consequences of the Merger Agreement Transactions. **Accordingly, you**

are strongly encouraged to consult your own tax advisor concerning the specific U.S. federal income and estate tax consequences to you of the Merger Agreement Transactions relating to your personal tax situation and any consequences arising under the laws of any state, local, foreign or other taxing jurisdiction.

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Accounting Treatment

New Dynege will account for the Merger Agreement Transactions using the purchase method of accounting in accordance with generally accepted accounting principles in the United States (GAAP), with Dynege being treated as the accounting acquiror. The purchase price will include the New Dynege Class B common stock to be issued to the LS Contributing Entities in connection with the Merger Agreement Transactions, the amount of net cash consideration paid, the New Dynege Notes and the amount of direct transaction costs of the Merger Agreement Transactions. For accounting purposes, the value of the New Dynege Class B common stock to be issued to the LS Contributing Entities will be \$5.98 per share, the average closing price of Dynege's Class A common stock during the five-day period beginning two days before and ending two days after the public announcement of the Merger Agreement Transactions. This purchase price will be allocated to the individual tangible and intangible assets acquired and liabilities assumed from the LS Contributing Entities based on their fair market values at the date of the completion of the Merger Agreement Transactions. Any excess of the purchase price over these fair market values will be treated as goodwill. The acquired assets, liabilities and results of operations will be consolidated into the assets, liabilities and results of operations of New Dynege on a prospective basis after the completion of the Merger Agreement Transactions.

Regulatory Approvals

In order to complete the Merger Agreement Transactions or, if the Merger Agreement Transactions are not completed, the transactions contemplated by the Kendall Agreement (as defined and described beginning on page 185), Dynege and the LS Contributing Entities were required to submit filings with, and obtain certain orders or approvals from, a number of United States federal and state regulatory authorities. The material United States federal and state approvals and filings are described below. Dynege and the LS Contributing Entities are not aware of any other material approvals or filings that are required before completing the Merger Agreement Transactions or the Kendall Agreement.

Department of Justice

The Merger Agreement and the Kendall Agreement were subject to the requirements of the HSR Act and the rules and regulations promulgated thereunder. On October 26, 2006, Dynege and the LS Contributing Entities submitted their required filings to the Department of Justice. The mandatory HSR Act waiting period expired on November 27, 2006.

Federal Power Act

Section 203

The Merger Agreement and the Kendall Agreement required prior authorization from the FERC under Section 203 of the Federal Power Act of 1935, as amended (the FPA), and the rules and regulations promulgated thereunder. The Section 203 application, which Dynege and the LS Contributing Entities submitted on October 26, 2006, addressed the effect of the Merger Agreement Transactions and the transactions contemplated by the Kendall Agreement on competition, rates and regulation and addresses cross subsidization issues. Two parties filed motions to intervene in the Section 203 application, but no party filed a protest. The FERC issued an order approving the Merger Agreement and Kendall Agreement transactions on December 21, 2006, which will become final so long as no party files for rehearing of the FERC's order by January 22, 2007.

Section 205

Various subsidiaries of Dynege and the LS Contributing Entities are FERC-jurisdictional public utilities that have been granted authorization by the FERC to sell electric power at wholesale at market-based rates. The FERC requires entities with market-based rates to submit a notice, pursuant to Section 205 of the FPA, informing the FERC when there has been a change in status of the characteristics it relied on when it granted market-based rate authority. The Merger Agreement Transactions or the transactions contemplated by the Kendall Agreement (whichever is completed) would result in such a change in status.

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On November 2, 2006, Dynegy and the LS Contributing Entities submitted a notice of non-material change in status to the FERC. In reviewing the notice, the FERC considered certain factors, including any change in generation market power, transmission market power, ability to erect barriers to entry and ability to engage in affiliate abuse resulting from the Merger Agreement Transactions or the transactions contemplated by the Kendall Agreement. No motions to intervene or protests were filed. The FERC issued an order accepting the notice of change in status on December 21, 2006, which will become final so long as no party files for rehearing of the FERC's order by January 22, 2007.

Federal Communications Commission

Under Section 310(d) of the Communications Act of 1934, as amended, an entity holding radio station authorizations must obtain the consent of the Federal Communications Commission (the "FCC") before there is a transfer of control of the entity holding such licenses or an assignment of those licenses. Both Dynegy and the LS Contributing Entities hold certain FCC radio station licenses and, thus, must obtain prior FCC consent to assign these licenses or to a transfer of control. The LS Contributing Entities and Dynegy each submitted applications to the FCC for the FCC's consent to the transfer of control to New Dynegy. The FCC provided its consent to the applications on November 10, 2006, November 17, 2006 and December 9, 2006. The FCC issued its public notices announcing the grant of its consents on November 15, 2006, November 22, 2006 and December 13, 2006, respectively. The FCC consents for the transfer of control applications are now final, except for the application appearing on public notice on December 13, 2006. Barring a timely filed petition for reconsideration or action on its motion by January 12, 2007, or further action by the FCC by January 22, 2007, the FCC's consent to that application will no longer be subject to review.

State Regulatory Approvals

California. The California Public Utilities Commission ("CPUC") requires a generating asset owner to notify the CPUC and the control area operator in writing at least 90 days prior to any change in ownership of a generating asset. Notice was submitted to the CPUC on October 12, 2006, and the 90 day waiting period expired on January 10, 2007.

New York. On October 24, 2006, Dynegy and the LS Contributing Entities submitted a joint petition for a declaratory ruling under New York Public Service Law ("PSL") Sections 70 and 83 with the New York State Public Service Commission ("NYPSC"). On December 20, 2006, the NYPSC issued an order declaring that no further review of the Merger under Sections 70 and 83 of the PSL will be conducted.

Federal Securities Laws Consequences; Stock Transfer Restrictions

If the Merger is completed, Dynegy will delist its Class A common stock from the NYSE and will deregister its Class A common stock under the Exchange Act, as a result of which Dynegy will no longer be required to file annual, quarterly, current and other reports with the SEC. The shareholders of Dynegy will become stockholders of New Dynegy and their rights as stockholders will be governed by Delaware law and by New Dynegy's Certificate of Incorporation and New Dynegy's Bylaws. See "Comparison of Rights of Dynegy's Shareholders and New Dynegy's Stockholders."

All shares of New Dynegy's common stock received by Dynegy's shareholders in the Merger will be freely transferable, except that shares of New Dynegy's common stock received by persons who are deemed to be affiliates of New Dynegy under the Securities Act of 1933, as amended (the "Securities Act"), at the time of the special meeting may be resold by them only in transactions permitted by Rule 145 or as otherwise permitted under the Securities Act. Persons who may be deemed to be affiliates of New Dynegy for such purposes generally include individuals or entities that control, or are controlled by or are under common control with, New Dynegy and may include certain officers, directors and significant stockholders of New Dynegy, such as Chevron.

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Interests of Dynegy's Directors and Executive Officers in the Merger

In considering the recommendation of the Dynegy Board with respect to the Merger Agreement and the Merger, Dynegy's shareholders should be aware that some of Dynegy's executive officers and directors have interests in the Merger and have arrangements that are different from, or in addition to, those of Dynegy's shareholders generally. The Dynegy Board was aware of these interests and considered them, among other matters, in reaching its decisions to approve and adopt the Merger Agreement and the Merger and to recommend that Dynegy's shareholders vote in favor of adopting the Merger Agreement and approving the Merger.

Equity Compensation Awards. The Merger Agreement provides that upon completion of the Merger, each Dynegy stock option, including those held by executive officers and directors of Dynegy, will be converted into an option to purchase New Dynegy stock on a one-for-one basis. In addition, the Merger Agreement provides that, upon completion of the Merger, each share of restricted stock or performance unit and other equity awards based upon shares of Dynegy's common stock, including those held by executive officers and directors of Dynegy, will be converted into equity-based awards with respect to New Dynegy's common stock on a one-for-one basis. In accordance with Dynegy's change in control severance plans and equity-based award plans (or the individual award agreements thereunder), all outstanding stock options, restricted stock and performance units that have been granted to employees and directors of Dynegy will immediately vest upon the completion of the Merger.

Continuing Executive Positions. All of Dynegy's executive officers have been proposed to serve as executive officers of New Dynegy upon completion of the Merger. Bruce A. Williamson will serve as Chairman and Chief Executive Officer, Stephen A. Furbacher will serve as President and Chief Operating Officer, Holli C. Nichols will serve as Executive Vice President and Chief Financial Officer, J. Kevin Blodgett will serve as General Counsel, Executive Vice President Administration and Secretary and Lynn A. Lednický will serve as Executive Vice President. In addition, it is expected that Jason Hochberg, a current executive with the LS Power Group, will serve as an Executive Vice President of New Dynegy.

Continuing Board Positions. New Dynegy's board of directors will consist initially of 11 directors, three of whom will be designated by the LS Contributing Entities. Dynegy intends to nominate the following current members of its board of directors to the board of directors of New Dynegy: Bruce A. Williamson, David W. Biegler, Thomas D. Clark, Jr., Victor E. Grijalva, Patricia A. Hammick, George L. Mazanec, Robert C. Oelkers and William L. Trubeck.

The LS Contributing Entities intend to nominate Mikhail Segal, Frank Hardenbergh and James Bartlett to the board of directors of New Dynegy.

Post-Closing Contracts, Arrangements, etc. Between New Dynegy and the LS Contributing Entities

Development Services LLC Agreement

In connection with the contribution of development projects by LS Associates and New Dynegy to the Development LLC upon and after the completion of the Merger, LS Associates and New Dynegy intend to enter into the Development Services LLC Agreement to establish a second limited liability company which will provide services and management to the Development LLC and its subsidiaries. Each of LS Associates and New Dynegy will own 50% of the membership interests in such limited liability company.

Transition Services Agreement

For a period not to exceed one year following the completion of the Merger and the Contributions, the LS Contributing Entities will provide to New Dynegy and its subsidiaries, upon request and on mutually agreeable and reasonable terms, certain services formerly provided by the LS Contributing Entities or their affiliates to the Contributed Entities.

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Possible Future Contracts

In addition to the Development Services LLC Agreement and Transition Services Agreement described above, the LS Contributing Entities or their affiliates, on the one hand, and New Dynegy or its subsidiaries, on the other hand, may from time to time enter into other contracts or arrangements. All such contracts and arrangements will be approved by the parties in the appropriate manner, considering any applicable related party transaction approval policies, and in accordance with applicable law.

Certain arrangements between New Dynegy and the LS Contributing Entities after the completion of the Merger are described in, among others, New Dynegy's Certificate of Incorporation, New Dynegy's Bylaws, the Shareholder Agreement, the Corporate Opportunity Agreement (as defined on page 175) and the LS Registration Rights Agreement (as defined on page 178). For a detailed discussion of these agreements, please see Other Agreements and Documents.

Rights of Dynegy's Shareholders Dissenting from the Merger Agreement and Merger Proposal

Dynegy's shareholders who do not vote to adopt the Merger Agreement and approve the Merger and who follow certain other procedures summarized below shall have the right to dissent from the Merger and obtain payment for their shares in the form of cash in the event of the completion of the Merger. The following is a summary of the provisions of the IBCA which specify the procedures which must be followed by any shareholder who wishes to dissent and obtain payment for his or her shares in the event of the completion of the Merger. Such provisions of the IBCA are set forth in their entirety in Annex F hereto, and this summary is qualified by reference to the provisions thereof. If you are considering exercising your dissenters' rights, you should carefully review the following discussion and Annex F. Because of the complexity of the procedure established for exercising dissenters' rights, New Dynegy encourages you to consult an attorney before electing or attempting to exercise these rights.

Under the IBCA, all shareholders entitled to dissenters' rights must be notified of that fact and the procedure to dissent in the meeting notice relating to the transaction with respect to which they are entitled to assert dissenters' rights. This proxy statement/prospectus constitutes that notice. Because Dynegy has furnished to shareholders in this proxy statement/prospectus material information with respect to the Merger Agreement and Merger proposal that will objectively enable a shareholder to evaluate the Merger Agreement and Merger proposal, to vote on the proposal and to determine whether or not to exercise dissenters' rights, a shareholder may assert these rights only if (i) prior to the vote on the Merger Agreement and the Merger at the special meeting, the shareholder delivers to Dynegy a written demand for payment for his or her shares in the event the Merger is completed, and (ii) the shareholder does not vote in favor of the Merger Agreement and Merger proposal. If a shareholder votes in favor of the Merger Agreement and Merger proposal, the shareholder will not be entitled to dissent and obtain payment for his or her shares, and a vote against the Merger Agreement and Merger proposal will not satisfy the above requirement that a written demand for payment be delivered to Dynegy. Failure to vote against the adoption of the Merger Agreement and approval of the Merger will not waive a shareholder's dissenters' rights, provided that the shareholder has not voted in favor of the adoption of the Merger Agreement and approval of the Merger and provided further that the shareholder has complied in all other respects with the IBCA in preserving the shareholder's dissenters' rights.

Within the later of (i) 10 days after the Merger is completed or (ii) 30 days after the shareholder delivers to Dynegy his or her written demand for payment, Dynegy will send to each shareholder delivering such a written demand (a dissenting shareholder) a statement setting forth Dynegy's opinion as to the estimated fair value of such shareholder's shares (a statement of value), Dynegy's balance sheet as of the end of its fiscal year ended December 31, 2005, its income statement for its fiscal year ended December 31, 2005, and its latest interim financial statements, together with either a commitment to pay for the shares of the dissenting shareholder at the estimated fair value thereof upon transmittal to Dynegy of the certificate or certificates or other evidence of ownership with respect to such shares, or an instruction to the dissenting shareholder to sell his or her shares within

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ten days after delivery of Dynege's statement to the shareholder. Dynege may instruct the shareholder to sell only if there is a public market for the shares at which the shares may be readily sold. Since the shares of Dynege's common stock are traded on the NYSE, Dynege anticipates that there will be such a public market for the shares of New Dynege's common stock, which are expected to be listed on the NYSE. If the dissenting shareholder does not sell his or her shares within such 10 day period after being so instructed by Dynege, he or she shall be deemed to have sold these shares at the average closing price of such shares on the NYSE during such 10 day period.

A shareholder who makes such written demand for payment retains all other rights of a shareholder until those rights are cancelled or modified by the completion of the Merger. Upon completion of the Merger, Dynege will pay each dissenting shareholder who transmits to the corporation the certificate or other evidence of ownership of the shares the amount Dynege estimates to be the fair value of such shares, plus accrued interest, accompanied by a written explanation of how such interest was calculated.

If the dissenting shareholder does not agree with Dynege's opinion regarding the estimated fair value of the shares or the amount of interest due and wishes to preserve dissenters' rights, the dissenting shareholder shall, within 30 days from Dynege's delivery to the dissenting shareholder of the statement of value, notify Dynege of the dissenting shareholder's estimate of fair value and amount of interest due and demand payment for the difference between the dissenting shareholder's estimate of fair value and interest due and the amount of the payment by Dynege or the proceeds of sale by the dissenting shareholder, whichever amount is applicable.

If Dynege and the dissenting shareholder are unable to agree on the fair value and interest due with respect to the shares within 60 days of delivery to Dynege of the shareholder's notice of estimated fair value and interest due, Dynege shall either pay the difference in value demanded by the dissenting shareholder, with interest, or file a petition in the Circuit Court of Cook County, State of Illinois, or the appropriate state courts of Harris County, State of Texas, requesting the court to determine the fair value of the shares and interest due. Dynege shall make all dissenters, whether or not residents of Illinois, whose demands remain unsettled, parties to the proceeding as an action against their shares, and shall serve all parties with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication as required by law. If Dynege does not commence such an action, dissenting shareholders can commence an action as otherwise permitted by law.

The jurisdiction of the court in which the proceeding is commenced under the foregoing paragraph by a corporation is plenary and exclusive. The court may appoint one or more persons as appraisers to receive evidence and recommend decision on the question of fair value. Fair value means the value of the shares immediately before the Merger is completed, excluding any appreciation or depreciation in anticipation of the Merger unless such exclusion would be inequitable. The appraisers have the power described in the order appointing them, or in any amendment to it.

Each dissenting shareholder made a party to the proceeding is entitled to judgment for the amount, if any, by which the court determines that the fair value of his or her shares, plus interest, exceeds the amount paid by Dynege or the proceeds of sale by the shareholder, whichever amount is applicable.

The court, in such a proceeding, shall determine all costs of the proceeding, including the reasonable compensation and expenses of the appraisers, if any, appointed by the court, but shall exclude the fees and expenses of counsel and experts for the respective parties. If the fair value of the shares as determined by the court materially exceeds the amount which Dynege offered to pay for those shares, or if no offer was made, then all or any part of such expenses may be assessed against Dynege. If the amount which any dissenting shareholder estimated to be the fair value of the shares materially exceeds the fair value of the shares as determined by the court, then all or any part of the costs may be assessed against that dissenting shareholder. The court may also assess the fees and expenses of counsel and experts for the respective parties in amounts the court finds equitable. If the court finds that the services of counsel for any dissenting shareholder were of substantial benefit to other dissenting shareholders similarly situated and that the fees for those services should not be assessed against Dynege, the court may award reasonable fees to that counsel to be paid out of the amounts awarded to the benefited dissenting shareholders.

Table of Contents**Index to Financial Statements****MARKET PRICE AND DIVIDEND INFORMATION****Price Range of Dynege's Common Stock**

Dynege's Class A common stock is listed on the NYSE under the symbol DYN. Dynege's Class B common stock, all of the outstanding shares of which are held by Chevron, is not listed on any securities exchange or traded in any trading market.

The following table shows the high and low closing prices per share of Dynege's Class A common stock for the periods indicated, as reported on the NYSE composite transaction tape. On January 12, 2007, the last reported sale price of Dynege's Class A common stock was \$6.74 per share. As of January 10, 2007, Dynege's Class A common stock was held by approximately 32,914 holders of record and, as of January 11, 2007, the number of outstanding shares of Dynege's Class A common stock was 401,367,444.

Period	Price range	
	High	Low
2007		
First Quarter (through January 12, 2007)	\$ 7.25	\$ 6.47
2006		
Fourth Quarter	\$ 7.32	\$ 5.35
Third Quarter	6.34	5.09
Second Quarter	5.47	4.68
First Quarter	5.72	4.72
2005		
Fourth Quarter	\$ 5.07	\$ 4.15
Third Quarter	5.63	4.35
Second Quarter	5.10	3.23
First Quarter	4.75	3.62
2004		
Fourth Quarter	\$ 5.86	\$ 4.27
Third Quarter	4.99	3.93
Second Quarter	4.44	3.75
First Quarter	5.15	3.46
2003		
Fourth Quarter	\$ 4.35	\$ 3.45
Third Quarter	4.65	2.85
Second Quarter	5.23	2.54
First Quarter	2.63	1.29

Recent Closing Prices

The closing prices of Dynege's Class A common stock as reported on the NYSE on September 14, 2006, the last full trading day prior to the public announcement of the proposed Merger, and on January 12, 2007, the last full trading day for which the closing price was available prior to the filing of this proxy statement/prospectus, were as follows:

Date	Price
September 14, 2006	\$ 5.76
January 12, 2007	\$ 6.74

You are urged to obtain current market information regarding Dynege's Class A common stock. You cannot be assured that the market price for Dynege's Class A common stock or New Dynege's Class A common stock will not be different in the future, including on the date of the special meeting or following the completion of the Merger.

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New Dynege's Class A common stock will not be issued until completion of the Merger, which cannot occur prior to the time Dynege's shareholders vote to adopt the Merger Agreement and approve the Merger and the satisfaction or waiver of the other conditions to the completion of the Merger Agreement Transactions. As a result, market prices for New Dynege's Class A common stock will not be available at or prior to the time of the special meeting.

Dividend Policy

Dividend payments on Dynege's Class A common stock are at the discretion of the Dynege Board. Dynege has not paid a dividend on its Class A common stock since 2002, and Dynege does not foresee a declaration of dividends on its Class A common stock in the near term, particularly given the dividend restrictions contained in Dynege's current financing agreements. Specifically, Dynege has agreed not to pay any dividends on its common stock under the terms of the credit agreement (consisting of a \$470 million revolving credit facility, \$200 million term letter of credit facility and \$150 million term loan facility) under which Dynege is a guarantor and Dynege's wholly owned subsidiary, DHI, is the borrower. Dynege has, however, continued to make the required dividend payments on its outstanding trust preferred securities.

Likewise, dividend payments on New Dynege's Class A common stock will be at the discretion of New Dynege's board of directors. The financing agreements under which certain of New Dynege's subsidiaries will be borrowers and New Dynege will be a guarantor will contain certain restrictions on the payment of dividends on New Dynege's Class A common stock. In addition, New Dynege's Bylaws provide that, so long as the holders of New Dynege's Class B common stock own greater than 15% of the total combined voting power of New Dynege, New Dynege shall not make dividend payments or similar distributions or change policies regarding dividends or similar distributions if all Class B Directors present at the meeting at which such action is considered vote against such action, other than dividends or distributions made in the form of (i) cash, provided that at the time of declaration of such dividend, New Dynege has received indicative ratings that, after giving effect to such cash dividend, its senior unsecured credit ratings would be BB- (with stable outlook) or better from S&P and Ba3 (with stable outlook) or better from Moody's, or (ii) New Dynege's common stock. See [Comparison of Rights of Dynege's Shareholders and New Dynege's Stockholders](#) [Blocking Rights](#).

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined statements of operations of New Dynegy for the year ended December 31, 2005 and for the nine months ended September 30, 2006 give effect to the Merger Agreement Transactions as if the transactions had been completed on January 1, 2005. The following unaudited pro forma condensed combined balance sheet of New Dynegy as of September 30, 2006 gives effect to the Merger Agreement Transactions as if the transactions had been completed on September 30, 2006.

The unaudited pro forma condensed combined financial information of New Dynegy, which has been prepared using the purchase method of accounting for business combinations with Dynegy as the acquirer and is based upon the historical financial statements of Dynegy and the Power Generation Business of LS Power Development, LLC and Affiliates, does not reflect any of the synergies and cost reductions that may result from the Merger Agreement Transactions. The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flows of the Contributed Entities as described therein. In addition, this unaudited pro forma condensed combined financial information of New Dynegy does not include any transition costs, restructuring costs or recognition of compensation expenses or other one-time charges that may be incurred in connection with integrating the operations of Dynegy and the Contributed Entities.

The unaudited pro forma condensed combined financial statements of New Dynegy for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006 are based on certain assumptions and adjustments by the management of Dynegy as discussed in the accompanying Notes to Unaudited Pro Forma Condensed Combined Statements of Operations and accompanying Notes to Unaudited Pro Forma Condensed Combined Balance Sheet and do not purport to reflect what New Dynegy's actual results of operations and financial position would have been had each such transaction in fact occurred (i) as of January 1, 2005 (in the case of the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2005 and the nine months ended September 30, 2006) or (ii) as of September 30, 2006 (in the case of the unaudited pro forma condensed combined balance sheet as of September 30, 2006), nor are they necessarily indicative of the results of operations that New Dynegy may achieve in the future.

The unaudited pro forma condensed combined financial information of New Dynegy set forth below should be read in conjunction with Dynegy's Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included in Dynegy's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, and in Dynegy's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, each incorporated by reference herein. The pro forma financial information included herein does not include adjustments for any transactions other than the transactions contemplated by the Merger Agreement Transactions. During 2006, Dynegy executed various debt and equity transactions which are more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Dynegy's Quarterly Report on Form 10-Q for the period ended September 30, 2006.

The unaudited pro forma condensed combined financial information of New Dynegy set forth below should also be read in conjunction with Summary Historical and Unaudited Pro Forma Condensed Consolidated/Combined Financial Data, the historical financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates and Management's Discussion and Analysis of Financial Condition and Results of Operations of the Contributed Entities included herein. Because of the timing of acquisitions, period-to-period comparisons and analyses of financial condition and results of operations of the Power Generation Business of LS Power Development, LLC and Affiliates may not be helpful for understanding the financial and operational performance of the Contributed Entities as a whole. The financial condition, results of operations and cash flows of Ontelaunee and the LS Generation Facilities (as defined on page 115) have not been

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included in the combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of any dates or for any periods prior to their acquisition by the LS Power Group.

The historical results of Dynegy and the Power Generation Business of LS Power Development, LLC and Affiliates are not necessarily indicative of the results that may be expected for New Dynegy for any future period.

In creating the unaudited pro forma condensed combined financial statements, the primary adjustments to the historical financial statements of Dynegy and the Power Generation Business of LS Power Development, LLC and Affiliates were purchase accounting adjustments which include adjustments necessary to (i) allocate the purchase price to the tangible and intangible assets and liabilities of the Power Generation Business of LS Power Development, LLC and Affiliates based on their estimated fair values; (ii) adjust the amounts related to the Development Assets that will be contributed to the Development LLC, of which New Dynegy will own 50%; and (iii) conform the accounting policies of the LS Contributing Entities to those of Dynegy.

Table of Contents**Index to Financial Statements****New Dynege****Unaudited Pro Forma Condensed Combined Statement of Operations****For the Year Ended December 31, 2005****(in millions, except per share data)**

	(a) Dynege Historical	(b) Contributed Entities Historical	Pro Forma Adjustments	New Dynege Pro Forma
Revenues	\$ 2,313	\$ 66	\$ (34)(c)	\$ 2,345
Cost of sales, exclusive of depreciation shown separately below	(2,416)	(44)	46 (d)	(2,414)
Depreciation and amortization expense	(220)	(7)	(43)(e)	(270)
Project development expenses		(16)	16 (f)	
Impairment and other charges	(46)			(46)
Loss on sale of assets, net	(1)			(1)
General and administrative expenses	(468)	(5)		(473)
Operating loss	(838)	(6)	(15)	(859)
Earnings (losses) from unconsolidated investments	2		(8)(f)	(6)
Interest expense	(389)	(57)	(32)(g)	(478)
Other income and expense, net	26	14	(4)(h)	36
Loss from continuing operations before income taxes	(1,199)	(49)	(59)	(1,307)
Income tax benefit	395		22 (i)	417
Loss from continuing operations	(804)	(49)	(37)	(890)
Less: preferred stock dividends	22			22
Loss from continuing operations available for common stockholders	\$ (826)	\$ (49)	\$ (37)	\$ (912)
Basic shares outstanding	387			727 (j)
Diluted shares outstanding	513			853 (j)
Basic loss from continuing operations	\$ (2.13)			\$ (1.25)
Diluted loss from continuing operations (k)	\$ (2.13)			\$ (1.25)

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New Dynege

Unaudited Pro Forma Condensed Combined Statement of Operations

For the Nine Months Ended September 30, 2006

(in millions, except per share data)

	(a) Dynege Historical	(b) Contributed Entities Historical	Pro Forma Adjustments	New Dynege Pro Forma
Revenues	\$ 1,620	\$ 665	\$ (21)(c)	\$ 2,264
Cost of sales, exclusive of depreciation shown separately below	(1,103)	(507)	38 (d)	(1,572)
Depreciation and amortization expense	(174)	(33)	(33)(e)	(240)
Project development expenses		(14)	14 (f)	
Impairment and other charges	(107)			(107)
Gain on sale of assets, net	3			3
General and administrative expenses	(160)	(18)		(178)
Operating income	79	93	(2)	170
Earnings (losses) from unconsolidated investments	6		(7)(f)	(1)
Interest expense	(310)	(105)	(25)(g)	(440)
Debt conversion costs	(249)			(249)
Other income and expense, net	41	55	(4)(h)	92
Income (loss) from continuing operations before income taxes	(433)	43	(38)	(428)
Income tax benefit (expense)	154	(3)	14 (i)	165
Income (loss) from continuing operations	(279)	40	(24)	(263)
Less: preferred stock dividends	9			9
Income (loss) from continuing operations available for common stockholders	\$ (288)	\$ 40	\$ (24)	\$ (272)
Basic shares outstanding	446			786 (j)
Diluted shares outstanding	512			852 (j)
Basic loss from continuing operations	\$ (0.65)			\$ (0.35)
Diluted loss from continuing operations (k)	\$ (0.65)			\$ (0.35)

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Notes to New Dynegy Unaudited Pro Forma Condensed Combined Statements of Operations

- (a) *Dynegy Historical Presentation* represents Dynegy Inc.'s historical audited consolidated financial statements derived from its Form 10-K, as amended, for the year ended December 31, 2005 and Dynegy Inc.'s historical unaudited condensed consolidated financial information derived from its Form 10-Q for the nine months ended September 30, 2006.
- (b) *Contributed Entities Historical Presentation* represents the historical audited and unaudited condensed combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, included elsewhere in this proxy statement/prospectus. The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flow of the Contributed Entities as described therein. Certain reclassifications have been made to the historical presentation in order to conform to Dynegy's historical presentation.
- (c) *Revenues* represents the pro forma adjustments required to eliminate revenue of \$43 million and \$33 million included in the Contributed Entities' historical statements of operations for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. The underlying amounts in these adjustments relate primarily to a tolling agreement between the companies. The pro forma adjustment also reflects a net decrease to revenue of \$3 million and \$2 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, for the amortization of the intangible contracts resulting from the Merger (see Note (g) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet). Additionally, the pro forma adjustment reflects the elimination of amortization expense of \$12 million and \$14 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, previously included in the Contributed Entities' historical statements of operations.
- (d) *Cost of Sales* represents the pro forma adjustments required to eliminate cost of sales of \$43 million and \$33 million included in Dynegy's historical statements of operations for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. The underlying amounts in these adjustments relate primarily to a tolling agreement between the companies. The pro forma adjustment also includes a reduction of \$3 million and \$5 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, for costs associated with major maintenance that were expensed in the Contributed Entities' financial statements. It is Dynegy's policy to capitalize major maintenance expenditures and amortize these costs over the period benefited.
- (e) *Depreciation and Amortization Expense* represents the pro forma adjustments required to reflect (i) the net incremental depreciation and amortization expense of \$1 million for both the year ended December 31, 2005 and the nine months ended September 30, 2006 resulting from the capitalization of the previously expensed major maintenance costs; and (ii) the net incremental depreciation and amortization expense of \$42 million and \$32 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, resulting from the increase in property, plant and equipment to reflect the fair value of the Contributed Entities' power generation assets. As discussed in note (d) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet, the amount of this adjustment is based on a preliminary estimate of the fair values of the power generation assets.
- (f) *Project Development Expenses and Earnings (Losses) from Unconsolidated Investments* represents the pro forma adjustments to eliminate 100% of the Contributed Entities' project development expenses and record New Dynegy's 50% share of the losses recognized by the Contributed Entities' interest in various development assets to be owned by the Development LLC (see note (e) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet).
- (g) *Interest Expense* represents the pro forma adjustments to interest expense of \$26 million and \$20 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, associated with the issuance of the New Dynegy Notes (see note (l) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet). The pro forma adjustment also includes interest

expense of \$4 million

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for both the year ended December 31, 2005 and the nine months ended September 30, 2006, associated with the issuance of the \$70 million Griffith senior secured term loan. Additionally, the pro forma adjustment reflects interest expense of \$2 million and \$1 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, resulting from the increase in debt to reflect the fair value of the Contributed Entities third-party debt. The final fair value determination of the third-party debt will be based on prevailing market interest rates at the completion of the Merger Agreement Transactions and the necessary adjustment will be amortized as a reduction (in the case of a premium to book value) or an increase (in the case of a discount to book value) to interest expense over the remaining life of the individual debt issues. The effect on net income of a one-eighth percent variance in the interest rate on the Griffith Term Loan is immaterial.

- (h) *Other Income and Expense, Net* represents the pro forma adjustments required to reflect lower interest income due to the cash consideration payment of \$100 million to the LS Power Group pursuant to the Merger Agreement Transactions (see note (c) of the Notes to New Dynege Unaudited Pro Forma Condensed Combined Balance Sheet).
- (i) *Income Tax Benefit* represents the pro forma tax effect of the above adjustments based on an estimated prospective statutory rate of approximately 37%.
- (j) *Basic and Diluted Shares Outstanding* reflects the pro forma effect of the issuance of 340 million shares of New Dynege Class B common stock to the LS Contributing Entities pursuant to the Merger Agreement Transactions and the exchange of existing Dynege common stock for New Dynege common stock.
- (k) *Diluted Loss Per Share* When an entity has a net loss from continuing operations, SFAS No. 128, Earnings per Share, prohibits the inclusion of potential common shares in the computation of diluted per-share amounts. Accordingly, the basic shares outstanding amount has been used to calculate both basic and diluted loss per share for the year ended December 31, 2005 and nine months ended September 30, 2006.

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New Dynege

Unaudited Pro Forma Condensed Combined Balance Sheet

As of September 30, 2006

(in millions)

	(a) Dynege Historical	(b) Contributed Entities Historical	Pro Forma Adjustments	New Dynege Pro Forma
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 388	\$ 49	\$ (100)(c)	\$ 337
Restricted cash	277	213		490
Accounts receivable, net of allowance for doubtful accounts	284	44		328
Accounts receivable, affiliates	1			1
Accounts receivable, other		2		2
Inventory	197	36		233
Assets from risk-management activities	343	51	(38)(d)	356
Deferred income taxes	26			26
Prepayments and other current assets	99	11		110
Assets held for sale	1			1
Total Current Assets	1,616	406	(138)	1,884
Property, Plant and Equipment	6,422	2,185	1,269 (e)	9,876
Accumulated depreciation	(1,417)	(40)	40 (e)	(1,417)
Property, Plant and Equipment, net	5,005	2,145	1,309	8,459
Other Assets				
Unconsolidated investments	7		81 (f)	88
Restricted investments	82	288		370
Assets from risk-management activities	103	13	19 (d)	135
Intangible assets	362	274	(263)(g)	373
Goodwill		6	1,102 (h)	1,108
Deferred income taxes	3	3		6
Deferred financing costs, net		65	(65)(i)	
Other long-term assets	135	72	(4)(j)	203
Assets held for sale	194			194
Total Assets	\$ 7,507	\$ 3,272	\$ 2,041	\$ 12,820
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	\$ 215	\$ 17		\$ 232
Accrued interest	91	1		92
Accrued liabilities and other current liabilities	194	62	45 (k)	301
Deferred revenue		9		9
Liabilities from risk-management activities	339			339
Liabilities held for sale	1			1
Notes payables-affiliate, including accrued interest		1		1
Notes payable and current portion of long-term debt	48	31		79
Total Current Liabilities	888	121	45	1,054

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Long-term debt	3,162	2,172	358 (l)	5,692
Bonds payable		100		100
Long-term debt, affiliates	200			200
Long-Term Debt	3,362	2,272	358	5,992
Other Liabilities				
Notes payables-affiliate, including accrued interest		2		2
Liabilities from risk-management activities	112	63	13 (d)	188
Deferred income taxes	440		330 (m)	770
Other long-term liabilities	391	60	5 (n)	456
Total Liabilities	5,193	2,518	751	8,462
Commitments and Contingencies				
Minority Interest		5		5
Stockholders Equity				
Class A Common Stock	3,366		(3,361)(o)	5
Class B Common Stock	1,006		(1,003)(o)(p)	3
Additional paid-in capital	37	792	5,605 (p)(q)	6,434
Subscriptions receivable	(8)			(8)
Accumulated other comprehensive income, net of tax	59	(8)	8 (q)	59
Accumulated deficit	(2,077)	(35)	41 (r)	(2,071)
Treasury stock, at cost	(69)			