

Dynegy Acquisition, Inc.
Form S-8
April 02, 2007

As filed with the Securities and Exchange Commission on April 2, 2007

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-8
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

DYNEGY INC.

(formerly named Dynegy Acquisition, Inc.)

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1000 Louisiana Street, Suite 5800

Houston, Texas
(Address of Principal Executive Offices)

77002
(Zip Code)

Dynegy Inc. Amended and Restated Employee Equity Option Plan

Dynegy Inc. Amended and Restated 1991 Stock Option Plan

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Illinova Corporation 1992 Long-Term Incentive Compensation Plan

Dynegy Inc. 1999 Long-Term Incentive Plan

Dynegy Inc. 2000 Long-Term Incentive Plan

Dynegy Inc. 2001 Non-Executive Stock Incentive Plan

Dynegy Inc. 401(k) Savings Plan

Dynegy Inc. 2002 Long Term Incentive Plan

Dynegy Inc. Deferred Compensation Plan

Dynegy Inc. Deferred Compensation Plan for Certain Directors

Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan)

Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement)

Dynegy Northeast Generation, Inc. Savings Incentive Plan

(Full title of the plan)

J. Kevin Blodgett, Esq.

General Counsel, EVP Administration & Secretary

1000 Louisiana Street, Suite 5800

Houston, Texas 77002

(Name and address of agent for service)

(713) 507-6400

(Telephone Number, including area code, of agent for service)

Copy to:

Julien R. Smythe

Akin Gump Strauss Hauer & Feld LLP

1111 Louisiana Street, 44th Floor

Houston, Texas 77002

(713) 220-5800

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share (5)	Proposed Maximum Aggregate Offering Price (5)	Amount of Registration Fee (5)
Class A Common Stock, par value \$0.01 (Common Stock)	43,185,419(1)	\$ 9.18	\$ 396,226,219.33	\$ 12,164.14
Plan Interests (2)	\$ 35,000,000	100%	\$ 35,000,000	\$ 1,074.50
Plan Interests (3)	(3)	(3)	(3)	(3)
Deferred Compensation Obligations	\$ 1,800,000(4)	100%	\$ 1,800,000	\$ 55.26

- (1) This registration statement registers the issuance of an aggregate of 43,185,419 shares of the Class A common stock of the registrant, par value \$0.01 per share, of which 2,116,350 shares are issuable pursuant to the Dynegy Inc. Amended and Restated Employee Equity Option Plan; 4,949,878 shares are issuable pursuant to the Dynegy Inc. Amended and Restated 1991 Stock Option Plan; 1,746,705 shares are issuable pursuant to the Illinova Corporation 1992 Long-Term Incentive Compensation Plan; 3,236,978 shares are issuable pursuant to the Dynegy Inc. 1999 Long-Term Incentive Plan; 7,792,006 shares are issuable pursuant to the Dynegy Inc. 2000 Long-Term Incentive Plan; 7,230,124 shares are issuable pursuant to the Dynegy Inc. 2001 Non-Executive Stock Incentive Plan; 5,660,000 shares are issuable pursuant to the Dynegy Inc. 401(K) Savings Plan; 5,410,000 shares are issuable pursuant to the Dynegy Inc. 2002 Long Term Incentive Plan; 75,000 shares are issuable pursuant to the Dynegy Inc. Deferred Compensation Plan; 753,378 shares are issuable pursuant to the Dynegy Inc. Deferred Compensation Plan for Certain Directors; 1,115,000 shares are issuable pursuant to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan); 3,000,000 shares are issuable pursuant to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement); and 100,000 shares are issuable pursuant to the Dynegy Northeast Generation, Inc. Savings Incentive Plan (collectively, the Plans).
- (2) The plan interests being registered hereby are the unsecured obligations of the registrant to pay deferred compensation in the future in accordance with the terms of the Dynegy Inc. Deferred Compensation Plan.
- (3) In addition, pursuant to Rule 416(c) under the Securities Act of 1933, as amended (the Securities Act), this registration statement also covers an indeterminate amount of interests to be offered or sold pursuant to the Dynegy Northeast Generation Inc. Savings Incentive Plan, Dynegy Inc. 401(K) Savings Plan, Dynegy Midwest Generation, Inc. 401(k) Savings Plan, Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement, Dynegy Inc. Deferred Compensation Plan and Dynegy Inc. 2001 Non-Executive Stock Incentive Plan.
- (4) The deferred compensation obligations are unsecured obligations of the registrant to pay deferred compensation in the form of cash in the future in accordance with the terms of the Dynegy Inc. Deferred Compensation Plan for Certain Directors. The plan permits a participant to receive payment in shares of Class A common stock of the registrant or cash with respect to his or her deferral account balance.
- (5) Estimated solely for the purposes of determining the amount of the registration fee, in accordance with Rule 457(c) and 457(h) under the Securities Act, on the basis of the average of the high and low prices of the Class A common stock of Dynegy Inc., as reported on the New York Stock Exchange on March 26, 2007, of \$9.18 per share.

Introductory Statement

Dynegy Inc. (formerly named Dynegy Acquisition, Inc.) (the Company) entered into a Plan of Merger, Contribution and Sale Agreement (the Merger Agreement), dated as of September 14, 2006, with Dynegy Inc., an Illinois corporation (Dynegy Illinois), Falcon Merger Sub Co., an Illinois corporation, LSP Gen Investors, L.P., a Delaware limited partnership, LS Power Partners, L.P., a Delaware limited partnership, LS Power Equity Partners PIE I, L.P., a Delaware limited partnership, LS Power Associates, L.P., a Delaware limited partnership, and LS Power Equity Partners, L.P., a Delaware limited partnership. On March 29, 2007, at a special meeting of the shareholders of Dynegy Illinois, the shareholders of Dynegy Illinois adopted the Merger Agreement and approved the Merger. Pursuant to the Merger Agreement, a newly created, wholly owned subsidiary of the Company, Falcon Merger Sub Co., merged with and into Dynegy Illinois on April 2, 2007 (the Merger), with Dynegy Illinois as the surviving corporation and becoming a wholly owned subsidiary of the Company. Pursuant to the Merger Agreement, the then-shareholders of Dynegy Illinois became the stockholders of the Company, and each share of Dynegy Illinois Class A common stock and Class B common stock was converted into the right to receive one share of the Class A common stock of the Company. In addition, the name of the Company was changed from Dynegy Acquisition, Inc. to Dynegy Inc.

Pursuant to the Merger Agreement, the Company assumed the plans set forth on the cover page hereto (the Plans).

The Company is filing this registration statement on Form S-8 with respect to shares of its Class A common stock, par value \$0.01 per share, issuable pursuant to the Plans, its deferred compensation obligations payable pursuant to the Plans and interests in certain of the Plans.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

The document containing the information specified in Part I of this registration statement on Form S-8 will be sent or given to each participant in the Plans as may be required by Rule 428(b)(1) promulgated under the Securities Act of 1933, as amended (the Securities Act). Such documents need not be filed with the Securities and Exchange Commission (the SEC), either as part of this registration statement or as prospectuses or prospectus supplements pursuant to Rule 424 promulgated under the Securities Act. These documents and the documents incorporated by reference in this registration statement pursuant to Item 3 below, taken together, constitute a prospectus that meets the requirements of Section 10(a) of the Securities Act.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The following documents and information previously filed by Dynegy Illinois with the SEC are incorporated by reference in this registration statement:

Dynegy Illinois Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed on February 27, 2007;

The Company and Dynegy Illinois Current Reports on Form 8-K filed on January 23, 2007, January 25, 2007, February 2, 2007, February 6, 2007, February 9, 2007, February 14, 2007, February 15, 2007, February 20, 2007, February 27, 2007, March 2, 2007, March 7, 2007, March 12, 2007, March 14, 2007, March 19, 2007, March 20, 2007 and March 29, 2007; and

the section beginning on page 193 of the proxy statement/prospectus of Dynegy Illinois and the Company filed with the SEC on February 13, 2007 entitled Description of New Dynegy Capital Stock (the Company's Class A common stock is deemed registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), pursuant to Rule 12g-3(a) under the Exchange Act, and, accordingly, the filing of a registration statement on Form 8-A or Form 10 is not required).

In addition, all documents filed by the Company or Dynegey Illinois pursuant to Section 13(a), 13(c), 14 and 15(d) of the Exchange Act on or after the date of this registration statement, and prior to the filing of a post-effective amendment to this registration statement that indicates that all securities offered hereby have been sold or that deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this registration statement and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained hereby modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Officers and Directors.

The following discussion summarizes the material indemnification provisions of Section 145 of the General Corporation Law of the State of Delaware (the "DGCL") and the registrant's amended and restated certificate of incorporation.

Pursuant to Section 145 of the DGCL, the registrant generally has the power to indemnify its current and former directors, officers, employees and agents against expenses and liabilities that they incur in connection with any suit to which they are, or are threatened to be made, a party by reason of their serving in such positions so long as they acted in good faith and in a manner they reasonably believed to be in, or not opposed to, the registrant's best interests and, with respect to any criminal action, had no reasonable cause to believe their conduct was unlawful. Section 145 of the DGCL expressly provides that the power to indemnify or advance expenses authorized thereby is not exclusive of any rights granted under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. Moreover, Section 145 of the DGCL provides that the registrant has the power to purchase and maintain insurance on behalf of its current and former directors, officers, employees and agents.

The registrant's amended and restated certificate of incorporation provides mandatory indemnification to any party who is or was a director or officer of the registrant or who is or was serving as a director or officer of another entity at the request of the registrant to the fullest extent permitted by the DGCL. The registrant's amended and restated certificate of incorporation also provides that any indemnification will be made in a specific case only as authorized by the registrant's board of directors, a committee of the board of directors, independent legal counsel or the stockholders, upon a determination that indemnification is proper in the circumstances because the indemnitee met the applicable standard of conduct set forth in the registrant's amended and restated certificate of incorporation. However, if a current or former director or officer has been successful in the defense of any covered action or proceeding, such person will be indemnified against expenses actually and reasonably incurred.

Item 7. Exemption from Registration Claimed.

Not applicable.

Item 8. Exhibits.

Exhibit No.	Description
4.1*	Amended and Restated Certificate of Incorporation of Dynegey Inc. (formerly named Dynegey Acquisition, Inc.).

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- 4.2* Amended and Restated Bylaws of Dynegy Inc. (formerly named Dynegy Acquisition, Inc.).
- 4.3 Dynegy Inc. Amended and Restated Employee Equity Option Plan (incorporated by reference to Exhibit 10.5 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1998 of Dynegy Inc., File No. 1-11156).
- 4.4 Dynegy Inc. 1999 Long Term Incentive Plan (incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999 of Dynegy Inc., File No. 1-11156).
- 4.5 Dynegy Inc. 2000 Long Term Incentive Plan (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999 of Dynegy Inc., File No. 1-11156).
- 4.6 Amendment to the Dynegy Inc. 2000 Long Term Incentive Plan effective January 1, 2006 (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of Dynegy Inc. filed on March 17, 2006, File No. 1-15659).
- 4.7 Dynegy Inc. 2001 Non-Executive Stock Incentive Plan (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76080).
- 4.8 Dynegy Inc. 2002 Long Term Incentive Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A of Dynegy Inc., File No. 1-15659, filed with the SEC on April 9, 2002).
- 4.9 Amendment to the Dynegy Inc. 2002 Long Term Incentive Plan, effective January 1, 2006 (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K of Dynegy Inc. filed on March 17, 2006, File No. 1-15659).
- 4.10 Dynegy Inc. 401(k) Savings Plan, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 383-76570).
- 4.11 First Amendment to the Dynegy Inc. 401(k) Savings Plan, effective February 11, 2002 (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 4.12 Second Amendment to the Dynegy Inc. 401(k) Savings Plan, effective January 1, 2002 (incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 4.13 Third Amendment to the Dynegy Inc. 401(k) Savings Plan, effective October 1, 2003 (incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 4.14 Amendment to the Dynegy Inc. 401(k) Savings Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 4.15 Dynegy Inc. 401(k) Savings Plan Trust Agreement (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).
- 4.16 Dynegy Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76080).
- 4.17 Dynegy Inc. Deferred Compensation Plan Trust Agreement (incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76080).

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- 4.18 Dynegy Inc. Deferred Compensation Plan for Certain Directors (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2003 of Dynegy Inc., File No. 1-15659).
- 4.19 First Amendment to the Dynegy Inc. Deferred Compensation Plan for Certain Directors, dated September 15, 2005 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Dynegy Inc. filed on September 19, 2005, File No. 1-15659).
- 4.20 Second Amendment to the Dynegy Inc. Deferred Compensation Plan for Certain Directors, dated December 16, 2005 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Dynegy Inc. filed on December 22, 2005, File No. 1-15659).
- 4.21 Dynegy Northeast Generation, Inc. Savings Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-111985).
- 4.22 Amendment to the Dynegy Northeast Generation, Inc. Savings Incentive Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 4.23 Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).
- 4.24* First Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of October 17, 2003.
- 4.25* Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of December 23, 2003.
- 4.26* Second Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of March 31, 2004.
- 4.27* Fourth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of September 29, 2004.
- 4.28* Fifth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of May 31, 2005.
- 4.29* Sixth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of June 7, 2006.
- 4.30* Seventh Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of December 15, 2006.
- 4.31 Dynegy Midwest Generation, Inc. 401(k) Savings Plan Trust Agreement (formerly the Illinois Power Company Incentive Savings Plan Trust Agreement) (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).
- 4.32 Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).

- 4.33* First Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of October 17, 2003.
- 4.34* Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of December 23, 2003.
- 4.35* Second Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of March 31, 2004.
- 4.36* Fourth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of September 29, 2004.
- 4.37* Fifth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of May 31, 2005.
- 4.38* Sixth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of June 7, 2006.
- 4.39* Seventh Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of December 15, 2006.
- 4.40 Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement Trust Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement Trust Agreement) (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).
- 4.41 Dynegy Amended and Restated 1991 Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1998 of Dynegy Inc., File No. 1-11156).
- 4.42 Illinova 1992 Long-Term Incentive Compensation Plan (incorporated by reference from the exhibits to the Registration Statement of Illinois Power Company on Form S-8, as amended, File Number 33-66124).
- 5.1* Opinion of Akin Gump Strauss Hauer & Feld LLP.
- 23.1* Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm for Dynegy Inc. (now named Dynegy Illinois Inc.)
- 23.2* Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm for West Coast Power LLC.

- 23.3* Consent of Akin Gump Strauss Hauer & Feld LLP (included in the opinion filed as Exhibit 5.1 to this registration statement).
- 24.1* Power of Attorney (included on the signature page of this registration statement).

* Filed herewith.

Item 9. Undertakings.

The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made of the securities registered hereby, a post-effective amendment to this registration statement:
 - (i) To include any prospectus required by Section 10(a)(3) of the Securities Act;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement;
provided, however, that the undertakings set forth in paragraphs (1)(i) and (1)(ii) above do not apply if the registration statement is on Form S-8, and the information required to be included in a post-effective amendment by these paragraphs is contained in periodic reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in this registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act), that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC.

By: /s/ Bruce A. Williamson
 Bruce A. Williamson
 Chairman of the Board of Directors and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints J. Kevin Blodgett, Kent R. Stephenson and Heidi D. Lewis, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign, execute and file this registration statement under the Securities Act and any and all amendments (including, without limitation, post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their or his or her substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Bruce A. Williamson Bruce A. Williamson	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	April 2, 2007
/s/ Holli C. Nichols Holli C. Nichols	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	April 2, 2007
/s/ Carolyn J. Stone Carolyn J. Stone	Senior Vice President and Controller (Principal Accounting Officer)	April 2, 2007
/s/ David W. Biegler David W. Biegler	Director	April 2, 2007

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Signature	Title	Date
/s/ Thomas D. Clark, Jr. Thomas D. Clark, Jr.	Director	April 2, 2007
/s/ Victor E. Grijalva Victor E. Grijalva	Director	April 2, 2007
/s/ Patricia A. Hammick Patricia A. Hammick	Director	April 2, 2007
/s/ George L. Mazanec George L. Mazanec	Director	April 2, 2007
/s/ Robert C. Oelkers Robert C. Oelkers	Director	April 2, 2007
/s/ William L. Trubeck William L. Trubeck	Director	April 2, 2007
/s/ Mikhail Segal Mikhail Segal	Director	April 2, 2007
/s/ Frank Hardenbergh Frank Hardenbergh	Director	April 2, 2007
/s/ James Bartlett James Bartlett	Director	April 2, 2007

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. Amended and Restated Employee Equity Option Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. AMENDED AND RESTATED
EMPLOYEE EQUITY OPTION PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. Amended and Restated 1991 Stock Option Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. AMENDED AND RESTATED 1991
STOCK OPTION PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Illinova Corporation 1992 Long-Term Incentive Compensation Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

ILLINOVA CORPORATION 1991 LONG-TERM
INCENTIVE COMPENSATION PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc 1999 Long-Term Incentive Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. 1999 LONG-TERM INCENTIVE
PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

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Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. 2000 Long-Term Incentive Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. 2000 LONG-TERM INCENTIVE PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. 2001 Non-Executive Stock Incentive Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. 2001 NON-EXECUTIVE STOCK INCENTIVE PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. 401(K) Savings Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. 401(K) SAVINGS PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. 2002 Long Term Incentive Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. 2002 LONG TERM INCENTIVE PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. Deferred Compensation Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. DEFERRED COMPENSATION PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

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Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Inc. Deferred Compensation Plan for Certain Directors has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY INC. DEFERRED COMPENSATION PLAN FOR CERTAIN DIRECTORS

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Midwest Generation, Inc. 401(K) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan) has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY MIDWEST GENERATION, INC. 401(K) SAVINGS PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Midwest Generation, Inc. 401(K) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement) has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY MIDWEST GENERATION, INC. 401(K) SAVINGS PLAN FOR EMPLOYEES COVERED UNDER A COLLECTIVE BARGAINING AGREEMENT

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

Pursuant to the requirements of the Securities Act of 1933, the administer of the Dynegy Northwest Generation, Inc. Savings Incentive Plan has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on April 2, 2007.

DYNEGY NORTHWEST GENERATION, INC. SAVINGS INCENTIVE PLAN

By: /s/ Julius Cox
Julius Cox
Vice President, Human Resources

INDEX TO EXHIBITS

Exhibit No.	Description
4.1*	Amended and Restated Certificate of Incorporation of Dynegy Inc. (formerly named Dynegy Acquisition, Inc.).
4.2*	Amended and Restated Bylaws of Dynegy Inc. (formerly named Dynegy Acquisition, Inc.).
4.3	Dynegy Inc. Amended and Restated Employee Equity Option Plan (incorporated by reference to Exhibit 10.5 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1998 of Dynegy Inc., File No. 1-11156).
4.4	Dynegy Inc. 1999 Long Term Incentive Plan (incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999 of Dynegy Inc., File No. 1-11156).
4.5	Dynegy Inc. 2000 Long Term Incentive Plan (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999 of Dynegy Inc., File No. 1-11156).
4.6	Amendment to the Dynegy Inc. 2000 Long Term Incentive Plan effective January 1, 2006 (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of Dynegy Inc. filed on March 17, 2006, File No. 1-15659).
4.7	Dynegy Inc. 2001 Non-Executive Stock Incentive Plan (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76080).
4.8	Dynegy Inc. 2002 Long Term Incentive Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A of Dynegy Inc., File No. 1-15659, filed with the SEC on April 9, 2002).
4.9	Amendment to the Dynegy Inc. 2002 Long Term Incentive Plan, effective January 1, 2006 (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K of Dynegy Inc. filed on March 17, 2006, File No. 1-15659).
4.10	Dynegy Inc. 401(k) Savings Plan, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 383-76570).
4.11	First Amendment to the Dynegy Inc. 401(k) Savings Plan, effective February 11, 2002 (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
4.12	Second Amendment to the Dynegy Inc. 401(k) Savings Plan, effective January 1, 2002 (incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
4.13	Third Amendment to the Dynegy Inc. 401(k) Savings Plan, effective October 1, 2003 (incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
4.14	Amendment to the Dynegy Inc. 401(k) Savings Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).

- 4.15 Dynegy Inc. 401(k) Savings Plan Trust Agreement (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).
- 4.16 Dynegy Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76080).
- 4.17 Dynegy Inc. Deferred Compensation Plan Trust Agreement (incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76080).
- 4.18 Dynegy Inc. Deferred Compensation Plan for Certain Directors (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2003 of Dynegy Inc., File No. 1-15659).
- 4.19 First Amendment to the Dynegy Inc. Deferred Compensation Plan for Certain Directors, dated September 15, 2005 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Dynegy Inc. filed on September 19, 2005, File No. 1-15659).
- 4.20 Second Amendment to the Dynegy Inc. Deferred Compensation Plan for Certain Directors, dated December 16, 2005 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Dynegy Inc. filed on December 22, 2005, File No. 1-15659).
- 4.21 Dynegy Northeast Generation, Inc. Savings Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-111985).
- 4.22 Amendment to the Dynegy Northeast Generation, Inc. Savings Incentive Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 4.23 Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).
- 4.24* First Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of October 17, 2003.
- 4.25* Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of December 23, 2003.
- 4.26* Second Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of March 31, 2004.
- 4.27* Fourth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of September 29, 2004.
- 4.28* Fifth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of May 31, 2005.
- 4.29* Sixth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of June 7, 2006.
- 4.30* Seventh Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (formerly the Illinois Power Company Incentive Savings Plan), dated as of December 15, 2006.
- 4.31 Dynegy Midwest Generation, Inc. 401(k) Savings Plan Trust Agreement (formerly the Illinois Power Company Incentive Savings Plan Trust Agreement) (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333-76570).

- 4.32 Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333 76570).
- 4.33* First Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of October 17, 2003.
- 4.34* Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of December 23, 2003.
- 4.35* Second Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of March 31, 2004.
- 4.36* Fourth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of September 29, 2004.
- 4.37* Fifth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of May 31, 2005.
- 4.38* Sixth Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of June 7, 2006.
- 4.39* Seventh Amendment to the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement), dated as of December 15, 2006.
- 4.40 Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement Trust Agreement (formerly the Illinois Power Company Incentive Savings Plan for Employees Covered under a Collective Bargaining Agreement Trust Agreement) (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-8 of Dynegy Inc., Registration No. 333 76570).
- 4.41 Dynegy Amended and Restated 1991 Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1998 of Dynegy Inc., File No. 1-11156).
- 4.42 Illinova 1992 Long-Term Incentive Compensation Plan (incorporated by reference from the exhibits to the Registration Statement of Illinois Power Company on Form S-8, as amended, File Number 33-66124).

- 5.1* Opinion of Akin Gump Strauss Hauer & Feld LLP.
- 23.1* Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm for Dynegy Inc. (now named Dynegy Illinois Inc.)
- 23.2* Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm for West Coast Power LLC.
- 23.3* Consent of Akin Gump Strauss Hauer & Feld LLP (included in the opinion filed as Exhibit 5.1 to this registration statement).
- 24.1* Power of Attorney (included on the signature page of this registration statement).

* Filed herewith.

17

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Cash dividends paid

(1,405) (1,390)

Proceeds from exercise of stock options

211 533

Tax benefit realized from stock options exercised, restricted stock awards vested, and dividends on unallocated ESOP shares and restricted stock awards

20 145

Repurchase of common stock

(375)

Net cash provided by financing activities

2,223 8,004

Net increase (decrease) in cash and cash equivalents

5,428 (1,453)

Cash and cash equivalents at beginning of period

34,463 26,431

Cash and cash equivalents at end of period

\$39,891 \$24,978

Supplemental disclosures of cash flow information:

Cash payments for:

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Interest expense

\$6,303 \$6,346

Federal income taxes

Supplemental disclosures of cash flow information:

Loans transferred to other real estate owned

(80)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

HERITAGE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended March 31, 2008 and 2007

(Unaudited)

NOTE 1. Description of Business and Basis of Presentation

(a.) Description of Business

Heritage Financial Corporation (Company) is a bank holding company that was incorporated in the State of Washington in August 1997. We were organized for the purpose of acquiring all of the capital stock of Heritage Savings Bank upon our reorganization from a mutual holding company form of organization to a stock holding company form of organization. Effective September 1, 2004, Heritage Savings Bank switched its charter from a State Chartered Savings Bank to a State Chartered Commercial Bank and changed its legal name from Heritage Savings Bank to Heritage Bank. Effective September 1, 2005, Central Valley Bank (acquired by the Company in March 1999) changed its charter from a Nationally Chartered Commercial Bank to a State Chartered Commercial Bank.

We are primarily engaged in the business of planning, directing, and coordinating the business activities of our wholly owned subsidiaries: Heritage Bank and Central Valley Bank. The deposits of Heritage Bank and Central Valley Bank are insured by the Federal Deposit Insurance Corporation (FDIC) under the Deposit Insurance Fund (DIF). Heritage Bank conducts business from its main office in Olympia, Washington and its thirteen branch offices located in Thurston, Pierce, Mason and south King Counties of Washington State. Central Valley Bank conducts business from its main office in Toppenish, Washington and its five branch offices located in Yakima and Kittitas Counties of Washington State.

Our business consists primarily of lending and deposit relationships with small businesses including agribusiness and their owners in our market area, attracting deposits from the general public and originating for sale or investment purposes first mortgage loans on residential properties located in western and central Washington. We also make residential construction loans, income property loans, and consumer loans.

(b.) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These condensed consolidated financial statements should be read with our December 31, 2007 audited consolidated financial statements and its accompanying notes included in our Annual Report on Form 10-K. In our opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008. In preparing the consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Certain amounts in the consolidated financial statements for the prior year have been reclassified to conform to the current consolidated financial statement presentation. These amounts include the segregation of brokered mortgage income from other income in the Consolidated Statements of Income and the reclassification of specific loans between loan categories. These reclassifications had no effect on net income.

NOTE 2. Stockholders Equity

(a.) Earnings per Share

The following table illustrates the reconciliation of weighted average shares used for earnings per share for the noted periods.

**Three months ended
March 31,**

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	2008	2007
Basic:		
Weighted average shares outstanding	6,662,115	6,567,677
Less: Weighted average unvested restricted stock awards	(74,564)	(63,128)
Basic weighted average shares outstanding	6,587,551	6,504,549
Diluted:		
Basic weighted average shares outstanding	6,587,551	6,504,549
Incremental shares from unexercised stock options and unvested restricted stock awards	52,503	174,011
Weighted average shares outstanding	6,640,054	6,678,560

Table of Contents

Potential dilutive shares are excluded from the computation of earnings per share if their effect is anti-dilutive. For the three months ended March 31, 2008 and 2007, anti-dilutive shares outstanding related to options to acquire common stock totaled 440,987 and 105,600, respectively, as the exercise price was in excess of the market value.

(b.) Cash Dividend Declared

On March 25, 2008, we announced a quarterly cash dividend of 21.0 cents per share payable on April 30, 2008 to stockholders of record on April 15, 2008.

NOTE 3. Share Based Payment

The Company maintains a number of stock-based incentive programs, which are discussed in more detail in Note 4. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R (SFAS No. 123R) Share-based Payment. SFAS No. 123R requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award on the grant date. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been included in pro forma disclosures in prior periods.

Total stock-based compensation expense (excluding ESOP expense) for the three months ended March 31, 2008 and 2007 were as follows:

	2008	2007
	(Dollars in thousands)	
Compensation expense recognized	\$ 130	\$ 103
Related tax benefit recognized	31	10

As of March 31, 2008, the total unrecognized compensation expense related to non-vested stock awards was \$1,029,000 and the related weighted average period over which it is expected to be recognized is approximately 3.1 years.

The fair value of options granted during the three months ended March 31, 2008 is estimated on the date of grant using the Black-Scholes option pricing model based on the assumptions noted in the following table (there were no options granted during the three months ended March 31, 2007). The expected term of share options is derived from historical data and represents the period of time that share options granted are expected to be outstanding. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on historical volatility of Company shares. Expected dividend yield is based on dividends expected to be paid during the expected term of the share options.

Grant period ended	Weighted Average Risk Free Interest Rate	Expected Term in years	Expected Volatility	Expected Dividend Yield	Weighted Average Fair Value
March 31, 2008	2.38%	4.50	21%	4.30%	\$ 2.38

NOTE 4. Stock Option and Award Plans

On September 24, 1996, Heritage Bank's stockholders approved the adoption of the 1997 stock option plan. On October 15, 1998, the Company's stockholders approved the adoption of the 1998 stock option plan, which is similar to the 1997 plan. The 1998 plan does not affect any options granted under the 1997 plan. On April 25, 2002, the Company's stockholders approved the adoption of the 2002 Incentive Stock Option Plan, the 2002 Director Nonqualified Stock Option Plan and the 2002 Restricted Stock Plan, which are generally similar to the 1997 and 1998 stock plans. On April 27, 2006, the Company's stockholders approved the adoption of the 2006 Incentive Stock Option Plan, the 2006 Director Nonqualified Stock Option Plan and the 2006 Restricted Stock Plan, which are generally similar to the 1997, 1998 and 2002 stock plans.

Under these stock option plans, on the date of grant, the exercise price of the option must at least equal the market value per share of the Company's common stock. The 1997 plan provides for the granting of options and stock awards up to 270,333 common

Table of Contents

shares. The 1998 plan provides for the grant of stock options for up to 414,750 shares and stock awards for up to 69,431 shares. The 2002 and 2006 Incentive Stock Option plans provide for the grant of stock options for up to 451,500 and 400,000 shares, respectively. The 2002 and 2006 Director Nonqualified Stock Option Plans provide for the grant of stock options for up to 73,500 and 75,000 shares, respectively. The 2002 and 2006 Restricted Stock Plans provide for the grant of stock awards for up to 52,500 and 25,000 shares, respectively.

Stock options generally vest ratably over three years and expire five years after they become exercisable which amounts to an average term of seven years. Restricted Stock awards issued have a five-year cliff vesting. The Company issues new shares to satisfy share option exercises and restricted stock awards.

The following table summarizes stock option activity for the three months ended March 31, 2008.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2007	518,658	\$ 20.15		
Granted	17,550	19.99		
Exercised	(19,542)	10.79		
Forfeited or expired	(520)	13.60		
Outstanding at March 31, 2008	516,146	\$ 20.50	3.4	\$ 328
Exercisable at March 31, 2008	415,740	\$ 19.57	2.8	\$ 328

The total intrinsic value of options exercised during the three months ended March 31, 2008 and 2007, was \$162,000 and \$478,000, respectively. The total fair value of shares vested during the three months ended March 31, 2008 and 2007 was \$110,000 and \$998,000 respectively.

The following table summarizes restricted stock award activity for the three months ended March 31, 2008.

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2007	65,945	\$ 22.62
Granted	23,995	19.99
Vested		
Forfeited	(320)	23.40
Outstanding at March 31, 2008	89,620	\$ 21.91

Table of Contents**NOTE 5. Fair Value Accounting**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157 (SFAS No. 157) Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements.

In accordance with SFAS No. 157, we group our financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuations for assets and liabilities traded in active exchange markets, or interest in open-end mutual funds that allow the Company to sell its ownership interest back to the fund at net asset value (NAV) on a daily basis. Valuations are obtained from readily available pricing sources for market transactions involving identical assets, liabilities, or funds.

Level 2 Valuations for assets and liabilities traded in less active dealer, or broker markets, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active. Level 2 includes U.S. Treasury, U.S. government and agency debt securities, and mortgage-backed securities. Valuations are usually obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, such as option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table summarizes the balances of assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2008.

	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Investment securities available for sale	\$ 36,242	\$ 10,550	\$ 25,692	\$

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in understanding the financial condition and results of the Company. The information contained in this section should be read with the unaudited condensed consolidated financial statements and its accompanying notes, and the December 31, 2007 audited consolidated financial statements and its accompanying notes included in our recent Annual Report on Form 10-K.

Statements concerning future performance, developments or events, expectations for growth and market forecasts, and any other guidance on future periods, constitute forward-looking statements and are subject to a number of risks and uncertainties, which might cause actual results to differ materially from stated expectations. Specific factors include, but are not limited to, the effect of interest rate changes, risks associated with acquisition of other banks and opening new branches, the ability to control costs and expenses, and general economic conditions. Additional information on these and other factors, which could affect our financial results, are included in our filings with the Securities and Exchange Commission.

Overview

Heritage Financial Corporation is a bank holding company, which primarily engages in the business activities of our wholly owned subsidiaries: Heritage Bank and Central Valley Bank. We provide financial services to our local communities with an ongoing strategic focus in expanding our commercial lending relationships, market expansion and a continual focus on asset quality. Effective January 8, 1998, our common stock began to trade on the NASDAQ National Market under the symbol HFWA .

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The following table provides relevant net interest income information for selected time periods. The average loan balances presented in the table are net of allowances for loan losses. Nonaccrual loans have been included in the tables as loans carrying a zero yield. Yields on tax-exempt securities and loans have not been stated on a tax-equivalent basis.

Table of Contents

	For the Three Months Ended March 31,					
	Average Balance	2008 Interest Earned/Paid	Average Rate	Average Balance	2007 Interest Earned/Paid	Average Rate
Interest Earning Assets:						
Loans	\$ 765,350	\$ 14,168	7.45%	\$ 737,640	\$ 14,419	7.84%
Taxable securities	34,636	392	4.56	36,526	414	4.44
Nontaxable securities	4,918	45	3.67	4,765	44	3.64
Interest earning deposits	12,252	88	2.89	3,342	44	5.17
Federal Home Loan Bank stock	3,227	8	1.01	3,227	3	.40
Total interest earning assets	\$ 820,383	\$ 14,701	7.21%	\$ 785,500	\$ 14,924	7.59%
Noninterest earning assets	57,009			58,897		
Total assets	\$ 877,392			\$ 844,397		
Interest Bearing Liabilities:						
Certificates of deposit	\$ 358,777	\$ 3,941	4.42%	\$ 338,020	\$ 4,004	4.69%
Savings accounts	81,752	351	1.73	89,803	437	1.95
Interest bearing demand and money market accounts	230,956	1,248	2.17	199,006	1,173	2.25
Total interest bearing deposits	671,485	5,540	3.32	626,829	5,614	3.49
FHLB advances and other borrowings	7,640	97	5.10	28,900	413	5.88
Total interest bearing liabilities	\$ 679,125	\$ 5,637	3.34%	\$ 655,729	\$ 6,027	3.53%
Demand and other noninterest bearing deposits	104,022			100,890		
Other noninterest bearing liabilities	7,003			7,070		
Stockholders equity	87,242			80,708		
Total liabilities and stockholders equity	\$ 877,392			\$ 844,397		
Net interest income		\$ 9,064			\$ 8,897	
Net interest spread			3.87%			3.98%
Net interest margin			4.44%			4.59%
Average interest earning assets to average interest bearing liabilities			120.80%			119.79%

Financial Condition Data

Total assets increased \$3.5 million (0.4%) to \$889.5 million as of March 31, 2008 from the December 31, 2007 balance of \$886.1 million. Deposits increased \$16.7 million (2.2%) to \$793.0 million as of March 31, 2008 from the December 31, 2007 balance of \$776.3 million. For the same period, net loans, which exclude loans held for sale but are net of the allowance for loan losses, decreased \$3.2 million (0.4%) to \$765.7 million as of March 31, 2008 from the December 31, 2007 balance of \$768.9 million. Commercial loans continue to be the largest segment of loans at 54.2% and 54.0% as a percentage of total loans as of March 31, 2008 and December 31, 2007, respectively.

Earnings Summary

Net income was \$0.40 per diluted share for the three months ended March 31, 2008 compared to \$0.36 per diluted share for the three months ended March 31, 2007, an increase of 11.1%. Actual earnings for the three months ended March 31, 2008 were \$2,660,000 compared to \$2,373,000 for the same period in 2007, an increase of 12.1%.

Return on average equity for the quarter ended March 31, 2008 was 12.26% compared to 11.92% for the same period last year. Average equity increased by \$6.5 million to \$87.2 million for the three months ended March 31, 2008 versus \$80.7 million for the same period last year while net income increased by \$287,000. The Company's capital position remains strong at 9.76% of total assets as of March 31, 2008, up from 9.27% at March 31, 2007.

Net Interest Income

Net interest income before provision for loan losses for the three months ended March 31, 2008 increased 1.9% to \$9,064,000 from \$8,897,000 for the same quarter in 2007. The net interest margin (net interest income divided by average interest earning assets) decreased to 4.44% for the current quarter from 4.59% for the same quarter last year. The lower net interest margin compared to the prior year have been largely due to a 300 basis point rate decrease in the federal funds target rate and a very competitive business environment.

Table of Contents

Interest income decreased \$223,000 or 1.5%, for the three months ended March 31, 2008 as compared to the first quarter last year and interest expense decreased \$390,000 or 6.5%, during this same period. Loans averaged \$765.4 million with an average yield of 7.45% for the three months ended March 31, 2008 compared to average loans of \$737.6 million with an average yield of 7.84% for the same period in 2007. Certificates of deposit averaged \$358.8 million with an average cost of 4.42% for the three months ended March 31, 2008 compared to \$338.0 million with an average cost of 4.69% for the same period in 2007.

Provision for Loan Losses

The provision for loan losses was \$360,000 for the three months ended March 31, 2008, an increase of \$180,000 over the provision for loan losses during the 1st quarter of 2007. The increase in the loss loan reserves was due to management's assessment of the increased risk in the loan portfolio due to the current economic environment as well as increases in potential problem loans.

Noninterest Income

Noninterest income increased 10.5% to \$2,246,000 for the three months ended March 31, 2008 compared with \$2,033,000 for the same quarter in 2007. This increase was primarily due to a \$177,000 pre-tax gain recognized on the redemption of Class B common stock received from the Visa, Inc. IPO completed on March 18, 2008. In addition, there was an increase of \$137,000, or 16.1%, in service charges on deposits primarily due to increased volume.

Noninterest Expense

Noninterest expense decreased 3.0% to \$6,970,000 during the three months ended March 31, 2008 compared to \$7,185,000 for the same period during 2007. This decrease was primarily due to decreases in salaries and benefits expense, occupancy and equipment expense, and other miscellaneous expenses.

The efficiency ratio for the quarter ended March 31, 2008 was 61.63% compared to 65.74% for the comparable quarter in 2007. The efficiency ratio improvement is primarily a result of decreased noninterest expense and increased noninterest income due to the factors listed above. The efficiency ratio consists of noninterest expense divided by the sum of net interest income before provision for loan losses plus noninterest income.

Table of Contents**Lending Activities**

As indicated in the table below, total loans (including loans held for sale) decreased to \$777.2 million at March 31, 2008 from \$779.8 million at December 31, 2007.

	At March 31, 2008	% of Total (Dollars in thousands)	At December 31, 2007	% of Total
Commercial	\$ 421,514	54.2%	\$ 421,405	54.0%
Real estate mortgages				
One-to-four family residential	57,163	7.4	57,579	7.4
Five or more family residential and commercial properties	161,143	20.7	163,715	21.0
Total real estate mortgages	218,306	28.1	221,294	28.4
Real estate construction				
One-to-four family residential	75,222	9.7	82,165	10.6
Five or more family residential and commercial properties	46,991	6.0	40,342	5.2
Total real estate construction	122,213	15.7	122,507	15.8
Consumer	17,036	2.2	16,641	2.1
Gross loans	779,069	100.2		