DYNEGY INC.
Form PREM14A
January 10, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

(Rule 14a-101)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

DYNEGY INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common stock, par value $0.01 per share, including the associated rights (the Shares)

(2) Aggregate number of securities to which transaction applies:

121,059,184 Shares and 3,336,766 of the Registrant s phantom stock units.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Solely for the purpose of calculating the registration fee, the underlying value of the transaction was calculated as the *sum* of (A) 121,059,184 Shares *multiplied* by $5.50 per Share and (B) 3,336,766 phantom stock units *multiplied* by $5.50 per phantom stock unit.

(4) Proposed maximum aggregate value of transaction:

$684,177,725.00

(5) Total fee paid:

$79,433.03, determined based upon multiplying 0.00011610 by the proposed maximum aggregate value of transaction of $684,177,725.00

¨ Fee paid previously with preliminary materials.

x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) AmountPreviously Paid:
$47,440.00

(2) Form,Schedule or Registration Statement No.:
Schedule TO

(3) FilingParty:
IEH Merger Sub LLC, IEP Merger Sub Inc., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Partners Master Fund II LP, Icahn Partners Master Fund III LP, High River Limited Partnership, Hopper Investments LLC, Barberry Corp., Icahn Onshore LP, Icahn Offshore LP, Icahn Capital LP, IPH GP LLC, Icahn Enterprises Holdings L.P., Icahn Enterprises L.P., Icahn Enterprises G.P. Inc., Beckton Corp., Carl C. Icahn

(4) Date Filed:
December 23, 2010

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[ ], 2011

Dear Stockholder:

We cordially invite you to attend a special meeting of stockholders of Dynegy Inc., a Delaware corporation, which we refer to as the Company, to be held on [ ], 2011 at [ ], at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002.

On December 15, 2010, the Company entered into a merger agreement providing for the acquisition of the Company by IEH Merger Sub LLC, which is a wholly owned subsidiary of Icahn Enterprises Holdings L.P. At the special meeting, you will be asked to consider and vote upon a proposal to adopt the merger agreement. The merger agreement provides that, until 11:59 p.m., Eastern time, on January 24, 2011, the Company is allowed to initiate, solicit and encourage any alternative acquisition proposals from third parties, and at the direction of a special committee of the board of directors of the Company consisting only of non-management independent directors of the Company, the Company s financial advisors are conducting this go-shop process on behalf of the Company and as of the date of this proxy statement have contacted more than 50 potentially interested parties.

On December 22, 2010, and in accordance with the merger agreement, IEH Merger Sub LLC commenced a tender offer (with Icahn Enterprises Holdings L.P. as a co-bidder), which we refer to as the offer, for all of the outstanding shares of our common stock at a price of $5.50 per share in cash, without interest, less any applicable withholding taxes. The merger agreement contemplates that, after completion of the offer and the satisfaction or waiver of all conditions set forth in the merger agreement, the Company will merge with a wholly owned subsidiary of IEH Merger Sub LLC. Under the terms of the merger agreement, the parties have agreed to complete the merger whether or not the offer is completed. If the offer is not completed, the parties have agreed that the merger would only be completed after our stockholders approve a proposal to adopt the merger agreement that will be considered at the special meeting. The offer is being made separately to the holders of shares of our common stock and is not applicable to the special meeting.

If the merger contemplated by the merger agreement is completed, you will be entitled to receive $5.50 in cash, without interest, less any applicable withholding taxes, which is the same price being offered for each share of common stock in the offer, for each share of our common stock owned by you (unless you have properly exercised your appraisal rights with respect to such shares). This represents a premium of approximately 10% to the average closing price of our common stock during the 30-day trading period ended on December 14, 2010, the last trading day prior to the public announcement of the execution of the merger agreement, and a premium of approximately 98% to the closing price of our common stock on August 12, 2010, the last trading day prior to the public announcement of the prior merger agreement with an affiliate of The Blackstone Group, L.P.

The board of directors of the Company, acting upon the unanimous recommendation of the special committee, has, upon the terms and subject to the conditions of the merger agreement, unanimously determined that the merger is fair to, and in the best interests of, the Company and its stockholders and approved and declared advisable the merger agreement and the merger and the other transactions contemplated by the merger agreement. The Company s board of directors made its determination after consultation with its legal and financial advisors and consideration of a number of factors. **The board of directors of the Company recommends that you vote FOR approval of the proposal to adopt the merger agreement and FOR approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.**

Approval of the proposal to adopt the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote thereon.

Your vote is very important. Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy card in the accompanying prepaid reply envelope, or submit your proxy by telephone or the Internet. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted. **The failure to vote will have the same effect as a vote AGAINST approval of the proposal to adopt the merger agreement.**

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If your shares of our common stock are held in street name by your bank, brokerage firm or other nominee, your bank, brokerage firm or other nominee will be unable to vote your shares of our common stock without instructions from you. You should instruct your bank, brokerage firm or other nominee to vote your shares of our common stock in accordance with the procedures provided by your bank, brokerage firm or other nominee. **The failure to instruct your bank, brokerage firm or other nominee to vote your shares of our common stock FOR approval of the proposal to adopt the merger agreement will have the same effect as voting AGAINST approval of the proposal to adopt the merger agreement.**

The accompanying proxy statement provides you with detailed information about the special meeting, the merger agreement, the merger and the other transactions contemplated by the merger agreement. A copy of the merger agreement is attached as **Annex A** to the proxy statement. We encourage you to read the entire proxy statement and its annexes, including the merger agreement, carefully. You may also obtain additional information about the Company from documents we have filed with the Securities and Exchange Commission.

If you have any questions or need assistance voting your shares of our common stock, please contact D.F. King & Co., Inc. by calling (800) 697-6975 (toll-free).

Thank you in advance for your cooperation and continued support.

Sincerely,

Bruce A. Williamson

Chairman of the Board, President and Chief Executive Officer

The proxy statement is dated [ ], 2011, and is first being mailed to our stockholders on or about [ ], 2011.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE MERGER, PASSED UPON THE MERITS OR FAIRNESS OF THE MERGER AGREEMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE PROPOSED MERGER, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

DYNEGY INC.

1000 Louisiana Street, Suite 5800

Houston, TX 77002

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

[ ], 2011

DATE:	[ ], 2011
TIME:	[ ]
PLACE:	Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002
ITEMS OF BUSINESS:	1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of December 15, 2010, as it may be amended from time to time, which we refer to as the merger agreement, among the Company, IEH Merger Sub LLC, a Delaware limited liability company, which we refer to as Parent, and IEP Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Parent, which we refer to as Merger Sub. A copy of the merger agreement is attached as **Annex A** to the accompanying proxy statement.
	2. To consider and vote on a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.
	3. To transact any other business that may properly come before the special meeting, or any adjournment or postponement of the special meeting, by or at the direction of the board of directors of the Company.
RECORD DATE:	Only stockholders of record at the close of business on [ ], 2011 are entitled to notice of, and to vote at, the special meeting. All stockholders of record as of that date are cordially invited to attend the special meeting in person.
PROXY VOTING:	**Your vote is very important, regardless of the number of shares of common stock of the Company you own.** The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of the Company s common stock entitled to vote thereon. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return, as promptly as possible, the

enclosed proxy card in the accompanying prepaid reply envelope or submit your proxy by telephone or the Internet prior to the special meeting to ensure that your shares of common stock of the Company will be represented at the special meeting

	if you are unable to attend. If you fail to return your proxy card or fail to submit your proxy by phone or the Internet, your shares of common stock of the Company will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote **AGAINST** approval of the proposal to adopt the merger agreement.
	If you are a stockholder of record, voting in person at the special meeting will revoke any proxy previously submitted. If you hold your shares of common stock of the Company through a bank, brokerage firm or other nominee, you should follow the procedures provided by your bank, brokerage firm or other nominee in order to vote.
RECOMMENDATION:	The board of directors of the Company, acting upon the unanimous recommendation of a special committee of the board of directors of the Company consisting only of non-management independent directors of the Company, has, upon the terms and subject to the conditions of the merger agreement, unanimously determined that the merger is fair to, and in the best interests of, the Company and its stockholders and approved and declared advisable the merger agreement and the merger and the other transactions contemplated by the merger agreement. The board of directors of the Company made its determination after consultation with its legal and financial advisors and consideration of a number of factors. **The board of directors of the Company recommends that you vote FOR approval of the proposal to adopt the merger agreement and FOR approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.**
ATTENDANCE:	Only stockholders of record, their duly authorized proxy holders and our guests may attend the special meeting. To gain admittance, you must present valid photo identification, such as a driver s license or passport. If your shares of common stock of the Company are held through a bank, brokerage firm or other nominee, please bring to the special meeting a copy of your brokerage statement evidencing your beneficial ownership of the common stock of the Company and valid photo identification. If you are the representative of a corporate or institutional stockholder, you must present valid photo identification along with proof that you are the representative of such stockholder. Please note that cameras, recording devices and other electronic devices will not be permitted at the special meeting.
APPRAISAL:	Stockholders of the Company who do not vote in favor of the proposal to adopt the merger agreement will have the right to seek appraisal of the fair value of their shares of common stock of the Company if they deliver a demand for appraisal before the vote is taken on the merger agreement and comply with all the requirements of Delaware law, which are summarized in the accompanying proxy statement and reproduced in their entirety in **Annex F** to the accompanying proxy statement.

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WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN, AS PROMPTLY AS POSSIBLE, THE ENCLOSED PROXY CARD IN THE ACCOMPANYING PREPAID REPLY ENVELOPE, OR SUBMIT YOUR PROXY BY TELEPHONE OR THE INTERNET. IF YOU ATTEND THE SPECIAL MEETING AND VOTE IN PERSON, YOUR VOTE BY BALLOT WILL REVOKE ANY PROXY PREVIOUSLY SUBMITTED.

By Order of the Board of Directors,

Kimberly M. O Brien
Corporate Secretary

Dated: [ ], 2011
Houston, Texas

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Annex A	Agreement and Plan of Merger, dated as of December 15, 2010, among Dynegy Inc., IEH Merger Sub LLC and IEP Merger Sub Inc., and the exhibits thereto
Annex B	Support Agreement, dated as of December 15, 2010, among the parties listed on the signature pages thereto and Dynegy Inc.
Annex C	Guarantee, dated as of December 15, 2010, by Icahn Enterprises Holdings L.P. in favor of Dynegy Inc.
Annex D	Opinion of Greenhill & Co., LLC, dated December 14, 2010
Annex E	Opinion of Goldman Sachs & Co., dated December 15, 2010
Annex F	Section 262 of the General Corporation Law of the State of Delaware

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This proxy statement and a proxy card are first being mailed on or about [ ], 2011 to stockholders who owned shares of the Company s common stock as of the close of business on [ ], 2011.

SUMMARY

The following summary highlights selected information in this proxy statement and may not contain all the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that topic. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under Where You Can Find More Information beginning on page [ ].

Parties to the Merger (Page [ ])

Dynegy Inc., or Dynegy, the Company, we or us, is a Delaware corporation headquartered in Houston, Texas. Our primary business is the production and sale of electric energy, capacity and ancillary services to regional transmission organizations and independent system operators, integrated utilities, electric cooperatives, municipalities, transmission and distribution utilities, industrial customers, power marketers, financial participants, other power generators and commercial end-users in six U.S. states in the midwest, the northeast and the west coast regions of the U.S.

IEH Merger Sub LLC, or Parent, is a Delaware limited liability company. Parent is a wholly owned subsidiary of Icahn Enterprises Holdings L.P., which we refer to as the guarantor, and was formed solely for the purpose of entering into the merger agreement and completing the transactions contemplated by the merger agreement. To date, Parent has not carried on any activities other than those related to its formation and the transactions contemplated by the merger agreement. Upon completion of the merger, the Company will be a direct wholly owned subsidiary of Parent.

Icahn Enterprises Holdings L.P., or the guarantor, is a Delaware limited partnership and its general partner is Icahn Enterprises G.P. Inc., a Delaware corporation. Icahn Enterprises G.P. is wholly owned by Beckton Corp., a Delaware corporation. Beckton Corp. is wholly owned by Mr. Carl C. Icahn, a United States citizen. The guarantor is primarily engaged in the business of holding direct or indirect interests in various operating businesses. Icahn Enterprises G.P. Inc. is primarily engaged in the business of serving as the general partner of Icahn Enterprises L.P. and the guarantor. Beckton Corp. is primarily engaged in the business of holding the capital stock of Icahn Enterprises G.P. Inc. Icahn Enterprises L.P. is a diversified holding company currently engaged in the following continuing operating businesses: investment management, automotive, railcar, food packaging, metals, real estate and home fashion. Mr. Icahn is the indirect holder of approximately 92.4% of the issued and outstanding depositary units representing limited partnership interests in Icahn Enterprises L.P.

IEP Merger Sub Inc., or Merger Sub, is a Delaware corporation. Merger Sub is a wholly owned subsidiary of Parent and was formed by Parent solely for the purpose of entering into the merger agreement and completing the transactions contemplated by the merger agreement. Upon completion of the merger, Merger Sub will cease to exist.

In this proxy, we refer to the Agreement and Plan of Merger, dated as of December 15, 2010, as it may be amended from time to time, among the Company, Parent and Merger Sub, as the merger agreement, and the merger of Merger Sub with and into the Company as the merger.

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Tender Offer

Parent commenced a tender offer (with the guarantor as a co-bidder), which we refer to as the offer, as disclosed in the Tender Offer Statement on Schedule TO, as may be amended or supplemented from time to time, dated December 22, 2010 and filed by Parent with the SEC, to purchase all of the issued and outstanding shares of the Company at a purchase price of $5.50 per share, in cash, which we refer to as the offer price, without interest, less any applicable withholding taxes, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated December 22, 2010, as amended or supplemented from time to time, and in the related Letter of Transmittal.

The merger agreement contemplates that, after completion of the offer and the satisfaction or waiver of all conditions set forth in the merger agreement, the Company will merge with Merger Sub. Under the terms of the merger agreement, the parties have agreed to complete the merger whether or not the offer is completed. If the offer is not completed, the parties have agreed that the merger would only be completed after our stockholders approve a proposal to adopt the merger agreement that will be considered at the special meeting. We are soliciting proxies for the special meeting to obtain stockholder approval of the adoption of the merger agreement and to consummate the merger regardless of the outcome of the offer.

We refer in this proxy statement to the offer and to terms of the merger agreement applicable to the offer; however, the offer is being made separately to the holders of shares and is not applicable to the special meeting.

We refer to the issued and outstanding shares of the common stock of the Company, par value $0.01 per share, as our common stock, and we refer to the associated rights issued pursuant to the Stockholder Protection Rights Agreement, dated as of November 22, 2010, and as amended on December 15, 2010, which, as it may be further amended from time to time, we refer to as the rights agreement, between the Company and Mellon Investor Services LLC, as rights agent, as the rights, and which together with our common stock, we refer to as the shares.

The Special Meeting (Page [ ])

Time, Place and Purpose of the Special Meeting (Page [ ])

The special meeting will be held on [ ], 2011, at [ ], at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002.

At the special meeting, holders of our common stock will be asked to approve the proposal to adopt the merger agreement, and to approve the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.

Record Date and Quorum (Page [ ])

You are entitled to receive notice of, and to vote at, the special meeting if you owned shares of our common stock at the close of business on [ ], 2011, which the Company has set as the record date for the special meeting and which we refer to as the record date. You will have one vote for each share of our common stock that you owned on the record date. As of the record date, there were [ ] shares of our common stock outstanding and entitled to vote at the special meeting. A majority of the shares of our common stock outstanding at the close of business on the record date and entitled to vote, present in person or represented by proxy, at the special meeting constitutes a quorum for the purposes of the special meeting. Abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present.

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Vote Required (Page [ ])

Approval of the proposal to adopt the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote thereon. Abstentions and broker non-votes will have the same effect as a vote **AGAINST** approval of the proposal to adopt the merger agreement.

Approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock present in person or represented by proxy and entitled to vote on the matter at the special meeting, whether or not a quorum is present. Abstentions will have the same effect as a vote **AGAINST** approval of this proposal. Broker non-votes are not counted for purposes of this proposal.

As of [ ], 2011, the record date, the directors and executive officers of the Company beneficially owned and were entitled to vote, in the aggregate, [ ] shares of our common stock (not including any shares of our common stock deliverable upon exercise or conversion of any Company stock options or Company phantom stock units), representing [ ]% of the outstanding shares of our common stock, and all of the directors and executive officers of the Company have informed the Company that they currently intend to vote all of their shares of our common stock **FOR** approval of the proposal to adopt the merger agreement and **FOR** approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies. The directors and executive officers of the Company have also informed the Company that they would not vote such shares of our common stock in favor of the adoption of the merger agreement if any person makes a superior proposal (as described in The Merger Agreement Solicitation of Acquisition Proposals beginning on page [ ]) to the Company or if the board of directors of the Company, which we refer to as the board, effects a change of recommendation (as described in The Merger Agreement Termination beginning on page [ ]).

Proxies and Revocation (Page [ ])

Any stockholder of record entitled to vote at the special meeting may submit a proxy by telephone, over the Internet, by returning the enclosed proxy card in the accompanying prepaid reply envelope, or may vote in person by appearing at the special meeting. If your shares of our common stock are held in street name through a bank, brokerage firm or other nominee, you should instruct your bank, brokerage firm or other nominee on how to vote your shares of our common stock using the instructions provided by your bank, brokerage firm or other nominee. If you fail to submit a proxy or to vote in person at the special meeting, or do not provide your bank, brokerage firm or other nominee with instructions, as applicable, your shares of our common stock will not be voted on the proposal to adopt the merger agreement, which will have the same effect as a vote **AGAINST** approval of the proposal to adopt the merger agreement, and your shares of our common stock will not have an effect on the proposal to adjourn the special meeting.

You have the right to revoke a proxy, whether delivered over the Internet, by telephone or by mail, at any time before it is exercised, by submitting a later dated proxy through any of the methods available to you, by giving written notice of revocation to our Corporate Secretary, which must be filed with the Corporate Secretary by the time the special meeting begins, or by attending the special meeting and voting in person.

The Merger (Page [ ])

The merger agreement provides that, upon the terms and subject to the conditions set forth in the merger agreement, at the effective time of the merger, Merger Sub will be merged with and into the Company in accordance with the provisions of the DGCL. The Company will be the surviving corporation in the merger, which we refer to as the surviving corporation, and the separate corporate existence of the Company, with all its

rights, privileges, immunities, powers and franchises, will continue unaffected by the merger, except expressly as set forth in the merger agreement. If the merger is completed, you will not own any shares of the capital stock of the surviving corporation.

Merger Consideration (Page [ ])

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger (other than (i) shares of our common stock owned by Parent, Merger Sub, the Company or any of their respective direct or indirect wholly-owned subsidiaries, and in each case not held on behalf of third parties, which we refer to as the affiliated shares, and (ii) shares of our common stock owned by stockholders, who we refer to as dissenting stockholders, who have duly perfected and not withdrawn a demand for appraisal under Delaware law on those shares, which we refer to as dissenting shares, and which together with the affiliated shares, we refer to as the excluded shares) will be converted into the right to receive an amount in cash equal to $5.50, in cash, which we refer to as the per share merger consideration, without interest, less any applicable withholding taxes.

Reasons for the Merger; Recommendations of the Special Committee and the Board of Directors (Page [ ])

After careful consideration of various factors described in the section entitled The Merger Reasons for the Merger; Recommendations of the Special Committee and the Board of Directors , beginning on page [ ], the board, acting on the unanimous recommendation of a special committee of the board consisting only of non-management independent directors of the Company, which we refer to as the special committee, has, upon the terms and subject to the conditions of the merger agreement, unanimously (i) determined that the merger is fair to, and in the best interests of, the Company and our stockholders, (ii) approved and declared advisable the merger agreement and the merger and the other transactions contemplated by the merger agreement, (iii) resolved that the merger agreement be submitted for consideration by the stockholders of the Company at a special meeting of stockholders and (iv) recommended that our stockholders adopt the merger agreement. See The Merger Background of the Merger beginning on page [ ].

In considering the recommendation of the board with respect to the proposal to adopt the merger agreement, you should be aware that our directors and executive officers have interests in the merger that are different from, or in addition to, yours. Each of the special committee and the board was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the transactions contemplated by the merger agreement, and in making its recommendation. See the section entitled The Merger Interests of Certain Persons in the Merger beginning on page [ ].

The board recommends that you vote FOR approval of the proposal to adopt the merger agreement and FOR approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Opinions of Financial Co-Advisors (Page [ ])

Opinion of Greenhill & Co., LLC (Page [ ])

On December 14, 2010, at meetings of the special committee and the board held to consider the merger agreement, Greenhill & Co., which we refer to as Greenhill, rendered to the special committee and the board an oral opinion, which was confirmed by delivery of a written opinion, dated December 14, 2010, to the effect that, as of the date of the opinion, and based upon and subject to the limitations and assumptions set forth therein, the

$5.50 per share in cash to be received by the holders (excluding Parent, Merger Sub and any of their affiliates) of our common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of Greenhill s written opinion dated December 14, 2010, which contains the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this proxy statement and is incorporated herein by reference. The summary of Greenhill s opinion in this proxy statement is qualified in its entirety by reference to the full text of the opinion. Greenhill s written opinion was addressed to the special committee and the board. It was not intended to be and did not constitute a recommendation to the special committee or the board as to whether they should recommend or approve the offer, merger or the merger agreement, nor does it constitute a recommendation as to whether the stockholders of the Company should tender shares in connection with the offer or approve the merger or take any other action in respect of the offer or the merger at any meeting of the stockholders convened in connection with the offer or the merger. Greenhill was not requested to opine as to, and its opinion did not in any manner address, the Company s underlying business decision to proceed with or effect the offer or the merger.

Under the terms of Greenhill s agreement with the Company, the Company has agreed to pay Greenhill a fee of $11.5 million in the aggregate, of which $5 million was paid following delivery of Greenhill s written opinion dated August 13, 2010, rendered in connection with the board s consideration of the prior merger agreement described below and $6.5 million is payable upon the consummation of the offer or the merger. The Company has also agreed to reimburse Greenhill for certain out-of-pocket expenses incurred by it in connection with its engagement and will indemnify Greenhill against certain liabilities that may arise out of its engagement. For a more complete description, see Opinions of Financial Co-Advisors Opinion of Greenhill & Co., LLC beginning on page [ ]. See also **Annex D** to this proxy statement.

Opinion of Goldman, Sachs & Co. (Page [ ])

On December 14, 2010, at meetings of the special committee and the board held to consider the merger agreement, Goldman, Sachs & Co., which we refer to as Goldman Sachs, rendered to the special committee and the board an oral opinion, which was confirmed by delivery of a written opinion, dated December 15, 2010, to the effect that, as of the date of the written opinion, and based upon and subject to the factors, assumptions and limitations set forth therein, the $5.50 per share in cash to be paid to the holders (other than Parents and its affiliates) of our common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

The full text of the written opinion of Goldman Sachs, dated December 15, 2010, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex E to this proxy statement. Goldman Sachs provided its opinion for the information and assistance of the special committee and the board in connection with their consideration of the merger agreement. The Goldman Sachs opinion is not a recommendation as to whether or not any holder of our common stock should tender their common stock in connection with the offer or how any holder of our common stock should vote with respect to the merger or any other matter.

Under the terms of Goldman Sachs agreement with the Company, the Company has agreed to pay Goldman Sachs a fee of $11.5 million in the aggregate, of which $5 million was paid in connection with the announcement in August 2010 of the prior merger agreement and $6.5 million is payable upon consummation of the offer or the merger. In addition, the Company has agreed to reimburse Goldman Sachs for its expenses, including attorneys fees and disbursements, and to indemnify Goldman Sachs and related persons against various liabilities, including certain liabilities under the federal securities laws. For a more complete description, see Opinions of Financial Co-Advisors Opinion of Goldman, Sachs & Co. beginning on page [ ]. See also **Annex E** to this proxy statement.

Financing of the Merger (Page [ ])

We anticipate that the total funds needed by Parent to pay (i) our stockholders the amounts due to them under the merger agreement as holders of shares and/or Company restricted stock (which we anticipate, based upon the shares and Company restricted stock outstanding as of January 5, 2011, will be approximately $669,279,589), (ii) any and all fees and expenses required to be paid by Parent, Merger Sub and the surviving corporation in connection with the transactions contemplated by the merger agreement and (iii) all amounts, up to a maximum of $1.0 billion, required to satisfy Parent s obligations to provide or cause to be provided sufficient funding to the Company and its subsidiaries to permit them to operate their respective business and operations in the ordinary course consistent with past practice and, to the extent requested by the Company, to repay any outstanding indebtedness of the Company and its subsidiaries that is due and payable in connection with the closing of the offer, including (a) to repay or refinance indebtedness outstanding under the Company s existing credit facility that will come due as a result of the transactions contemplated by the merger agreement (which we anticipate, based upon indebtedness outstanding as of January 5, 2011, will be approximately $918 million, consisting of an $850 million term letter of credit facility, which we refer to as the term LC facility, and a $68 million senior secured term loan facility) and (b) to replace or refinance the letters of credit issued under the term LC facility (as of January 5, 2011, letters of credit issued under the term LC facility were approximately $370 million), will collectively be funded by Parent from the cash and cash equivalents available to Parent and the guarantor and from the cash on hand of the Company and restricted cash of the Company associated with the term LC facility (as of January 5, 2011, the cash on hand of the Company was approximately $410 million and restricted cash of the Company associated with the term LC facility was approximately $850 million).

We believe the funds available to Parent, together with cash on hand of the Company and cash of the Company that is restricted under our existing credit facility, will be sufficient to complete the transactions contemplated by the merger agreement, to operate our business after the completion of the offer and to repay or refinance any outstanding indebtedness that will come due as a result of the offer and the merger, but we cannot assure you of that. Those amounts may be insufficient if, among other things, the guarantor fails to comply with its obligations in breach of the guarantee (as described below), the outstanding indebtedness of the Company at the closing of the merger is greater than anticipated or the funds needed to operate our and our subsidiaries businesses are greater than anticipated.

Parent has agreed that in connection with the closing of the transactions contemplated by the merger agreement, no credit support will be provided by the Company or any of its affiliates and no new indebtedness nor any assets of the Company or any of its subsidiaries may be used to make payments to holders of shares or to the paying agent in connection with the closing of the transactions contemplated by the merger agreement.

Guarantee (Page [ ])

Concurrently with the execution of the merger agreement, pursuant to the guarantee entered into between the Company and the guarantor, which we refer to as the guarantee, the guarantor has guaranteed the full and timely performance by Parent and Merger Sub of their respective payment and other obligations under the merger agreement, other than with respect to certain obligations of the surviving corporation to indemnify the present and former directors and officers of the Company and its subsidiaries and certain obligations of the Company and Parent to provide for directors and officers insurance following completion of the merger.

Support Agreement (Page [ ])

Pursuant to a Stockholder Support Agreement, which we refer to as the support agreement, entered into simultaneously with the merger agreement among certain stockholders affiliated with the guarantor, who we refer to as the support parties, and the Company, the support parties have agreed, subject to the terms and conditions of such agreement, to, among other things, vote shares (and shares underlying call options to the extent exercised), constituting up to approximately 14.92% of the issued and outstanding shares, in favor of the

adoption of the merger agreement, if necessary. The support parties have also agreed that, in certain circumstances, if an all cash all-shares superior proposal is made to acquire the Company and the superior proposal meets certain criteria (as described in The Merger Agreement Parent Ownership and Vote beginning on page [ ]), the support parties will vote, consent or tender their shares in favor of the adoption of the agreement relating to such superior proposal and/or into any tender offer contemplated thereby.

Interests of Certain Persons in the Merger (Page [ ])

In considering the recommendation of the board with respect to the proposal to adopt the merger agreement, you should be aware that our directors and executive officers have interests in the offer and the merger that are different from, or in addition to, the interests of our stockholders generally. Each of the special committee and the board was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the transactions contemplated by the merger agreement, and in making its recommendation. These interests include the following:

- the vesting and cashing-out of all unvested shares of Company restricted stock, Company phantom stock units and certain Company performance units held by our executive officers, and the payment in cash of the directors deferred compensation balances under the Company s Deferred Compensation Plan for Certain Directors; and

- pursuant to an executive change in control severance plan, the payment of severance payments (including, if applicable, a tax gross-up relating to parachute payment excise taxes resulting from such severance payments) in connection with a termination of employment that may occur in connection with or following the completion of the offer or the merger.

Material U.S. Federal Income Tax Consequences of the Merger (Page [ ])

The exchange of shares of our common stock for cash pursuant to the merger generally will be a taxable transaction to U.S. holders for U.S. federal income tax purposes. Stockholders who are U.S. holders and who exchange their shares of our common stock in the merger will generally recognize gain or loss in an amount equal to the difference, if any, between the cash payments made pursuant to the merger and their adjusted tax basis in their shares of our common stock . Backup withholding may also apply to the cash payments made pursuant to the merger unless the U.S. holder or other payee provides a taxpayer identification number, certifies that such number is correct and otherwise complies with the backup withholding rules. You should read The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page [ ] for a definition of U.S. holder and a more detailed discussion of the U.S. federal income tax consequences of the merger. You should also consult your tax advisor for a complete analysis of the effect of the merger on your federal, state and local and/or foreign taxes.

Regulatory Approvals (Page [ ])

The merger is conditioned on satisfaction (or waiver to the extent permitted by applicable law) of certain regulatory conditions. In order to satisfy such regulatory conditions the parties must make filings with a number of federal, state, public utility, antitrust and other regulatory authorities.

Under the terms of the merger agreement, the merger is subject to prior approval by the Federal Energy Regulatory Commission, which we refer to as FERC, under Section 203(a) of the Federal Power Act, as amended, which we refer to as the FPA. Parent, Merger Sub and certain affiliates of Parent and Merger Sub filed with FERC a joint amended application for the approval of the offer and the merger under Section 203(a) of the FPA on December 21, 2010.

The offer and the merger are subject to the approval of the New York Public Service Commission, which we refer to as the NYPSC, under Sections 70 and 83 of the New York Public Service Law. Parent, Merger Sub and

certain affiliates of Parent, Merger Sub and the Company filed a joint petition for approval of, or a determination that no approval is required for, the offer and the merger with the NYPSC under Sections 70 and 83 of the New York Public Service Law on December 23, 2010.

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations that have been promulgated thereunder by the Federal Trade Commission, or FTC, which we refer to as the HSR Act, the offer and the merger cannot be completed unless certain information has been furnished to the Antitrust Division of the Department of Justice, which we refer to as the Antitrust Division, and the FTC and certain waiting period requirements have been satisfied. Pursuant to the requirements of the HSR Act, Parent and the Company each filed a Notification and Report Form with respect to the offer and the merger with the Antitrust Division and the FTC on December 20, 2010. Parent and the Company received notice of the early termination of the waiting period applicable to the offer and the merger on December 27, 2010.

Prior Merger Agreement (Page [ ])

The Company, Denali Parent Inc., which we refer to as Denali Parent, an affiliate of The Blackstone Group L.P., which we refer to as Blackstone, and Denali Merger Sub Inc., a wholly owned subsidiary of Denali Parent, entered into an Agreement and Plan of Merger, dated August 13, 2010, as amended on November 16, 2010, which we refer to as the prior merger agreement. The prior merger agreement was terminated on November 23, 2010. If the offer or the merger is consummated, the Company will be required to pay a termination fee of $16.3 million to Denali Parent within three business days of such consummation.

Litigation Relating to the Merger (Page [ ])

In connection with the prior merger agreement, nineteen stockholder lawsuits were filed (one of which was subsequently voluntarily dismissed) in the District Courts of Harris County, Texas between August 13, 2010 and August 24, 2010 against the Company, its directors, certain Blackstone entities, NRG Energy Inc., which we refer to as NRG, and/or certain executive officers of the Company. The remaining eighteen Texas state actions were consolidated on September 9, 2010 and are captioned as *Colleen Witmer, et al. v. Dynegy Inc., et al.*, No. 2010-50609 (Consolidated) (234th Judicial District of Harris County, Texas). One stockholder derivative lawsuit was filed in a District Court in Harris County, Texas on September 16, 2010. Three stockholder lawsuits were filed against the Company, its directors, certain of its executive officers, certain Blackstone entities, and/or NRG in the United States District Court in the Southern District of Texas; the first was filed on August 31, 2010; the second was filed on September 16, 2010, and the third was filed on October 7, 2010. Six similar stockholder actions against the Company, its directors, certain Blackstone entities, and/or certain executive officers of the Company were filed in the Court of Chancery of the State of Delaware between August 17, 2010 and August 23, 2010, and were consolidated on August 24, 2010. One of these lawsuits was voluntarily dismissed on August 23, 2010.

The complaints arising out of the prior merger agreement variously alleged, among other things, that the board and certain executive officers violated fiduciary duties and failed to disclose material information. Certain of the complaints also alleged that the Company, Blackstone, and/or NRG aided and abetted such alleged breaches of fiduciary duties. The plaintiffs sought various remedies, including an injunction against the merger and/or the stockholder vote, corrective disclosure, declaratory relief with respect to the alleged breaches of fiduciary duty, and monetary damages including attorneys fees and expenses.

On November 7, 2010, the parties entered into a memorandum of understanding providing for the full and final settlement of the Texas state stockholder class actions and the Delaware actions. In connection with the settlement, the Company denied all allegations of wrongdoing but agreed to make certain additional disclosures to stockholders. On November 8, 2010, Dynegy made supplemental disclosures in a supplement to the Definitive Proxy Statement filed with the SEC as Definitive Additional Materials on Schedule 14A on November 8, 2010 and subsequently mailed such supplemental disclosures to the holders of our common stock. The memorandum

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of understanding and settlement were expressly subject to and conditioned upon the consummation of the transactions contemplated by the prior merger agreement. Accordingly, when the prior merger agreement was terminated, the settlement became null and void.

On December 12, 2010, the plaintiff in the stockholder derivative action moved to nonsuit all defendants without prejudice. The court granted the motion on December 14, 2010. On December 16, 2010, the lead plaintiff in the Texas state class action moved to nonsuit without prejudice defendants Blackstone and NRG. The court granted the motion on December 17, 2010.

On January 6, 2010, the plaintiff in the Texas class action filed a second amended petition challenging the transactions contemplated by the merger agreement. The second amended petition names Dynegy, its directors and the guarantor as defendants and generally alleges that the directors breached their fiduciary duties in connection with approving the transactions contemplated by the merger agreement and by providing misleading information and/or failing to disclose information in the Schedule 14D-9 filed by the Company on December 30, 2010. The second amended petition also alleges that Dynegy and the guarantor aided and abetted the directors alleged breaches of fiduciary duties and that all defendants engaged in a conspiracy to deprive stockholders of the full value of their shares. The plaintiff seeks, among other things, to enjoin the offer. The defendants believe that the claims in the second amended petition are meritless and intend vigorously to defend against such claims.

In addition to the state class action, the federal and Delaware actions also remain pending. On December 30, 2010, two of the federal plaintiffs moved to consolidate the three pending federal cases and for appointment of lead counsel. The federal plaintiffs have represented that they intend to file a consolidated complaint challenging the transactions contemplated by the merger agreement, but have not yet done so.

The Merger Agreement (Page [ ])

Treatment of Common Stock, Options and Other Equity Awards (Page [ ])

Common Stock. At the effective time of the merger, each share of common stock issued and outstanding immediately prior to the effective time of the merger other than the excluded shares will be converted into the right to receive an amount in cash equal to the per share merger consideration, without interest, less any applicable withholding taxes, and at the effective time of the merger will cease to be outstanding, be cancelled and cease to exist.

Company Stock Options. At the effective time of the merger, each outstanding Company stock option, vested or unvested, will be cancelled for no payment if such option has an exercise price greater than the per share merger consideration and, if such option exercise price is not greater than the per share merger consideration, will only entitle the holder thereof to receive, as soon as reasonably practicable (but in any event no later than three business days after the effective time of the merger), an amount in cash equal to the product of (i) the total number of shares of our common stock subject to the Company stock option immediately prior to the effective time of the merger and (ii) the excess, if any, of the per share merger consideration *over* the exercise price per share of our common stock under such Company stock option, less applicable taxes required to be withheld with respect to such payment.

Company Restricted Stock. At the effective time of the merger, each outstanding share of Company restricted stock, if any, will be converted into the right to receive, as soon as reasonably practicable after the effective time of the merger and no later than the earlier of (i) the second payroll period or (ii) thirty days following the effective time of the merger, an amount in cash, for each share of Company restricted stock, equal to the per share merger consideration, less any applicable withholding taxes required to be withheld with respect to such payment.

Company Phantom Stock Units. At the earlier to occur of the time Parent accepts for payment and pays for all shares validly tendered and not withdrawn pursuant to the offer or the effective time of the

merger, which earlier time we refer to as the acceleration time, each outstanding Company phantom stock unit will be cancelled and converted into the right to receive, as soon as reasonably practicable after the acceleration time, but in any event no later than the earlier of (i) the second payroll period or (ii) thirty days following the acceleration time, an amount in cash, for each Company phantom stock unit, equal to the per share merger consideration, less any applicable withholding taxes required to be withheld with respect to such payment.

Company Performance Awards. At the acceleration time, (i) Company performance awards granted in 2009 and 2010 will be payable at 100% of target (as defined in the applicable agreements for such awards), fully vested and settled for a payment of cash, as required by the terms of the agreements governing such Company performance awards and (ii) each outstanding Company performance award granted prior to 2009 will be fully vested and cancelled for no payment in accordance with the terms of the agreements governing such Company performance awards.

Further, at the acceleration time, each outstanding Company stock option, share of Company restricted stock and Company phantom stock unit will fully vest.

Solicitation of Acquisition Proposals (Page [ ])

The merger agreement provides that for the period beginning on December 15, 2010 and continuing until 11:59 p.m. Eastern time on January 24, 2011, which we refer to as the go-shop period, we are permitted to solicit any inquiry or the making of any acquisition proposals from third parties and to participate in any negotiations or discussions with third parties with respect to any acquisition proposals. From and after 12:00 a.m. Eastern time on January 25, 2011, which we refer to as the no-shop period start date, and until the effective time of the merger or the termination of the merger agreement, we are not permitted to solicit any inquiry or the making of any acquisition proposals or engage in any negotiations or discussions with any person relating to an acquisition proposal. Notwithstanding these restrictions, under certain circumstances, we may, from and after the no-shop period start date and prior to the earlier of the closing of the offer and the time our stockholders adopt the merger agreement, respond to a written acquisition proposal or engage in discussions or negotiations with the person making such an acquisition proposal. At any time prior to the earlier of the closing of the offer and the time our stockholders adopt the merger agreement, if the board determines that an acquisition proposal is a superior proposal, we may terminate the merger agreement and enter into any acquisition, merger or similar agreement, which we refer to as an alternative acquisition agreement, with respect to such superior proposal, so long as we comply with certain terms of the merger agreement, including paying a termination fee to Parent. See The Merger Agreement Solicitation of Acquisition Proposals beginning on page [ ] and The Merger Agreement Termination Fees beginning on page [ ].

Conditions to the Merger (Page [ ])

The respective obligations of the Company, Parent and Merger Sub to consummate the merger are subject to the satisfaction or waiver of certain customary conditions, including the adoption of the merger agreement by our stockholders and, if the offer has not been completed, receipt of required regulatory approvals, the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the merger agreement. Parent s and Merger Sub s obligations to consummate the merger are also subject to, if the offer has not been completed, the absence of any event, effect, change, discovery or occurrence from the date of the merger agreement until the effective time of the merger that has had or would reasonably be expected to have a Company material adverse effect, as described under The Merger Agreement Representations and Warranties beginning on page [ ].

Termination (Page [ ])

We and Parent may, by mutual written consent, terminate the merger agreement and abandon the merger and the offer at any time prior to the effective time of the merger, whether before or after the adoption of the merger agreement by our stockholders.

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The merger agreement may also be terminated and the offer and the merger abandoned as follows:

- by either Parent or the Company at any time prior to the effective time of the merger, if:
  - subject to certain limitations, the merger has not been consummated by February 28, 2011, provided, that if on February 28, 2011 any of the conditions to closing of the merger are not fulfilled or waived but remain capable of being satisfied, then either of Parent or the Company may extend this termination date from February 28, 2011 to April 30, 2011 (which date, as it may be so extended, we refer to as the termination date) unless the offer has been consummated by the termination date, in which case no such termination right is available;
  - our stockholders meeting has been held and completed and our stockholders have not adopted the merger agreement at such meeting or any adjournment or postponement of such meeting, unless the offer has been consummated, in which case no such termination right is available; or
  - an order permanently restraining, enjoining or otherwise prohibiting or making illegal the consummation of the offer or the merger has become final and non-appealable.

However, none of the termination rights described in the preceding three bullet points will be available to any party whose failure to fulfill any obligation or other breach under the merger agreement has been the primary cause of, or the primary factor that resulted in, the failure of any condition to the offer or a condition to the consummation of the merger to have been satisfied on or before the termination date.

- by the Company, if:
  - at any time prior to the earlier of the completion of the offer and the time that the Company s stockholders adopt the merger agreement, (i) the board authorizes the Company, subject to complying with the terms of the merger agreement described under Solicitation of Acquisition Proposals beginning on page [ ], to enter into an alternative acquisition agreement with respect to a superior proposal, (ii) immediately prior to or concurrently with the termination of the merger agreement we enter into an alternative acquisition agreement with respect to a superior proposal and (iii) immediately prior to or concurrently with such termination, we pay Parent or its designee the termination fee discussed under The Merger Agreement Termination Fees beginning on page [ ];
  - there has been a breach of a representation, warranty, covenant or agreement made by Parent or Merger Sub in the merger agreement or any such representation and warranty becomes untrue after the date of the merger agreement, which inaccuracy or breach would give rise to the failure of the condition to the closing of the merger relating to the accuracy of the representations and warranties of Parent or compliance by Parent and Merger Sub with their obligations under the merger agreement, and such breach or inaccuracy cannot be cured, or if curable, is not cured prior to the earlier of (i) 30 calendar days after written notice is given by us to Parent and (ii) two business days prior to the termination date (provided, that we will not have this right to terminate if we are then in material breach of the merger agreement and do not cure such breach within 10 days of notice of such breach from Parent);
  - (a) all of the conditions of the offer have been satisfied or waived before the expiration date of the offer and Parent fails to consummate the offer promptly thereafter or (b) (x) the offer has been terminated in accordance with its terms, (y) the conditions to the obligations of Parent and Merger Sub to consummate the merger have been satisfied (other than those conditions that by their nature cannot be satisfied other than at the closing of the merger) and (z) Parent and Merger Sub fail to consummate the merger within the earlier of (i) two business days following the date on which the completion of the

merger should have occurred under the merger agreement and (ii) one business day before the termination date, and we stood ready, willing and able to consummate the merger during such period; or

Parent terminates or makes any change to the offer in violation of the terms of the merger agreement in any material respect.

by Parent, if:

the board (i) withholds, withdraws, qualifies or modifies its recommendation to our stockholders to tender their shares into the offer and to approve the proposal to adopt the merger agreement, which we refer to as the Company recommendation, or approves or recommends any acquisition proposal, which we refer to collectively as a change of recommendation or (ii) fails to include the Company recommendation in its proxy statement or on the Schedule 14D-9 relating to the offer;

there has been a breach of a representation, warranty, covenant or agreement made by the Company in the merger agreement or any such representation and warranty becomes untrue after the date of the merger agreement, which breach or inaccuracy would give rise to the failure of the condition to closing of the merger (if the offer has been terminated) or the conditions to the offer (if the offer has not been terminated), in each case, relating to the accuracy of the representations and warranties of the Company or compliance by it with its obligations under the merger agreement, and such breach or inaccuracy cannot be cured, or if curable, is not cured prior to the earlier of (i) 30 calendar days after written notice is given to us by Parent and (ii) two business days prior to the termination date (provided, that Parent will not have this right to terminate if it is then in material breach of the merger agreement and does not cure such breach within 10 days of notice of such breach from the Company), which we refer to as a Company breach termination event;

if a written environmental report prepared by a reputable, nationally recognized environmental consulting firm selected by Parent and reasonably acceptable to the Company concludes that the Company is subject to an obligation to comply with environmental laws as in effect and interpreted on the date of the merger agreement that will result in the Company incurring environmental capital expenditures between January 1, 2011 and December 31, 2013 plus environmental liabilities as accrued on the Company s September 30, 2010 balance sheet included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, such that individually or in the aggregate, such costs are more than $250 million in excess of the $395 million currently projected by the Company, and Parent shall have provided written notice to the Company of such determination on or before January 17, 2011, which we refer to as the environmental liability termination; or

if the aggregate Pension Benefit Guaranty Corporation termination liability as of December 31, 2010 for the Company s Title IV benefit plans as determined in accordance with Section 4044 of the Employee Retirement Income Security Act of 1974, as amended, or ERISA, and related regulations and certain assumptions set forth in Company disclosure letter delivered in connection with the merger agreement, less the aggregate fair market value of the assets in the trusts for the Company s Title IV benefit plans as of November 30, 2010, exceeds $250 million, and Parent has delivered written notice of such termination to the Company on or prior to January 17, 2011, which we refer to as the pension liability termination.

Termination Fees (Page [ ])

We are required to pay Parent a termination fee equal to $16.3 million, less expenses paid to Merger Sub or its designee in respect of certain expenses incurred by Parent, Merger Sub and their respective affiliates under the merger agreement as described below, if:

before adoption of the merger agreement by our stockholders, the merger agreement is terminated as a result of the termination provisions described above relating to the failure of the merger to be consummated on or prior to the termination date or the failure of the stockholders to adopt the merger

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agreement at the stockholders meeting and, in either case, within 18 months of such termination the Company consummates an acquisition proposal (changing the references to 20% in the definition of acquisition proposal to 50%) with consideration to be paid to the stockholders (cash or otherwise) having an aggregate value of more than the $5.50 per share;

Parent terminates the merger agreement due to the board having (i) made and not withdrawn a change of recommendation, (ii) approved or recommended to the Company stockholders an acquisition proposal or (iii) failed to include the Company recommendation in the proxy statement or the Schedule 14D-9 or if Parent or the Company otherwise terminates the merger agreement at a time when Parent had the right to terminate the merger agreement for one of the reasons described in this paragraph;

the merger agreement is terminated by the Company in connection with the Company s entry into an alternative acquisition agreement with respect to a superior proposal; or

before adoption of the merger agreement by the Company stockholders, the merger agreement is terminated as a result of termination provisions described above relating to the failure of the merger to be consummated on or prior to the termination date or the failure of the stockholders to adopt the merger agreement at the stockholders meeting and, in either case, any person has made or publicly announced a bona fide acquisition proposal after the date of the merger agreement but prior to such termination, and such acquisition proposal shall not have been publicly withdrawn without qualification in a manner that would reasonably be expected to adversely affect the receipt of the vote of the stockholders to adopt the merger agreement in any material respect at least 10 calendar days prior to, with respect to a termination in respect of the termination date described above, the date of termination, or at least five business days prior to, with respect to a termination in respect of the failure of the stockholders to adopt the merger agreement described above, the date of the meeting of the Company stockholders at which stockholder adoption of the merger agreement is to be considered and within 18 months of such termination the Company consummates an acquisition proposal (whether or not it is the same acquisition proposal that was so made or publicly announced) (changing the references to 20% in the definition of acquisition proposal to 50%).

The Company must also pay Merger Sub or its designee in respect of expenses incurred by Parent, Merger Sub and their respective affiliates in connection with the merger agreement and the transactions contemplated by the merger agreement and as consideration for entering into the merger agreement an amount equal to $5 million if the merger agreement is terminated because either (x) the stockholders do not adopt the merger agreement or (y) Parent terminates the merger agreement pursuant to a Company breach termination event.

Remedies (Page [ ])

The parties are entitled to an injunction, specific performance and other equitable relief to prevent breaches of the merger agreement and to enforce specifically the terms of the merger agreement in addition to any other remedy to which they are entitled at law or in equity. Without limitation of the foregoing, prior to the consummation of the merger, the Company is entitled to specific performance to prevent or cure breaches of the merger agreement by Parent or Merger Sub and/or to enforce specifically the terms and provisions of the merger agreement, including to cause Parent and/or Merger Sub to consummate the transactions contemplated by the merger agreement, including to consummate the offer and/or to effect the closing of the merger.

Market Price of Shares (Page [ ])

The closing price of the shares on the New York Stock Exchange, or NYSE, on December 14, 2010, the last trading day prior to the public announcement of the execution of the merger agreement, was $5.45 per share. On [ ], 2011, the most recent practicable date before this proxy statement was mailed to our stockholders, the closing price for the shares on the NYSE was $[ ] per share. You are encouraged to obtain current market quotations for the shares in connection with voting your shares of our common stock.

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Appraisal Rights (Page [ ])

Stockholders are entitled to appraisal rights under the General Corporation Law of the State of Delaware, or the DGCL, in connection with the merger, provided, that stockholders meet all of the conditions set forth in Section 262 of the DGCL. This means that you are entitled to have the fair value of your shares of our common stock determined by the Delaware Court of Chancery and to receive payment based on that valuation in lieu of the merger consideration. The ultimate amount you receive in an appraisal proceeding may be less than, equal to or more than the amount you would have received under the merger agreement.

To exercise your appraisal rights, you must submit a written demand for appraisal to the Company before the vote is taken on the merger agreement and you must not submit a proxy to vote or otherwise vote in favor of the proposal to adopt the merger agreement. Your failure to follow exactly the procedures specified under the DGCL will result in the loss of your appraisal rights. See Appraisal Rights beginning on page [ ] and the text of the Delaware appraisal rights statute reproduced in its entirety as **Annex F** to this proxy statement. If you hold your shares of our common stock through a bank, brokerage firm or other nominee and you wish to exercise appraisal rights, you should consult with your bank, brokerage firm or other nominee to determine the appropriate procedures for the making of a demand for appraisal by such bank, brokerage firm or nominee. In view of the complexity of the DGCL, stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors promptly.

Delisting and Deregistration of Shares (Page [ ])

If the merger is completed, the shares will be delisted from the NYSE and deregistered under the Securities Exchange Act of 1934, as amended, or the Exchange Act. As a result, we would no longer file periodic reports with the Securities and Exchange Commission, or the SEC, on account of the shares.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger, the merger agreement, the transactions contemplated by the merger agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a Company stockholder. Please refer to the Summary and the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement, which you should read carefully and in their entirety. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under Where You Can Find More Information beginning on page [ ].

Q. What is the proposed merger transaction and what effects will it have on the Company?

A. The proposed transaction is the acquisition of the Company by Parent pursuant to the merger agreement. If the proposal to adopt the merger agreement is approved by our stockholders and the other closing conditions under the merger agreement have been satisfied or waived, Merger Sub will merge with and into the Company, with the Company being the surviving corporation, and the separate corporate existence of the Company, with all its rights, privileges, immunities, powers and franchises, will continue unaffected by the merger, except expressly as set forth in the merger agreement. If the merger is completed, you will not own any shares of the capital stock of the surviving corporation. In addition, following the merger, the shares will be delisted from the NYSE and deregistered under the Exchange Act, and we will no longer file periodic reports with the SEC on account of the shares.

Q. Did Parent commence a tender offer for shares of Company common stock?

A. Yes. On December 22, 2010, Parent commenced the offer (with the guarantor as a co-bidder) for all of the issued and outstanding shares, at a price of $5.50 per share, in cash, without interest and less any required withholding of taxes. The offer was commenced pursuant to the merger agreement.

The merger agreement contemplates that, after completion of the offer and the satisfaction or waiver of all conditions set forth in the merger agreement, the Company will merge with Merger Sub. Under the terms of the merger agreement, the parties have agreed to complete the merger whether or not the offer is completed. If the offer is not completed, the parties have agreed that the merger would only be completed after our stockholders approve a proposal to adopt the merger agreement that will be considered at the special meeting. We are soliciting proxies for the special meeting to obtain stockholder approval of the adoption of the merger agreement to be able to consummate the merger regardless of the outcome of the offer.

If you tender your shares in the offer, and such shares are accepted for payment by Parent prior to the record date for any vote or action, you will not have the right to vote such shares with respect to the proposal to adopt the merger agreement and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.

Q. What will I receive if the merger is completed?

A. Upon completion of the merger, you will be entitled to receive the per share merger consideration in cash, without interest, less any applicable withholding taxes, for each share of our common stock that you own immediately prior to the completion of the merger, unless you have properly exercised and not withdrawn your appraisal rights under the DGCL with respect to such shares. For example, if you own 100 shares of our common stock, you will receive $550.00 in cash in exchange for your shares of our common stock, less any applicable withholding taxes. You will not own any shares of the capital stock in the surviving corporation. **Please do NOT return your stock certificate(s) with your proxy.**

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Q. How does the per share merger consideration compare to the market price of the shares prior to announcement of the merger?

A. The closing price of the shares on the NYSE on December 14, 2010, the last trading day prior to the public announcement of the execution of the merger agreement, was $5.45 per share. The per share merger consideration of $5.50 represents a premium of approximately 10% to the average closing share price of the shares during the 30-day trading period ended on December 14, 2010 and a premium of approximately 98% to the closing share price of the shares on August 12, 2010, the last trading day prior to the public announcement of the prior merger agreement.

Q. How does the board recommend that I vote?

A. The board recommends that you vote **FOR** approval of the proposal to adopt the merger agreement and **FOR** approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Q. When do you expect the merger to be completed?

A. We are working towards completing the merger as soon as possible. Assuming timely receipt of required regulatory approvals and satisfaction of other closing conditions, including approval by our stockholders of the proposal to adopt the merger agreement, we anticipate that the merger will be completed in the first quarter of 2011.

Q. Are there any consequences of the merger on the prior merger agreement of which I should be aware?

A. If the offer or the merger is consummated, the Company will be required under the prior merger agreement to pay a termination fee of $16.3 million to Denali Parent within three business days of such consummation.

Q. What happens if the merger is not completed?

A. If the merger agreement is not adopted by the stockholders of the Company or if the merger is not completed for any other reason, the stockholders of the Company will not receive any payment for their shares of our common stock in connection with the merger. Instead, the Company will remain an independent public company and the shares will continue to be listed and traded on the NYSE. Under specified circumstances, the Company may be required to pay to Merger Sub a fee with respect to the termination of the merger agreement or to reimburse Parent or Merger Sub or their affiliates for their documented out-of-pocket expenses, as applicable, as described under The Merger Agreement Termination Fees beginning on page [ ].

Q. Is the merger expected to be taxable to me?

A. Yes. The exchange of shares of our common stock for cash pursuant to the merger generally will be a taxable transaction to U.S. holders (as defined in The Merger Material U.S. Federal Income Tax Consequences of the Merger on page [ ]) for U.S. federal income tax purposes. If you are a U.S. holder and you exchange your shares of our common stock in the merger for cash, you will generally recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received with respect to such shares and your adjusted tax basis in such shares of our common stock. Backup withholding may also apply to the cash payments paid to a non-corporate U.S. holder

pursuant to the merger unless the U.S. holder or other payee provides a taxpayer identification number, certifies that such number is correct and otherwise complies with the backup withholding rules. You should read The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page [ ] for a more detailed discussion of the U.S. federal income tax consequences of the merger.

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You should also consult your tax advisor for a complete analysis of the effect of the merger on your federal, state and local and/or foreign taxes.

Q. Do any of the Company s directors or officers have interests in the merger that may differ from or be in addition to my interests as a stockholder?

A. Yes. In considering the recommendation of the board with respect to the proposal to adopt the merger agreement, you should be aware that our directors and executive officers have interests in the offer and the merger that are different from, or in addition to, the interests of our stockholders generally. Each of the special committee and the board was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the transactions contemplated by the merger agreement, and in making its recommendation. See the section entitled The Merger Interests of Certain Persons in the Merger beginning on page [ ].

Q. Why am I receiving this proxy statement and proxy card or voting instruction form?

A. You are receiving this proxy statement and proxy card or voting instruction form because you own shares of our common stock. This proxy statement describes matters on which we urge you to vote and is intended to assist you in deciding how to vote your shares of our common stock with respect to such matters.

Q. When and where is the special meeting?

A. The special meeting of stockholders of the Company will be held on [ ], 2011 at [ ], at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002.

Q. What am I being asked to vote on at the special meeting?

A. You are being asked to consider and vote on a proposal to adopt the merger agreement that provides for the acquisition of the Company by Parent and to approve a proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.

Q. What vote is required for the Company s stockholders to approve the proposal to adopt the merger agreement?

A. The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote thereon.

Because the affirmative vote required to approve the proposal to adopt the merger agreement is based upon the total number of outstanding shares of our common stock, if you fail to submit a proxy or vote in person at the special meeting, or abstain, or you do not provide your bank, brokerage firm or other nominee with instructions, as applicable, this will have the same effect as a vote **AGAINST** approval of the proposal to adopt the merger agreement.

Q.

What vote of our stockholders is required to approve the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies?

A. Approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock present in person or represented by proxy and entitled to vote on the matter at the special meeting, whether or not a quorum is present.

Abstaining will have the same effect as a vote **AGAINST** approval of the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies. If you fail to submit a

proxy or to vote in person at the special meeting or if your shares of our common stock are held through a

bank, brokerage firm or other nominee and you do not instruct your bank, brokerage firm or other nominee to vote your shares of our common stock, your shares of our common stock will not be voted, but this will not have an effect on the proposal to adjourn the special meeting.

Q. What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A. If your shares of our common stock are registered directly in your name with our transfer agent, Mellon Investor Services LLC (operating under the service name BNY Mellon Shareowner Services), you are considered, with respect to those shares of our common stock, the stockholder of record . This proxy statement, and your proxy card, have been sent directly to you by the Company.

If your shares of our common stock are held through a bank, brokerage firm or other nominee, you are considered the beneficial owner of such shares of our common stock held in street name. In that case, this proxy statement has been forwarded to you by your bank, brokerage firm or other nominee who is considered, with respect to those shares of our common stock, the stockholder of record. As the beneficial owner, you have the right to direct your bank, brokerage firm or other nominee how to vote your shares of our common stock by following their instructions for voting.

Q. If my shares of common stock are held in street name by my bank, brokerage firm or other nominee, will my bank, brokerage firm or other nominee vote my shares of common stock for me?

A. Your bank, brokerage firm or other nominee will only be permitted to vote your shares of our common stock if you instruct your bank, brokerage firm or other nominee how to vote. You should follow the procedures provided by your bank, brokerage firm or other nominee regarding the voting of your shares of our common stock. Under the rules of the NYSE, banks, brokerage firms or other nominees who hold shares in street name for customers have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, banks, brokerage firms and other nominees are precluded from exercising their voting discretion with respect to approving non-routine matters such as the proposal to adopt the merger agreement and, as a result, absent specific instructions from the beneficial owner of such shares of our common stock, banks, brokerage firms or other nominees are not empowered to vote those shares of our common stock on non-routine matters. If you do not instruct your bank, brokerage firm or other nominee to vote your shares of our common stock, your shares of our common stock will not be voted, which we refer to as broker non-votes, and the effect will be the same as a vote **AGAINST** approval of the proposal to adopt the merger agreement, and your shares of our common stock will not have an effect on the proposal to adjourn the special meeting.

Q. Who can vote at the special meeting?

A. All holders of record of our common stock as of the close of business on [ ], 2011, the record date for the special meeting, are entitled to receive notice of, and to vote at, the special meeting. Each holder of our common stock is entitled to cast one vote on each matter properly brought before the special meeting for each share of our common stock that such holder owned as of the record date.

Q. What is a quorum?

A. A majority of the shares of our common stock outstanding at the close of business on the record date and entitled to vote, present in person or represented by proxy, at the special meeting constitutes a quorum for the purposes of the special meeting. Abstentions are counted as present for the purpose of determining whether a quorum is present. Broker non-votes are counted as present for the purpose of determining whether a quorum is present.

Q. How do I vote?

A. *Stockholder of Record.* If you are a stockholder of record, you may have your shares of our common stock voted on matters presented at the special meeting in any of the following ways:

in person you may attend the special meeting and cast your vote there;

- by proxy stockholders of record have a choice of submitting a proxy:
  - over the Internet the website for Internet proxies is on your proxy card;
  - by using a toll-free telephone number noted on your proxy card; or
  - by signing, dating and returning the enclosed proxy card in the accompanying prepaid reply envelope.

A control number, located on your proxy card, is designed to verify your identity and allow you to submit a proxy for your shares of our common stock, and to confirm that your voting instructions have been properly recorded when submitting a proxy over the Internet or by telephone. Please be aware that if you submit a proxy over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible.

Beneficial Owner. If you are a beneficial owner, please refer to the instructions provided by your bank, brokerage firm or other nominee to see which of the above choices are available to you. Please note that if you are a beneficial owner and wish to vote in person at the special meeting, you must provide a legal proxy from your bank, brokerage firm or other nominee at the special meeting.

Q. How do I vote shares of common stock that I hold through a Savings Plan of the Company?

A. If you are a participant invested in a Dynegy Stock Fund through the Dynegy Midwest Generation, Inc. 401(k) Savings Plan for Employees Covered under a Collective Bargaining Agreement (as amended and restated effective January 1, 2009) or the Dynegy Midwest Generation, Inc. 401(k) Savings Plan (as amended and restated effective January 1, 2009), which we refer to collectively as the DMG Union and Non-Union 401(k) Plans, or if you are a participant invested in a Dynegy Stock Fund through the Dynegy Inc. 401(k) Savings Plan (as amended and restated effective January 1, 2009) or the Dynegy Northeast Generation, Inc. Savings Incentive Plan (as amended and restated effective January 1, 2009), which we collectively refer to as the Dynegy and DNE 401(k) Plans, and which we collectively refer to, along with the DMG Union and Non-Union 401(k) Plans, as the 401(k) plans, and you have contributions invested in our common stock, you may direct Vanguard Fiduciary Trust Company, the trustee, which we refer to as Vanguard, how to vote the shares of common stock allocated to your account as of the record date. Please follow the directions on the enclosed proxy on how to provide your voting instructions to Vanguard. With respect to participants in DMG Union and Non-Union 401(k) Plans, if such participant s voting instructions (regardless of method, i.e., Internet, mail or phone) are not received by 11:59 p.m. Eastern time on [ ], 2011 or if such participant signs and returns his or her proxy card without instructions marked in the boxes, Vanguard will vote the participant s shares of our common stock in the same proportion as other shares of our common stock held in the Dynegy Stock Fund under the DMG Union and Non-Union 401(k) Plans for which Vanguard received timely instructions. With respect to participants in the Dynegy and DNE 401(k) Plans, if such a participant s voting instructions (regardless of method, i.e., Internet, mail or phone) are not received by 11:59 p.m. Eastern time on [ ], 2011 or if such participant signs and returns his or her proxy card without instructions marked in the boxes, Vanguard will vote the participant s shares of our common stock in the same proportion as other shares of our common stock held in the Dynegy Stock Fund under the Dynegy and DNE 401(k) Plans for which Vanguard received timely instructions. Participants in the 401(k) plans must vote through Vanguard and may not vote in person at the special meeting.

With respect to shares of our common stock held by our 401(k) plans, Fiduciary Counselors Inc. has been appointed to act as the independent fiduciary responsible for ensuring that procedures are in place to safeguard the confidentiality of your proxy directions to the trustee and that those procedures are being followed.

Q. How can I change or revoke my proxy?

A. You have the right to revoke a proxy, whether delivered over the Internet, by telephone or by mail, at any time before it is exercised, by submitting a later dated proxy through any of the methods available to you, by giving written notice of revocation to our Corporate Secretary, at Dynegy Inc., Attention: Corporate

Secretary, 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, which must be filed with the Corporate Secretary by the time the special meeting begins, or by attending the special meeting and voting in person.

Q. What is a proxy?

A. A proxy is your legal designation of another person, referred to as a proxy , to vote your shares of our common stock. The written document describing the matters to be considered and voted on at the special meeting is called a proxy statement . The document used to designate a proxy to vote your shares of our common stock is called a proxy card . Our board has designated Bruce A. Williamson, Heidi D. Lewis and Kimberly M. O Brien, and each of them, with full power of substitution, as proxies for the special meeting and any adjournments or postponements thereof.

Q. If a stockholder gives a proxy, how are the shares of common stock voted?

A. Regardless of the method you choose to submit a proxy, the individuals named on the enclosed proxy card, or your proxies, will vote your shares of our common stock in the way that you indicate. When completing the Internet or telephone processes or the proxy card, you may specify whether your shares of our common stock should be voted for or against or to abstain from voting on all, some or none of the specific items of business to come before the special meeting.

If you properly sign your proxy card but do not mark the boxes showing how your shares should be voted on a matter, the shares of common stock represented by your properly signed proxy will be voted **FOR** approval of the proposal to adopt the merger agreement and **FOR** approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

Q. How are votes counted?

A. For the proposal to adopt the merger agreement, you may vote **FOR** , **AGAINST** or **ABSTAIN** . Abstentions and broker non-votes will have the same effect as votes **AGAINST** approval of the proposal to adopt the merger agreement.

For the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies, you may vote **FOR** , **AGAINST** or **ABSTAIN** . Abstentions will have the same effect as if you voted **AGAINST** approval of the proposal, but broker non-votes will not have an effect on the proposal.

Q. What do I do if I receive more than one proxy or set of voting instructions?

A. If you hold shares of our common stock in street name and also directly as a record holder or otherwise, you may receive more than one proxy and/or set of voting instructions relating to the special meeting. These should each be voted and/or returned separately in accordance with the instructions provided in this proxy statement in order to ensure that all of your shares of our common stock are voted.

Q. What happens if I sell my shares of common stock before the special meeting?

A. The record date for stockholders entitled to vote at the special meeting is earlier than both the date of the special meeting and the consummation of the merger. Except as otherwise explained in the succeeding paragraph, if you transfer your shares of our common stock after the record date but before the special meeting, unless special arrangements (such as provision of a proxy) are made between you and the person to whom you transfer your shares and each of you notifies the Company in writing of such special arrangements, you will retain your right to vote such shares at the special meeting but will transfer the right to receive the per share merger consideration to the person to

whom you transfer your shares.

If you tender your shares in the offer, and such shares are accepted for payment by Parent prior to the record date for any vote or action, you will not have the right to vote such shares with respect to the proposal to adopt the merger agreement and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.

Q. Who will solicit and pay the cost of soliciting proxies?

A. Dynegy has retained D.F. King & Co., which we refer to as D.F. King, for consulting, analytic and information agent services. Under its engagement letter, D.F. King is entitled to receive a monthly fee of $15,000 plus the reimbursement of reasonable expenses. The Company may also reimburse brokers, banks and other custodians, nominees and fiduciaries representing beneficial owners of shares of our common stock for their expenses in forwarding soliciting materials to beneficial owners of our common stock and in obtaining voting instructions from those owners. Our directors, officers and employees may also solicit proxies by telephone, by facsimile, by mail, on the Internet or in person, but they will not be paid any additional amounts for soliciting proxies.

Q. What do I need to do now?

A. Even if you plan to attend the special meeting, after carefully reading and considering the information contained in this proxy statement, please submit your proxy promptly to ensure that your shares of common stock are represented at the special meeting. If you hold your shares of our common stock in your own name as the stockholder of record, please submit a proxy to have your shares of our common stock voted at the special meeting by (i) completing, signing, dating and returning the enclosed proxy card in the accompanying prepaid reply envelope; (ii) using the telephone number printed on your proxy card; or (iii) using the Internet voting instructions printed on your proxy card. If you decide to attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted. If you are a beneficial owner, please refer to the instructions provided by your bank, brokerage firm or other nominee to see which of the above choices are available to you.

Q. Should I send in my stock certificates now?

A. No. If the proposal to adopt the merger agreement is approved, you will be sent a letter of transmittal promptly, and in any event within two business days, after the completion of the merger, describing how you may exchange your shares of our common stock for the per share merger consideration. If your shares of our common stock are held in street name by your bank, brokerage firm or other nominee, you will receive instructions from your bank, brokerage firm or other nominee as to how to effect the surrender of your street name shares of our common stock in exchange for the per share merger consideration. **Please do NOT return your stock certificate(s) with your proxy.**

Q. Am I entitled to exercise appraisal rights under the DGCL instead of receiving the per share merger consideration for my shares of our common stock?

A. Yes. As a holder of shares of our common stock, you are entitled to exercise appraisal rights under the DGCL in connection with the merger if you take certain actions and meet certain conditions, including that you do not vote (in person or by proxy) in favor of adoption of the merger agreement. See Appraisal Rights beginning on page [ ].

Q. Who can help answer any other questions I might have?

A. If you have additional questions about the merger, need assistance in submitting your proxy or voting your shares of shares of our common stock, or need additional copies of the proxy statement or the enclosed proxy card, please contact D.F. King by calling (800) 697-6975 (toll-free).

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement, and the documents to which we refer you in this proxy statement, as well as oral statements made or to be made by us, contains 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, other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on 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 our actual results and financial position 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. Words such as anticipate , estimate , project , forecast , plan , may , will , should , expect and oth similar meaning identify these forward-looking statements, which appear in a number of places in this proxy statement (and the documents to which we refer you in this proxy statement) and include, but are not limited to, all statements relating directly or indirectly to the timing or likelihood of completing the transactions contemplated by the merger agreement, plans for future growth, changes in the business and other business development activities as well as capital expenditures, financing sources and the effects of regulation and competition and all other statements regarding our intent, plans, beliefs or expectations or those of our directors or officers. Investors are cautioned that such forward-looking statements are not assurances for future performance or events and involve risks and uncertainties that could cause actual results and developments to differ materially from those covered in such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks detailed in our filings with the SEC, including our most recent filings on Forms 10-Q and 10-K, factors and matters contained or incorporated by reference in this document, and the following factors:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement, including a termination of the merger agreement under circumstances that could require us to pay a termination fee;
- the inability to complete the offer or the merger due to the failure to satisfy the condition of the offer with respect to the minimum tender required or obtain stockholder approval or the failure to satisfy other conditions to completion of the offer or the merger, including receipt of required regulatory approvals;
- the failure of the offer or the merger to close for any other reason;
- risks that the proposed transaction disrupts current plans and operations and the potential difficulties in retention of executive management and other key employees as a result of the offer or the merger;
- the outcome of any legal proceedings that may be instituted against the Company and/or others relating to the merger agreement;
- diversion of management s attention from ongoing business concerns;
- limitations placed on our ability to operate the business by the merger agreement;
- limitations on our ability to utilize the Company s previously incurred federal net operating losses or alternative minimum tax credits;
- the effect of the announcement of the merger agreement, the offer and the merger on our business relationships, employees, standing with regulators, operating results and business generally; and

the amount of the costs, fees, expenses, impairments, and other charges related to the merger agreement, the offer and the merger.
Consequently, all of the forward-looking statements we make in this document are qualified by the information contained or incorporated by reference herein, including, but not limited to (a) the information contained under this heading and (b) the information contained under the headings Risk Factors and

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Business and information in our consolidated financial statements and notes thereto included in our most recent filings on Forms 10-Q and 10-K (see Where You Can Find More Information beginning on page [ ]). We are under no obligation to publicly release any revision to any forward-looking statement contained or incorporated herein to reflect any future events or occurrences.

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, many of which are beyond our control. You should carefully consider the cautionary statements contained or referred to in this section in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf.

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PARTIES TO THE MERGER

The Company

Dynegy Inc.

1000 Louisiana Street

Suite 5800

Houston, Texas 77002

(713) 507-6400

Dynegy s primary business is the production and sale of electric energy, capacity and ancillary services from our fleet of eighteen operating power plants in six states totaling approximately 12,100 MW of generating capacity. We report the results of our power generation business, based on geographical location and how we allocate our resources, as three separate segments in our consolidated financial statements: (i) generation Midwest segment, (ii) generation West segment and (iii) generation Northeast segment. Dynegy sells electric energy, capacity and ancillary services on a wholesale basis from our power generation facilities. Energy is the actual output of electricity and is measured in MWh. The capacity of a power generation facility is its electricity production capability, measured in MW. Wholesale electricity customers will, for reliability reasons and to meet regulatory requirements, contract for rights to capacity from generating units. Ancillary services are the products of a power generation facility that support the transmission grid operation, follow real-time changes in load and provide emergency reserves for major changes to the balance of generation and load. We sell these products individually or in combination to our customers under short-, medium- and long-term contractual agreements or tariffs.

Dynegy s customers include regional transmission organizations and independent service operations, integrated utilities, municipalities, electric cooperatives, transmission and distribution utilities, industrial customers, power marketers, financial participants such as banks and hedge funds, other power generators and commercial end-users. All of our products are sold on a wholesale basis for various lengths of time from hourly to multi-year transactions. Some of our customers, such as municipalities or integrated utilities, purchase our products for resale in order to serve their retail, commercial and industrial customers. Other customers, such as some power marketers, may buy from us to serve their own wholesale or retail customers or as a hedge against power sales they have made.

For more information about the Company, please visit our website at http://www.dynegy.com/. Our website address is provided as an inactive textual reference only. The information contained on our website is not incorporated into, and does not form a part of, this proxy statement or any other report or document on file with or furnished to the SEC. See also Where You Can Find More Information beginning on page [ ].

Dynegy s common stock, including the associated rights issued pursuant to the rights agreement, is listed on the NYSE under the symbol DYN .

Parent

IEH Merger Sub LLC

c/o Icahn Enterprises Holdings L.P.

767 Fifth Avenue, 47th Floor

New York, NY 10153

(212) 702-4300

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IEH Merger Sub LLC, IEH or Parent, is a Delaware limited liability company. Parent is a wholly owned subsidiary of Icahn Enterprises Holdings L.P., which we refer to as the guarantor, and was formed solely for the purpose of entering into the merger agreement and completing the transactions contemplated by the merger

agreement. To date, Parent has not carried on any activities other than those related to its formation and the transactions contemplated by the merger agreement. Upon completion of the merger, the Company will be a direct wholly owned subsidiary of Parent.

Merger Sub

IEP Merger Sub Inc.

c/o Icahn Enterprises Holdings L.P.

767 Fifth Avenue, 47th Floor

New York, NY 10153

(212) 702-4300

IEP Merger Sub Inc., IEP or Merger Sub, is a Delaware corporation. Merger Sub is a wholly owned subsidiary of Parent and was formed by Parent solely for the purpose of entering into the merger agreement and completing the transactions contemplated by the merger agreement. Upon completion of the merger, Merger Sub will cease to exist.

Guarantor

Icahn Enterprises Holdings L.P.

767 Fifth Avenue, 47th Floor

New York, NY 10153

(212) 702-4300

Icahn Enterprises Holdings L.P., or the guarantor, is a Delaware limited partnership and its general partner is Icahn Enterprises G.P. Inc., a Delaware corporation. Icahn Enterprises G.P. is wholly owned by Beckton Corp., a Delaware corporation. Beckton Corp. is wholly owned by Mr. Carl C. Icahn, a United States citizen. The guarantor is primarily engaged in the business of holding direct or indirect interests in various operating businesses.

Icahn Enterprises G.P. Inc. is primarily engaged in the business of serving as the general partner of Icahn Enterprises L.P. and the guarantor. Beckton Corp. is primarily engaged in the business of holding the capital stock of Icahn Enterprises G.P. Inc. Icahn Enterprises L.P. is a diversified holding company currently engaged in the following continuing operating businesses: investment management, automotive, railcar, food packaging, metals, real estate and home fashion. Mr. Icahn is the indirect holder of approximately 92.4% of the issued and outstanding depositary units representing limited partnership interests in Icahn Enterprises L.P.

THE SPECIAL MEETING

Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by the board for use at the special meeting to be held on [ ], 2011, at [ ], at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002, or at any postponement or adjournment thereof. At the special meeting, holders of our common stock will be asked to approve the proposal to adopt the merger agreement and to approve the proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.

Unless Parent acquires 90% or more of the shares pursuant to the offer and effects the merger as a short form merger under Delaware law, our stockholders must approve the proposal to adopt the merger agreement in order for the merger to occur, and if our stockholders fail to approve the proposal to adopt the merger agreement, the merger will not occur. A copy of the merger agreement is attached as **Annex A** to this proxy statement, which we encourage you to read carefully in its entirety.

Record Date and Quorum

We have fixed the close of business on [ ], 2011 as the record date for the special meeting, and only holders of record of our common stock on the record date are entitled to vote at the special meeting. You are entitled to receive notice of, and to vote at, the special meeting if you owned shares of our common stock at the close of business on the record date. On the record date, there were [ ] shares of our common stock outstanding and entitled to vote. Each share of our common stock entitles its holder to one vote on all matters properly coming before the special meeting.

A majority of the shares of our common stock outstanding at the close of business on the record date and entitled to vote, present in person or represented by proxy, at the special meeting constitutes a quorum for the purposes of the special meeting. Shares of our common stock represented at the special meeting but not voted, including shares of our common stock for which a stockholder directs an abstention from voting, will be counted for purposes of establishing a quorum. Broker non-votes (as described below) will be counted for purposes of establishing a quorum. A quorum is necessary to transact business at the special meeting. Once a share of our common stock is represented at the special meeting, it will be counted for the purpose of determining a quorum at the special meeting and any adjournment of the special meeting. However, if a new record date is set for the adjourned special meeting, then a new quorum will have to be established. In the event that a quorum is not present at the special meeting, it is expected that the special meeting will be adjourned.

Attendance

Only stockholders of record, their duly authorized proxy holders, beneficial stockholders with proof of ownership and our guests may attend the special meeting. To gain admittance, you must present valid photo identification, such as a driver s license or passport. If your shares of our common stock are held through a bank, brokerage firm or other nominee, please bring to the special meeting a copy of your brokerage statement evidencing your beneficial ownership of shares of our common stock and valid photo identification. If you are the representative of a corporate or institutional stockholder, you must present valid photo identification along with proof that you are the representative of such stockholder. Please note that cameras, recording devices and other electronic devices will not be permitted at the special meeting.

Vote Required

Approval of the proposal to adopt the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote thereon. For the proposal to adopt the merger agreement, you may vote **FOR** , **AGAINST** or **ABSTAIN** . Abstentions will not be counted as

votes cast in favor of the proposal to adopt the merger agreement, but will count for the purpose of determining whether a quorum is present. **If you fail to submit a proxy or to vote in person at the special meeting, or abstain, it will have the same effect as a vote AGAINST approval of the proposal to adopt the merger agreement.**

If your shares of our common stock are registered directly in your name with our transfer agent, Mellon Investor Services LLC (operating under the service name BNY Mellon Shareowner Services), you are considered, with respect to those shares of our common stock, the stockholder of record . This proxy statement and proxy card have been sent directly to you by the Company.

If your shares of our common stock are held through a bank, brokerage firm or other nominee, you are considered the beneficial owner of shares of our common stock held in street name. In that case, this proxy statement has been forwarded to you by your bank, brokerage firm or other nominee who is considered, with respect to those shares of our common stock, the stockholder of record. As the beneficial owner, you have the right to direct your bank, brokerage firm or other nominee how to vote your shares by following their instructions for voting.

Under the rules of the NYSE, banks, brokerage firms or other nominees who hold shares in street name for customers have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, banks, brokerage firms and other nominees are precluded from exercising their voting discretion with respect to approving non-routine matters such as the proposal to adopt the merger agreement and, as a result, absent specific instructions from the beneficial owner of such shares of our common stock, banks, brokerage firms or other nominees are not empowered to vote those shares of our common stock on non-routine matters, which we refer to generally as broker non-votes. **These broker non-votes will be counted for purposes of determining a quorum, and will have the same effect as a vote AGAINST approval of the proposal to adopt the merger agreement.**

The proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy and entitled to vote on the matter at the special meeting. For the proposal to adjourn the special meeting, if necessary or appropriate, you may vote **FOR** , **AGAINST** or **ABSTAIN** . For purposes of this proposal, if your shares of our common stock are present at the special meeting but are not voted on this proposal, or if you have given a proxy and abstained on this proposal, this will have the same effect as if you voted **AGAINST** approval of the proposal. If you fail to submit a proxy or to vote in person at the special meeting, or there are broker non-votes on the issue, as applicable, the shares of our common stock held by you or your broker will not be counted in respect of, and will not have an effect on, the proposal to adjourn the special meeting.

If you are a stockholder of record, you may have your shares of our common stock voted on matters presented at the special meeting in any of the following ways:

- in person you may attend the special meeting and cast your vote there;
- by proxy stockholders of record have a choice of submitting a proxy:
  - over the Internet the website for Internet proxies is on your proxy card;
  - by using a toll-free telephone number noted on your proxy card; or
  - by signing and dating the proxy card you receive and returning it in the enclosed prepaid reply envelope.

If you are a beneficial owner, you will receive instructions from your bank, brokerage firm or other nominee that you must follow in order to have your shares of our common stock voted. Those instructions will identify which of the above choices are available to you in order to have your shares voted. Please note that if you are a beneficial owner and wish to vote in person at the special meeting, you must provide a legal proxy from your bank, brokerage firm or other nominee.

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A control number, located on your proxy card, is designed to verify your identity and allow you to submit a proxy for your shares of our common stock, and to confirm that your voting instructions have been properly recorded when submitting a proxy over the Internet or by telephone. Please be aware that if you submit a proxy over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible.

Please refer to the instructions on your proxy or voting instruction card to determine the deadlines for submitting a proxy over the Internet or by telephone. If you choose to submit a proxy by mailing a proxy card, your proxy card should be mailed in the accompanying prepaid reply envelope, and your proxy card must be filed with our Corporate Secretary by the time the special meeting begins. **Please do not send in your stock certificates with your proxy card.** When the merger is completed, a separate letter of transmittal will be mailed to you that will enable you to receive the per share merger consideration in exchange for your stock certificates.

If you vote by proxy, regardless of the method you choose to vote, the individuals named on the enclosed proxy card, and each of them, with full power of substitution, or your proxies, will vote your shares of our common stock in the way that you indicate. When completing the Internet or telephone processes or the proxy card, you may specify whether your shares of our common stock should be voted for or against or to abstain from voting on all, some or none of the specific items of business to come before the special meeting.

If you properly sign your proxy card but do not mark the boxes showing how your shares of our common stock should be voted on a matter, the shares of our common stock represented by your properly signed proxy will be voted **FOR** approval of the proposal to adopt the merger agreement and **FOR** approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.

If you have any questions or need assistance voting your shares, please contact D.F. King by calling (800) 697-6975 (toll-free).

IT IS IMPORTANT THAT YOU PROMPTLY SUBMIT A PROXY FOR YOUR SHARES OF COMMON STOCK TO BE VOTED AT THE MEETING, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING. PLEASE COMPLETE, DATE, SIGN AND RETURN, AS PROMPTLY AS POSSIBLE, THE ENCLOSED PROXY CARD IN THE ACCOMPANYING PREPAID REPLY ENVELOPE, OR SUBMIT YOUR PROXY BY TELEPHONE OR THE INTERNET. STOCKHOLDERS WHO ATTEND THE SPECIAL MEETING MAY REVOKE THEIR PROXIES BY VOTING IN PERSON.

If you are a participant invested in a Dynegy Stock Fund through one of the 401(k) plans, you may direct Vanguard how to vote the shares of our common stock allocated to your account as of the record date. Please follow the directions on the enclosed proxy on how to provide your voting instructions to Vanguard. With respect to participants in DMG Union and Non-Union 401(k) Plans, if such participant s voting instructions (regardless of method, i.e., Internet, mail or phone) are not received by 11:59 p.m. Eastern time on [ ], 2011 or if such participant signs and returns his or her proxy card without instructions marked in the boxes, Vanguard will vote the participant s shares of our common stock in the same proportion as other shares of our common stock held in the Dynegy Stock Fund under the DMG Union and Non-Union 401(k) Plans for which Vanguard received timely instructions. With respect to participants in the Dynegy and DNE 401(k) Plans, if such a participant s voting instructions (regardless of method, i.e., Internet, mail or phone) are not received by 11:59 p.m. Eastern time on [ ], 2011 or if such participant signs and returns his or her proxy card without instructions marked in the boxes, Vanguard will vote the participant s shares of our common stock in the same proportion as other shares of our common stock held in the Dynegy Stock Fund under the Dynegy and DNE 401(k) Plans for which Vanguard received timely instructions. Participants in the 401(k) plans must vote through Vanguard and may not vote in person at the special meeting.

With respect to shares of our common stock held by our 401(k) plans, Fiduciary Counselors Inc. has been appointed to act as the independent fiduciary responsible for ensuring that procedures are in place to safeguard the confidentiality of your proxy directions to the trustee and that those procedures are being followed.

As of [ ], 2011, the record date, the directors and executive officers of the Company beneficially owned and were entitled to vote, in the aggregate, [ ] shares of our common stock (not including any shares of our common stock deliverable upon exercise or conversion of any Company stock options or Company phantom stock units), representing [ ]% of the outstanding shares of our common stock, and all of the directors and executive officers of the Company have informed the Company that they currently intend to vote all of their shares of our common stock **FOR** approval of the proposal to adopt the merger agreement and **FOR** approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies. The directors and executive officers of the Company have also informed the Company that they would not vote such shares of our common stock in favor of the adoption of the merger agreement if any person makes a superior proposal (as described in The Merger Agreement Solicitation of Acquisition Proposals beginning on page [ ]) to the Company or if the board effects a change of recommendation (as described in The Merger Agreement Termination beginning on page [ ]).

Proxies and Revocation

Any stockholder of record entitled to vote at the special meeting may submit a proxy by telephone, over the Internet, by returning the enclosed proxy card in the accompanying prepaid reply envelope, or may vote in person at the special meeting. If your shares of our common stock are held in street name by your bank, brokerage firm or other nominee, you should instruct your bank, brokerage firm or other nominee on how to vote your shares of the our common stock using the instructions provided by your bank, brokerage firm or other nominee. If you fail to submit a proxy or vote in person at the special meeting, or abstain, or you do not provide your bank, brokerage firm or other nominee with instructions, as applicable, your shares of our common stock will not be voted on the proposal to adopt the merger agreement, which will have the same effect as a vote **AGAINST** approval of the proposal to adopt the merger agreement.

You have the right to revoke a proxy, whether delivered over the Internet, by telephone or by mail, at any time before it is exercised, by submitting a later dated proxy through any of the methods available to you, by giving written notice of revocation to our Corporate Secretary, which must be filed with the Corporate Secretary by the time the special meeting begins, or by attending the special meeting and voting in person. Written notice of revocation should be mailed to: Dynegy Inc., Attention: Corporate Secretary, 1000 Louisiana Street, Suite 5800, Houston, Texas 77002.

If you tender your shares in the offer, and such shares are accepted for payment by Parent prior to the record date for any vote or action, you will irrevocably appoint Parent and any designee of Parent as your attorneys-in-fact and proxies, each with full power of substitution and resubstitution, to vote in such manner as each such attorney-in-fact and proxy or his substitute shall, in his sole discretion, deem proper, and otherwise act (including pursuant to written consent) with respect to such shares; and you will not have the right to vote such shares with respect to the proposal to adopt the merger agreement and the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.

Adjournments

Although it is not currently expected, the special meeting may be adjourned for the purpose of soliciting additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement or if a quorum is not present at the special meeting. In addition, the chairman of the board has the ability to recess the special meeting. Other than an announcement to be made at the special meeting of the time, date and place of an adjourned meeting, an adjournment generally may be made without notice. Any adjournment of the special meeting for the purpose of soliciting additional proxies will allow the Company s stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned.

Anticipated Date of Completion of the Merger

We are working towards completing the merger as soon as possible. Assuming receipt of required regulatory approvals and timely satisfaction of other closing conditions, including the approval by our stockholders of the proposal to adopt the merger agreement, we anticipate that the merger will be completed in the first quarter of 2011. If our stockholders vote to approve the proposal to adopt the merger agreement, the merger will become effective as promptly as practicable following the satisfaction or waiver of the other conditions to the merger, subject to the terms of the merger agreement. See The Merger Closing and Effective Time of Merger beginning on page [ ].

Rights of Stockholders Who Seek Appraisal

Stockholders who do not tender their shares of our common stock in the offer and do not vote in favor of adoption of the merger agreement are entitled to appraisal rights under the DGCL in connection with the merger. This means that you are entitled to have the fair value of your shares of our common stock determined by the Delaware Court of Chancery and to receive payment based on that valuation in lieu of the per share merger consideration if you follow exactly the procedures specified under the DGCL. The ultimate amount you receive in an appraisal proceeding may be less than, equal to or more than the amount you would have received under the merger agreement.

To exercise your appraisal rights, you must deliver a written demand for appraisal of your shares of our common stock to the Company before the vote is taken on the merger agreement and you must not vote (either in person or by proxy) in favor of the proposal to adopt the merger agreement. Your failure to follow exactly the procedures specified under the DGCL may result in the loss of your appraisal rights. See Appraisal Rights beginning on page [ ] and the text of the Delaware appraisal rights statute reproduced in its entirety as **Annex F** to this proxy statement. If you hold your shares of our common stock through a bank, brokerage firm or other nominee and you wish to exercise appraisal rights, you should consult with your bank, brokerage firm or other nominee to determine the appropriate procedures for the making of a demand for appraisal by your bank, brokerage firm or other nominee. In view of the complexity of the DGCL, stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors.

Solicitation of Proxies; Payment of Solicitation Expenses

Dynegy has retained D.F. King Co., Inc., which we refer to as D.F. King, for consulting, analytic and information agent services. Under its engagement letter, D.F. King is entitled to receive a monthly fee of $15,000 plus the reimbursement of reasonable expenses. The Company may also reimburse brokers, banks and other custodians, nominees and fiduciaries representing beneficial owners of shares of our common stock for their expenses in forwarding soliciting materials to beneficial owners of shares of our common stock and in obtaining voting instructions from those owners. Our directors, officers and employees may also solicit proxies by telephone, by facsimile, by mail, on the Internet or in person, but they will not be paid any additional amounts for soliciting proxies.

Questions and Additional Information

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please contact D.F. King by calling (800) 697-6975 (toll-free).

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THE MERGER

This discussion of the merger is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement as ***Annex A.*** *You should read the entire merger agreement carefully as it is the legal document that governs the merger.*

The merger agreement provides that upon the terms and subject to the conditions set forth in the merger agreement, at the effective time of the merger, Merger Sub will be merged with and into the Company in accordance with the provisions of the DGCL. The Company will be the surviving corporation in the merger and the separate corporate existence of the Company, with all its rights, privileges, immunities, powers and franchises, will continue unaffected by the merger, except expressly as set forth in the merger agreement. If the merger is completed, you will not own any shares of the capital stock of the surviving corporation.

Merger Consideration

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger other than the excluded shares will be converted into the right to receive an amount in cash equal to the per share merger consideration, without interest, less any applicable withholding taxes.

Background of the Merger

The board and management of the Company have been engaged for over two years in an ongoing review of the Company s operating and strategic opportunities and risks. This review has been conducted against a backdrop of continuing declines in the market prices of natural gas and wholesale electricity. These declines have reduced the outlook for the cash flow that can be expected to be generated by the Company in the next several years, and the board has not identified any economic or industry factors that create a reasonable basis for believing that the market price declines will reverse in the next several years. The declining cash flow generation capacity of the Company, combined with its high level of indebtedness and the need to incur additional indebtedness to fund operations and required environmental capital expenditures, have led the board to conclude that the risks of pursing a standalone business strategy are considerable.

In April 2007, the Company consummated a transaction with 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., which we refer to collectively as LS Power, pursuant to which LS Power contributed certain power generation assets to the Company in exchange for approximately 40% of the our common stock. The transaction with LS Power was entered into to increase the scale of, and to diversify, the Company s asset base in part to make the Company a more attractive acquisition candidate or merger partner for another merchant generating company or utility company. However, not long after that transaction was completed, natural gas prices began what has been on ongoing decline, and the Company, despite efforts in the spring of 2009 and the spring of 2010, was unable to find a party willing to pursue a business combination with it.

In the spring and summer of 2009, Dynegy engaged in negotiations with LS Power and ultimately agreed to a transaction regarding the purchase by LS Power of (i) the Company s interests in eight power generating project companies and Dynegy Sandy Creek Holdings, LLC and (ii) $235 million aggregate principal amount of 7.5% Senior Unsecured Notes due 2015 of Dynegy Holdings Inc., a wholly-owned subsidiary of the Company, in exchange for approximately $970 million in cash (after working capital adjustments made at closing but subject to post-closing adjustments) and relinquishment of 245 million shares of Class B common stock of the Company held by LS Power. The Company and LS Power entered into a definitive agreement with respect to this transaction in August 2009, and the transaction was completed in December 2009. In connection with the completion of this transaction, various special approval, board representation and other blocking and governance rights held by LS Power were eliminated.

In April 2010, the Company began preliminary discussions with NRG regarding a possible acquisition of the Company by NRG. However, in June 2010 NRG advised the Company that it was not interested in acquiring

the Company. NRG had been working with Blackstone to determine whether Blackstone would be willing to acquire the Company s coal generation assets as part of an acquisition by NRG of all of the Company. When NRG ended discussions with the Company, representatives of Blackstone contacted the Company to see if the Company would be willing to permit Blackstone to attempt to develop a proposal of its own to acquire all of the Company for cash. The Company agreed to do so, and on August 13, 2010, the Company entered into the prior merger agreement with affiliates of Blackstone, pursuant to which the Company would have been acquired and our stockholders would have received $4.50 per share of our common stock in cash.

On October 12, 2010 Carl Icahn and certain of his affiliates, which we refer to collectively as the Icahn Entities, filed a Schedule 13D with the SEC disclosing that the Icahn Entities beneficially owned approximately 9.9% of the our common stock. The Icahn Entities filed several subsequent amendments to their Schedule 13D, and based on the Icahn Entities most recent Schedule 13D amendment filed with the SEC as of the date of this proxy statement, the Icahn Entities beneficially own approximately 14.9% of the our common stock, including approximately 5% owned through options to acquire our common stock. The Icahn Entities stated that they intended to vote against approval of the proposal to adopt the prior merger agreement. Another entity, Seneca Capital Investments L.P. and certain of its affiliates, which we refer to collectively as Seneca, also acquired beneficial ownership of approximately 9.3% of our common stock and indicated that they intended to vote against approval of the proposal to adopt the prior merger agreement. Seneca also subsequently solicited proxies in opposition to the proposal to approve the prior merger agreement.

On October 19, 2010, senior management of the Company met with Carl Icahn and other representatives of the Icahn Entities at the Icahn Entities offices to seek his support for the prior merger agreement. Representatives of Greenhill, one of the Company s financial advisors, attended the meeting.

On November 12, 2010, the Icahn Entities amended their Schedule 13D to disclose that they intended to vote against approval of the proposal to adopt the prior merger agreement and would demand appraisal rights under Delaware law. In addition, the Icahn Entities indicated that they would consider offering a short-term replacement credit facility if that would mitigate the Company s liquidity concerns. The Company subsequently responded that the Company required a long-term solution rather than a short-term solution provided by the short-term replacement facility offered by the Icahn Entities.

On November 16, 2010, representatives of Blackstone advised senior management of the Company that Blackstone intended to increase the merger consideration to $5.00 per share of our common stock in cash. Later that day the board met and approved an amendment to the prior merger agreement to, among other things, increase the merger consideration. The special meeting of stockholders of the Company that had been called for November 17, 2010 was convened on that date, and in order to provide stockholders of the Company time to consider the price increase, the polls were declared open until 4 p.m., central time, on November 23, 2010, and the meeting was recessed until a half an hour before the polls were to close.

On November 22, 2010, the board held a meeting. Several members of senior management and representatives from Greenhill, Goldman Sachs, and Sullivan & Cromwell LLP, the Company s outside counsel, which we refer to as Sullivan & Cromwell, participated in this meeting. Members of senior management updated the board with respect to the transaction with Blackstone, the meeting of stockholders of the Company to consider the prior merger agreement that was scheduled to continue on November 23, 2010, and the alternatives available to the Company in the event that Company stockholders did not approve the prior merger agreement, which at that point seemed highly likely. Members of senior management, representatives from Sullivan & Cromwell and the board discussed the creation of the special committee to be comprised of non-management independent directors to oversee a continuation of the Company s review of strategic alternatives on a basis that would be open to all potential acquirors and to review again the value-creation potential of asset sale and restructuring possibilities. The mandate of the special committee included, without limitation, consideration of (i) a possible restructuring of the operations of the Company and its subsidiaries, (ii) possible changes to the capital structure of the Company, including, without limitation, the issuance, repurchase and/or prepayment of indebtedness or equity securities, (iii) a possible

sale of a material amount of the assets of the Company, (iv) a possible sale of the Company and (v) any corporate governance matters relating to the foregoing matters or the composition of the board (which we refer to collectively as the strategic alternatives). At the conclusion of the meeting, and generally at the conclusion of all meetings of the board described below, the board held an executive session with only representatives of Sullivan & Cromwell and members of the board present and then an executive session with only non-executive members of the board and representatives of Sullivan & Cromwell present.

On November 23, 2010, the Company announced that it intended to immediately commence an open strategic alternatives process to solicit proposals from potentially interested parties, including the Icahn Entities and Seneca, and carefully review its standalone strategic alternatives if the prior merger agreement was not approved by stockholders of the Company, as well as the creation of the special committee and the adoption of the rights agreement and certain procedural bylaw amendments relating to the calling of meetings of the board and procedures for action by written consent. The special meeting of stockholders of the Company was reconvened on that day and the prior merger agreement was not approved. The prior merger agreement was then terminated.

On November 23, 2010, following the termination of the prior merger agreement, Mr. Williamson contacted Mr. Carl Icahn to discuss Mr. Icahn s interest in the Company s open strategic alternatives process. Mr. Icahn informed Mr. Williamson that he was potentially interested in exploring a transaction involving the Company.

On November 24, 2010, Mr. Williamson received a call from Mr. Icahn and they discussed Mr. Icahn s interest in the Company s open strategic alternatives process further. Mr. Icahn indicated he would be interested in moving quickly towards determining whether he would be interested in a potential transaction with the Company, and Messrs. Icahn and Williamson agreed to have their respective representatives begin work on a confidentiality agreement that would permit the Icahn Entities to receive certain material non-public information concerning the Company in order to permit them to determine if they wished to make a proposal to acquire the Company.

On November 26, 2010, the board held a meeting. Several members of senior management and representatives from Sullivan & Cromwell participated in this meeting. Senior management discussed with the board the parties that would potentially have an interest in a transaction involving the Company and the strategy for contacting such parties during the open strategic alternatives process.

On November 29, 2010, at the direction of the special committee, representatives of Greenhill and Goldman Sachs began contacting parties to assess their interest in a potential transaction involving the Company, including those parties that had previously expressed an interest in a transaction with the Company and/or executed a confidentiality agreement with the Company during the go-shop period under the prior merger agreement.

On November 30, 2010, Mr. Williamson, Holli Nichols, Executive Vice President and Chief Financial Officer of the Company, and representatives from Greenhill, Goldman Sachs and Sullivan & Cromwell met with Mr. Icahn and representatives from the Icahn Entities at the Icahn Entities offices. At that meeting, the parties discussed the Company s strategic options in light of the termination of the prior merger agreement as well as the parties entering into a confidentiality agreement. In the following days, representatives from the Icahn Entities, the Company and their respective advisors exchanged drafts of, but did not execute, a confidentiality agreement that also included a standstill agreement that, among other things, restricted the Icahn Entities ability to buy or sell the Company s securities for a limited period of time.

On December 3, 2010, the special committee held a meeting. Mr. Williamson and representatives from Sullivan & Cromwell participated in the meeting. Representatives from Sullivan & Cromwell reviewed with the directors their fiduciary duties under applicable law. Mr. Williamson then updated the special committee on the status of discussions with the Icahn Entities regarding the confidentiality agreement as well as a potential structure and terms of a transaction with the Icahn Entities. The special committee, Mr. Williamson and representatives from Sullivan & Cromwell discussed the status of discussions with the Icahn Entities as well as the potential structure and terms of a transaction with the Icahn Entities, including terms the Company might seek to make clear its ability to

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continue to pursue the open strategic review process with minimal impediments. The special committee, Mr. Williamson and representatives from Sullivan & Cromwell also discussed the status of the solicitation of interest from potential acquirors, and other matters related to the Company s strategic alternatives process.

Beginning on December 6, 2010, representatives from Greenhill and Goldman commenced sending confidentiality agreements to potential acquirors who had not previously entered into confidentiality agreements with the Company.

On December 7, 2010, representatives from the Icahn Entities and representatives from the Company and Sullivan & Cromwell participated in a teleconference to discuss the confidentiality agreement. Representatives from the Icahn Entities informed representatives from the Company and Sullivan & Cromwell that in connection with entering into the confidentiality agreement, the Icahn Entities would also want the Company to amend the rights agreement in order to count shares already beneficially owned by a party launching a tender offer towards the majority of shares minimum condition in the definition of qualifying offer , count readily marketable securities for purposes of determining if an offer is fully financed, remove the requirement that the funds with respect to funding the offer be segregated and maintained solely for the purpose of funding the offer and remove limitations on the ability of persons who conduct unsuccessful tender offers to conduct subsequent tender offers within one year. During this teleconference, representatives from the parties and their respective advisors also discussed a potential structure and general terms of a transaction between the Icahn Entities and the Company.

On December 8, 2010, Mr. Icahn called Mr. Williamson and informed Mr. Williamson that he had decided that the Company s publicly available information was sufficient for he and his representatives to assess the Company and that the parties should focus their efforts on reaching an agreement with respect to the key terms of a definitive agreement with respect to an acquisition of the Company. Mr. Icahn also informed Mr. Williamson that the price per share he was considering offering was $5.50 in cash, and that he was inclined to agree to effect a back-end merger for any shares not acquired in a first-step tender offer at the same price paid for shares tendered in the tender offer and to vote and/or tender shares he owned in support of a higher cash offer in the event he decided not to offer to top such a higher cash offer. Mr. Williamson informed Mr. Icahn that he thought that approach could be a basis for further discussion but that he needed to discuss it with the special committee.

On December 9, 2010, the special committee held a meeting. Several members of senior management and representatives from Greenhill, Goldman Sachs, and Sullivan & Cromwell participated in this meeting. Mr. Williamson updated the special committee regarding the discussions with Mr. Icahn, including Mr. Icahn s then current preference to proceed directly to discussions regarding a transaction involving the Company rather than the confidentiality agreement the parties had been discussing. Mr. Williamson also updated the special committee regarding the price of $5.50 per share in cash that Mr. Icahn indicated he was considering offering in a transaction, and Mr. Icahn s inclination to agree to effect a back-end merger for any shares not acquired in a first-step tender offer at the same price paid for shares tendered in the tender offer and to vote and/or tender shares he owned in support of a higher cash offer in the event he decided not to offer to top such a higher cash offer. The special committee, Mr. Williamson and representatives from Greenhill, Goldman Sachs, and Sullivan & Cromwell then discussed the proposed terms of a transaction with the Icahn Entities, including the fact that the Icahn Entities were prepared to enter into a definitive agreement with the Company without conducting any due diligence. Representatives from Greenhill and Goldman Sachs were then excused from the meeting, and senior management of the Company then updated the special committee on the status of discussions with potential financial advisors regarding an analysis of the Company s restructuring alternatives. Following discussion among the special committee, the special committee determined that Mr. Williamson should continue discussions with the Icahn Entities regarding a potential transaction and that the Company should provide the Icahn Entities with a proposed merger agreement on the terms discussed with the special committee. The special committee also instructed members of senior management not to discuss any management retention, post-closing employment or equity investment in a potential transaction with representatives from the Icahn Entities without authorization from the special committee, and members of senior management confirmed that no such discussions had taken place. At the conclusion of the meeting, and generally at the conclusion of all meetings of

the special committee described below, the special committee held an executive session with only representatives of Sullivan & Cromwell and members of the special committee present. Immediately following the conclusion of the special committee meeting, the board held a meeting. Several members of senior management and representatives from Sullivan & Cromwell participated in this meeting. Representatives from Sullivan & Cromwell discussed with the board the proposed amendments to the rights agreement requested by representatives of Icahn, and following discussion among the board, the board authorized senior management of the Company to implement the proposed amendments to the rights agreement.

On December 10, 2010, representatives from Sullivan & Cromwell sent representatives of the Icahn Entities a draft merger agreement. Later that same day, representatives from the Company and Sullivan & Cromwell attended a meeting with representatives of the Icahn Entities to discuss the draft merger agreement. From that day until the merger agreement and related documents were executed in the early morning of December 15, 2010, the parties and their respective representatives negotiated the terms of the definitive documents. Significant issues discussed included, but were not limited to, the conditions to closing of the offer and the merger, the circumstances under which the merger agreement could be terminated and the termination fees that would be payable, the definition of a superior proposal, the circumstances under which the Icahn Entities would be required to vote and/or tender their shares in favor of a superior proposal, the ability of the Company to continue its standalone restructuring analysis during the pendency of a go-shop period, and the ability of the Icahn Entities to continue the offer notwithstanding a termination of the merger agreement in certain circumstances. Also on December 10, 2010 and on a periodic basis until the merger agreement and related documents were executed in the early morning of December 15, 2010, Mr. Williamson negotiated with Mr. Icahn regarding an increase to the $5.50 per share in cash offer price.

On December 11, 2010, representatives from Sullivan & Cromwell sent Icahn s representatives a revised draft of the merger agreement.

Later on December 11, 2010, the special committee held a meeting. Several members of senior management and representatives from Greenhill, Goldman Sachs, and Sullivan & Cromwell participated in this meeting. Representatives from Sullivan & Cromwell reviewed with the directors their fiduciary duties under applicable law. Mr. Williamson updated the special committee on the status of discussions with representatives of the Icahn Entities. Senior management reviewed with the special committee the Company s updated financial forecasts described in Certain Company Forecasts beginning on page [ ]. Following discussion among the special committee, the special committee determined that it could agree to the Icahn Entities request that the Company postpone the retention of a restructuring financial advisor, which the Icahn Entities objected to as an unnecessary expense, during the pendency of the proposed transaction with the Icahn Entities and instructed senior management and representatives from Greenhill and Goldman Sachs to review restructuring alternatives that may be available to the Company.

On December 12, 2010, the special committee and the board held a joint meeting. Several members of senior management and representatives from Greenhill, Goldman Sachs, and Sullivan & Cromwell participated in this meeting. Mr. Williamson updated the directors regarding the discussions with the Icahn Entities. Mr. Williamson noted that the Icahn Entities and their representatives had not reached agreement with the Company on the circumstances under which the Icahn Entities would be required to vote and/or tender their shares in favor of a superior proposal. The directors discussed with representatives of Greenhill and Goldman Sachs the impact that various requirements might have on a go-shop process. Representatives from Greenhill and Goldman Sachs and management then reviewed with the directors several potential standalone restructuring alternatives that may be available to the Company. The special committee discussed these alternatives with the financial advisors and management and concluded that the restructuring alternatives were not preferable to the offer and the merger and that under the circumstances the special committee was willing to defer the retention of a restructuring financial advisor during the pendency of a transaction with the Icahn Entities and completion of the open strategic alternatives process. However, the special committee also directed senior management to continue to prepare for the possibility that any transaction with the Icahn Entities might not be completed and that the Company might be required to pursue standalone alternatives.

Following the joint meeting of the special committee and board, representatives of the Company, the Icahn Entities and their respective advisors continued discussions regarding the terms of the draft merger agreement and the related documents. Representatives of the Icahn Entities informed the Company that the Icahn Entities wanted to require the Company to confirm following the execution of the merger agreement that the Company s pension termination liability and environmental capital expenditures and environmental liabilities under applicable law would not exceed certain prescribed amounts. From that day until the merger agreement and related documents were executed in the early morning of December 15, 2010, representatives from the Company, the Icahn Entities and their respective advisors negotiated the terms of these requirements.

In the evening of December 14, 2010, the special committee held a meeting to discuss the potential transaction with the Icahn Entities, which meeting continued until the early morning, Eastern time, of December 15, 2010. Several members of senior management and representatives from Greenhill, Goldman Sachs and Sullivan & Cromwell participated in this meeting. Representatives from Sullivan & Cromwell reviewed with the directors their fiduciary duties under applicable law, as well as the terms of the draft merger agreement, the support agreement, the guarantee and amendments to the rights agreement. Such amendments would count shares already beneficially owned by a party launching a tender offer towards the majority of shares minimum condition in the definition of qualifying offer , count readily marketable securities for purposes of determining if an offer is fully financed, remove the requirement that the funds with respect to funding the offer be segregated and maintained solely for the purpose of funding the offer, remove limitations on the ability of persons who conduct failed tender offers to conduct subsequent tender offers within one year and exempt the Icahn Entities from the applicability of the rights agreement with respect to the transactions contemplated by the merger agreement and the support agreement. Senior management and representatives of Greenhill, Goldman Sachs and Sullivan & Cromwell updated the special committee on the status of discussions with the Icahn Entities with respect to the transaction and the transaction documents. In addition to considering the Icahn transaction, the special committee also reviewed restructuring alternatives and a commodity sensitivity analysis prepared by the financial advisors along with additional external analysis on the state of natural gas drilling economics in North America. The purpose of this additional analysis was to add commodity price upside potential into the valuation parameters. The conclusion was that the restructuring alternatives for a public stockholder were not likely to be more favorable than the Icahn transaction. Each of Greenhill and Goldman Sachs delivered its oral opinion to the special committee and the board (which was subsequently confirmed by delivery of a written opinion), to the effect that, as of the date of their respective written opinions, and based on and subject to various assumptions and limitations described in its written opinion, the $5.50 in cash per share to be received by, or paid to (as set forth in the applicable written opinion) the holders (excluding Parent, Merger Sub and any of their affiliates) of our common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders. Following these discussions, the special committee determined that moving forward with the terms contained in the draft merger agreement with Parent and Merger Sub was in the best interests of the Company s stockholders. Thereafter, the special committee unanimously recommended that the board approve and recommend the merger agreement and the transactions contemplated thereby, the support agreement, the guarantee and the amendment to the rights agreement. Immediately following conclusion of the special committee meeting, the board held a meeting. Several members of senior management and representatives from Greenhill, Goldman Sachs and Sullivan & Cromwell participated in this meeting. The board, based on the foregoing recommendation of the special committee and for the reasons detailed in Reasons for the Merger; Recommendations of the Special Committee and the Board of Directors , unanimously (i) determined that the offer and the merger are fair to, and in the best interests of, the Company and its stockholders, (ii) approved and declared advisable the merger agreement and the transactions contemplated thereby, including the offer and the merger, (iii) recommended that holders of shares accept the offer, tender their shares into the offer, and, if required by applicable law, vote their shares of our common stock in favor of adoption of the merger agreement, (iv) directed that, to the extent required by applicable law, the merger agreement be submitted to the holders of shares of our common stock for their adoption at a stockholders meeting in accordance with applicable law or regulation (unless Parent notifies the Company that it elects to proceed by written consent of stockholders in lieu of a meeting of stockholders), and (v) approved the support agreement, the guarantee and the amendment to the rights agreement.

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In the early morning of December 15, 2010, Parent, Merger Sub and the Company executed the merger agreement, the Company and the support parties executed the support agreement, the Company and the guarantor executed the guarantee and the Company and the guarantor issued a joint press release announcing the execution of the merger agreement.

The merger agreement provides that, until 11:59 p.m., Eastern time, on January 24, 2011, the Company is allowed to initiate, solicit and encourage any alternative acquisition proposals from third parties, provide non-public information and participate in discussions and negotiate with third parties with respect to acquisition proposals. At the direction of the special committee, Greenhill and Goldman Sachs are conducting this go-shop process on behalf of the Company and as of the date of this proxy statement have contacted more than 50 potentially interested parties. The special committee has not authorized any member of senior management to discuss any management retention, post-closing employment or equity investment in a potential transaction with representatives from the Icahn Entities or any other interested party.

Reasons for the Merger; Recommendations of the Special Committee and the Board of Directors

Special Committee

Following the stockholders failure to approve the prior merger agreement and the termination of the prior merger agreement, the board determined to continue with a comprehensive review of the Company s various strategic alternatives, including, if appropriate, a possible sale of the Company. The board determined to form the special committee consisting of non-management independent directors for the purpose of directing this review process. The board appointed each of Patricia A. Hammick, David W. Biegler, Victor E. Grijalva, Howard B. Sheppard and William L. Trubeck as members of the special committee, with Ms. Hammick serving as the chairman of the special committee. The board delegated to the special committee the full power and authority to, among other things, (a) explore any strategic alternatives; (b) take all such actions as it may deem necessary or appropriate in connection with effecting any strategic alternative; (c) initiate and participate in discussions with, or otherwise assist or facilitate proposals from, any parties regarding any strategic alternative; (d) review, evaluate or negotiate the terms of any strategic alternative, including negotiating a definitive agreement or agreements; (e) determine whether any strategic alternative is advisable, fair to and in the best interests of the Company s stockholders (other than any stockholders who are interested in any such strategic alternative); and (f) report to the board its recommendation with respect thereto in a manner designed to serve the best interests of the Company and its stockholders.

The special committee, at a meeting held on December 14, 2010, unanimously (i) determined that the offer and the merger are fair to, and in the best interests of, the Company and its stockholders, (ii) approved and declared advisable the merger agreement, the offer, the merger and the other transactions contemplated thereby, iii) recommended that holders of shares accept the offer, tender their shares into the offer and, if required by applicable law, adopt the merger agreement and (iv) approved the support agreement, the guarantee and the amendment to the rights agreement. At this same meeting, the special committee also unanimously recommended to the board that it (I) determine that the offer and the merger are fair to, and in the best interests of, the Company and its stockholders, (II) approve and declare advisable the merger agreement and the transactions contemplated thereby, including the offer and the merger, (III) recommend that holders of shares accept the offer, tender their shares into the offer, and, if required by applicable law, vote their shares of our common stock in favor of adoption of the merger agreement, (IV) direct that, to the extent required by applicable law, the merger agreement be submitted to the holders of shares of our common stock for their adoption at a stockholders meeting in accordance with applicable law or regulation (unless Parent notifies the Company that it elects to proceed by written consent of stockholders in lieu of a meeting of stockholders), and (V) approve the support agreement, the guarantee and the amendment to the rights agreement. We refer to the foregoing determination, approval, declaration of advisability, resolution and recommendation of the special committee as the special committee approval and recommendation.

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In evaluating the merger agreement, the offer, the merger and the other transactions contemplated by the merger agreement and making the special committee approval and recommendation, the special committee consulted with our management team, as well as our outside legal and financial advisors, and considered a number of factors. Some of the factors considered by the special committee and described below weighed in favor of having the Company continue as an independent entity and thus not making the special committee approval and recommendation. However, the special committee determined that more of the factors that it considered, including the qualitative importance of such factors, weighed in favor of the special committee approval and recommendation and outweighed the potential benefits of the Company continuing as an independent entity and initiating necessary financial restructuring activities based on possible improvements in commodities and financing conditions and other fundamentals underlying the Company s business. In particular, the special committee concluded that if such improvements occurred, continuing the Company as an independent entity could potentially permit the shares to trade at prices higher than the offer price and the per share merger consideration but that the Company s ability to successfully implement a financial restructuring and operate during the interim period before such improvements, if any, occurred would be attended by significant risk and made such a strategy inadvisable.

In reaching the determination to make the special committee approval and recommendation, the special committee considered the following material factors as supporting its decision (not necessarily in any relative order of importance):

management s and the special committee s views and opinions regarding the electric generation industry;

the special committee s understanding of the business, operations, financial condition, earnings and prospects of the Company, including the prospects and risk profile of the Company as an independent entity;

the Company s ability, under the merger agreement, during the period beginning on the date of the merger agreement and continuing until 11:59 p.m., Eastern time, on January 24, 2011, to initiate, solicit and encourage alternative acquisition proposals from third parties and to provide non-public information and to engage in discussions and negotiations with third parties with respect to such proposals;

the special committee s belief that the offer and the merger were likely to establish a $5.50 per share in cash floor price for any acquisition transaction, the ability of the Company to continue until 11:59 p.m., Eastern time, on January 24, 2011 its solicitation of acquisition proposals and the special committee s belief that creating a path for a potential buyer to obtain the support of the Icahn Entities for a superior proposal improved the prospects for persuading another buyer to make an acquisition proposal;

the special committee s belief that the offer and/or the merger are more favorable to our stockholders than the alternatives to the offer and/or merger, which belief was formed based on the Company s previous discussions with potentially interested parties with respect to potential strategic transactions, including discussions during the go-shop period under the prior merger agreement, and the special committee s review, with the assistance of its financial advisors and senior management of the Company, of the strategic alternatives available to the Company, including the Company s standalone restructuring alternatives and the fact that the depressed market for sales of generating facilities as of December 15, 2010 makes it challenging to fund cash flow requirements through sales of assets. In particular, the special committee believed that pursuing such a strategy would increase the leverage and risk profile of the Company and amplify the risk associated with a further deterioration in values of generating plants, or adverse regulatory, operating or financial developments. The special committee further believed, on the basis of the above-described review, that, on the whole, the strategic alternatives available to the Company, including its standalone restructuring alternatives, were not of themselves likely to yield long-term value to our stockholders that was more attractive than the value offered by the transactions contemplated by the merger agreement, particularly in light of the attendant risks;

the presentations to the special committee and the board on December 14, 2010 and the financial analyses reviewed therewith of Greenhill and Goldman Sachs, and the oral opinions of each of

Greenhill and Goldman Sachs delivered to the special committee and the board on December 14, 2010 (which were subsequently confirmed by delivery of written opinions) to the effect that, as of the date of their respective written opinions, and based on and subject to various assumptions and limitations described in its written opinion, the $5.50 in cash per share to be received by, or paid to (as set forth in the applicable written opinion) the holders (excluding Parent, Merger Sub and any of their affiliates) of our common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders, as more fully described below under the captions Opinions of the Company s Financial Co-Advisors Opinion of Greenhill & Co. and Opinions of the Company s Financial Advisors Opinion of Goldman Sachs & Co. beginning on page [ ];

the absence of any meaningful economic or industry indicator suggesting that the forward curves for natural gas and electricity prices were too low, which indicated that any increase in the fundamental value of the Company, which ordinarily would be expected to increase with increases in the price of natural gas and electricity, may not occur until at least several years into the future;

the fact that the offer price and the per share merger consideration represented:

a premium of approximately 98% to the closing share price of our common stock on August 12, 2010, the last trading day prior to the public announcement of the prior merger agreement; and

a premium of 10% to the per share merger consideration contained in the prior merger agreement.

the fact that (i) the Company is projected, based upon the Company forecasts described under Certain Company Forecasts beginning on page [ ] (which used commodity pricing assumptions through 2012 based upon November 29, 2010 price curves; commodity pricing assumptions after 2012 were based upon November 29, 2010 price curves and adjusted based upon management s fundamental outlook), to have substantial negative operating cash flow less total capital expenditures over the next four fiscal years starting in fiscal year 2011, (ii) while mandated environmental expenditures in the Company s plants under current law and under a consent decree to which the Company is subject are a significant factor in these negative cash flows, these Company forecasts do not assume any incremental expenditures mandated by new laws or regulations that may come into effect in the future, and (iii) the Company would be dependent on the bank and capital markets to fund these negative amounts through additional borrowings, sales of assets or sales of debt and/or equity securities, and, in light of the Company s substantial leverage, access to the bank and capital markets, particularly on reasonable economic or operating terms, could be difficult or impossible to achieve;

the fact that (i) absent significant improvements in market and operating conditions or a successful refinancing, it is projected that the Company would require a waiver by the middle of 2011 of the requirement of its existing credit facility that it comply with certain financial covenants, (ii) the revolving portion of the Company s credit facility expires by its terms in 2012 and the term letter of credit and senior secured term loan portions of the Company s credit facility expire by their terms in 2013, (iii) management believes that the existing credit facility could be amended to address the projected need for a financial covenant waiver for the near term, but that the terms of the amendment, combined with the terms of other debt securities that would need to be issued, would likely significantly restrict the Company s future financial flexibility and (iv) management believes it is uncertain whether credit would be available in sufficient amounts after expiration of the credit facility to permit the Company to fund its operations on a reasonable basis, indicating that the amount of time available for improved electricity prices to emerge and to be of substantial benefit to the Company could be limited;

the fact that although a substantial majority of the Company s indebtedness is trading at a discount to its principal amount, with an aggregate discount of approximately $907 million or approximately $7.50 per share, the Company s limited financial flexibility and past experience with debt repurchases suggested, in the opinion of management of the Company and assuming that the Company were able to raise sufficient funds, that fully capturing this discount for the benefit of the holders of shares would likely not occur in practice;

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the potential materially adverse earnings and cash flow impact on the Company if it is unable to enter into new coal transportation contracts on pricing terms comparable to its existing coal transportation contracts, which expire in 2013 and contain pricing terms significantly more favorable to the Company than current market rates;

the likelihood that the offer and the merger would be completed, based on, among other things (not necessarily in any relative order of importance):

the reputation and financial condition of the guarantor;

the guarantor s ability to complete large acquisition transactions;

the fact that there is no financing condition to the completion of the offer or the merger in the merger agreement;

the guarantee from the guarantor to the Company guaranteeing certain of Parent s and Merger Sub s obligations under the merger agreement prior to the closing of the merger, including the payment of the aggregate offer price and the per share merger consideration, which, in the reasonable judgment of the special committee, increases the likelihood of the offer and/or the merger being completed;

the Company s ability under the merger agreement to seek specific performance to prevent breaches of the merger agreement by Parent and Merger Sub and to enforce specifically the terms of the merger agreement; and

the Company s ability under the merger agreement to pursue damages after any termination of the merger agreement, which the parties have acknowledged and agreed in the merger agreement will not be limited to reimbursement of expenses or out-of-pocket costs, and may include to the extent proven the benefit of the bargain lost by the Company s stockholders (taking into consideration relevant matters, including the transaction premium, other transaction opportunities and the time value of money);

the fact that the all-cash offer price and per share merger consideration will provide our stockholders with immediate fair value, in cash, for their shares, while avoiding medium- and long-term business risk, and while also providing stockholders certainty of value for their shares and the opportunity to reinvest in other investments that would permit stockholders to benefit from any improvement in the prices of natural gas and electricity, with less risk of loss if those prices do not increase in the medium- or long-term;

the Company s ability, under certain circumstances specified in the merger agreement, at any time from and after 12:00 a.m., Eastern time, on January 25, 2010 and prior to the earlier of the time the Company stockholders adopt the merger agreement and the closing of the offer, to consider and respond to a written acquisition proposal or provide non-public information to or engage in discussions or negotiations with the person making such a proposal if the board, prior to taking any such actions, determines in good faith, after consultation with its outside legal counsel, that failure to take such actions could be inconsistent with the board fiduciary duties under applicable law and, after consultation with its financial advisor, that such acquisition proposal either constitutes a superior proposal or could reasonably be expected to result in a superior proposal, and to, or propose to, authorize, adopt, approve, recommend or otherwise declare advisable such acquisition proposal, if, prior to taking any such action, the board complies with its obligations relating to the taking of such action under the merger agreement and determines in good faith after consultation with its financial advisor and outside legal counsel that such acquisition proposal is a superior proposal;

the Company s ability, under certain circumstances, to terminate the merger agreement in order to enter into an agreement providing for a superior proposal; provided that the Company complies with its obligations relating to the entering into of any such agreement and immediately prior to or substantially concurrently with the termination of the merger agreement the Company pays a termination fee of

$16.3 million, which termination fee obligation the special committee concluded was reasonable in the context of termination fee obligations in comparable transactions and in light of the overall terms of the merger agreement, including the offer price and the per share merger consideration;

the obligation of Parent, Merger Sub and certain of their respective affiliates to vote, tender for purchase or deliver a consent with respect to their shares in favor of the adoption of an alternative acquisition agreement with respect to a superior proposal and any transaction set forth in such an alternative acquisition agreement and/or into any tender offer contemplated by such alternative acquisition agreement, if the superior proposal set forth in such alternative acquisition agreement meets certain criteria, including that the superior proposal be an all-cash, all shares offer from a person that meets certain financial requirements and that the alternative acquisition agreement contain certain terms;

the Company s ability, under the merger agreement, to withhold, withdraw, qualify or modify the board s recommendation under any circumstance, subject to Parent s subsequent right to terminate the merger agreement and, in such event, the Company s obligation to pay to Parent a termination fee of $16.3 million;

the special committee s review of the potential costs associated with executing the merger agreement, including change in control severance and related costs as well as estimated advisor fees, which the special committee concluded were reasonable and would not affect the advice from, or the work performed by, senior management of the Company or the Company s financial advisors in connection with the evaluation of the offer, the merger and the merger agreement by the special committee or the board;

in the event the merger is completed, the availability of appraisal rights under the DGCL to holders of our common stock who comply with all of the required procedures under the DGCL, which allows such holders in connection with the merger to seek appraisal of the fair value of their shares of our common stock as determined by the Delaware Court of Chancery; and

the fact that the termination date under the merger agreement allows for sufficient time to complete the offer and/or the merger.

As noted above, in reaching the decision to make the special committee approval and recommendation, the special committee also considered a variety of potentially negative factors concerning the offer, the merger and the merger agreement, including the following (not necessarily in any relative order of importance):

the fact that completion of the merger would preclude our stockholders from having the opportunity to participate in the future performance of the Company s assets and any potential future appreciation of the value of our shares;

the fact that holders of only approximately 27% of our common stock supported approval of the prior merger agreement, which provided, after amendment, for the sale of the Company for $5.00 per share in cash;

the low proportion of equity value (approximately $659 million based on the closing price of our shares on December 14, 2010) as a proportion of the Company s enterprise value (approximately $4.6 billion, including capitalized lease obligations as of September 30, 2010 and based on the book value of the Company s indebtedness as of September 30, 2010 and the offer price and the per share merger consideration) means that relatively small percentage changes in enterprise value will have substantially larger percentage effects on equity value, which means that improvements in market or operating conditions or Company performance over those projected could increase the value of our shares to levels in excess of the offer price and the per share merger consideration (while corresponding declines in gas or electricity prices or Company performance under those projected could decrease the value of our shares to levels below the offer price and the per share merger consideration);

the fact that (i) a substantial majority of the Company s indebtedness is trading at a discount to its principal amount, with an aggregate discount of approximately $907 million or approximately $7.50 per share, and (ii) if the Company were able to raise sufficient funds and purchase the indebtedness at a discounted amount, that could benefit holders of shares;

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the fact that, as of December 14, 2010, a few research analysts had target prices for our shares in excess of the offer price and the per share merger consideration, with nine analysts having an average target price of $5.33 per share;

although the special committee believed it had a strong basis, based upon frequent periodic reviews of the Company s value and strategic alternatives over the prior several years, past discussions with potential strategic acquirors and financial acquirors, including during the go-shop period under the prior merger agreement, and after considering the views of the financial advisors as to the likely universe of potential acquirors, for believing that the offer and the merger were the best transactions reasonably likely to be available, it is possible that conclusion of the open strategic alternatives process in the absence of the merger agreement would have discovered a buyer willing to pay more than the offer price and the per share merger consideration;

the fact that significant costs are involved in connection with entering into and completing the offer and the merger and substantial time and effort of management is required to complete the offer and the merger, potentially resulting in disruptions to the operation of and planning for the Company s business;

the fact that Parent may continue the offer notwithstanding a termination of the merger agreement under certain circumstances, including in connection with a termination of the merger agreement for a superior proposal that does not meet certain specified requirements, if the offer continues to meet certain requirements;

the restrictions placed on the conduct of the Company s business prior to the earlier of the completion of the offer and the merger pursuant to the terms of the merger agreement, which could delay or prevent the Company from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of the Company absent the pending completion of the offer and the merger;

the announcement and pendency of the offer and the merger, or failure to complete the offer and the merger, may cause substantial harm to relationships with the Company s employees, suppliers and customers and may divert management and employee attention away from the day-to-day operation of our business;

the fact that while the Company expects that the offer and the merger will be consummated, there can be no assurance that all conditions to the parties obligations to complete the offer and the merger will be satisfied;

the fact that Parent has the right to terminate the merger agreement on or prior to January 17, 2011 if the Company s pension termination liability or environmental capital expenditures and environmental liabilities under applicable law are estimated to exceed certain prescribed amounts in the merger agreement;

Parent and Merger Sub are newly-formed corporations with essentially no assets;

any gain realized in an all-cash transaction would be taxable to our stockholders that are U.S. holders for U.S. federal income tax purposes;

- the fact that the prior merger agreement requires the Company to pay within three business days of the acceleration time a termination fee equal to $16.3 million to Denali Parent in the event that the minimum condition with respect to the offer is satisfied and the offer is consummated, or the merger is consummated; and

- our directors and executive officers have interests in the offer and the merger that are different from, or in addition to, our stockholders. See Interests of Certain Persons in the Merger beginning on page [ ].

The foregoing discussion of the factors considered by the special committee is not intended to be exhaustive, but rather includes the material factors considered by the special committee. In reaching its decision to make the special committee approval and recommendation, the special committee did not quantify or assign

any relative weights to the factors considered and individual directors may have given different weights to different factors. The special committee did not undertake to make any specific determination as to whether any factor, or any particular aspect of any factor, supported or did not support its ultimate determination. The special committee based its recommendation on the totality of the information presented.

Board of Directors

The composition of our board is identical to the composition of the special committee except that the one management member of the board, Mr. Williamson, is not a member of the special committee. The board, at a meeting held on December 14, 2010 and based on the special committee approval and recommendation, (a) determined that the offer and the merger are fair to, and in the best interests of, the Company and its stockholders, (b) approved and declared advisable the merger agreement and the transactions contemplated thereby, including the offer and the merger, (c) recommended that holders of shares accept the offer, tender their shares into the offer, and, if required by applicable law, vote their shares of our common stock in favor of adoption of the merger agreement, (d) directed that, to the extent required by applicable law, the merger agreement be submitted to the holders of shares of our common stock for their adoption at a stockholders meeting in accordance with applicable law or regulation (unless Parent notifies the Company that it elects to proceed by written consent of stockholders in lieu of a meeting of stockholders) and (e) approved the support agreement, the guarantee and the amendment to the rights agreement. We refer to the foregoing determination, approval, declaration of advisability, resolution and recommendation of the board as the board approval and recommendation.

In evaluating the merger agreement, the offer, the merger and the other transactions contemplated by the merger agreement and making the board approval and recommendation, the board consulted with our management team, as well as our outside legal and financial advisors, and considered a number of factors, including the following material factors (not necessarily in any relative order of importance):

- the unanimous determination of the special committee to make the special committee approval and recommendation; and
- the factors referred to above as having been taken into account by the special committee.

In its deliberations concerning the merger agreement, the offer and the merger, the board also considered the potentially negative factors considered by the special committee described above.

The foregoing discussion of the information and factors considered by the board is not intended to be exhaustive, but includes the material factors considered by the board. In reaching its decision to make the board approval and recommendation, the board did not quantify or otherwise assign relative weights to the factors considered and individual directors may have given different weights to different factors. The board did not undertake to make any specific determination as to whether any factor, or any particular aspect of any factor, supported or did not support its ultimate determination. The board based its recommendation on the totality of the information presented.

Opinions of Financial Co-Advisors

Opinion of Greenhill & Co., LLC

On December 14, 2010, at meetings of the special committee and the board held to consider the merger agreement, Greenhill rendered to the special committee and the board an oral opinion, which was confirmed by delivery of a written opinion, dated December 14, 2010, to the effect that, as of the date of the opinion, and based upon and subject to the limitations and assumptions set forth therein, the $5.50 per share in cash to be received by the holders (excluding Parent, Merger Sub and any of their affiliates) of our common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of Greenhill s written opinion dated December 14, 2010, which contains the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this proxy statement and is incorporated herein by reference. The summary of Greenhill s opinion in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

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

reviewed a draft of the merger agreement dated as of December 14, 2010 and certain related documents;

reviewed certain publicly available financial statements of the Company;

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

reviewed certain information, including financial forecasts and other financial and operating data concerning the Company, prepared by the management of the Company, including the financial forecasts prepared by the management of the Company, reflecting, among other things, updated commodity pricing and financing assumptions, and described under Certain Company Forecasts beginning on page [ ] which we refer to as the financial forecasts;

discussed the past and present operations and financial condition and the prospects of the Company with senior executives of the Company;

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

compared the value of the per share merger consideration to a range of implied valuations for our common stock based on valuation multiples implied by the trading values of certain publicly traded companies that Greenhill deemed relevant;

compared the value of the per share merger consideration to a range of implied valuations for our common stock derived by discounting future cash flows and a terminal value of the Company at discount rates Greenhill deemed appropriate;

compared the value of the per share merger consideration to a range of implied valuations for our common stock based on multiples implied by certain publicly available transactions that Greenhill deemed relevant involving merchant generation companies;

compared the value of the per share merger consideration to a range of implied valuations for our common stock based on premiums paid in certain publicly available transactions that Greenhill deemed relevant;

participated in discussions and negotiations among representatives of the Company and its legal advisors and representatives of Parent and its legal advisors; and

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

Greenhill s written opinion was addressed to the special committee and the board. It was not intended to be and did not constitute a recommendation to the special committee or the board as to whether they should recommend or approve the offer, merger or the merger agreement, nor does it constitute a recommendation as to whether the stockholders of the Company should tender shares in connection with the offer or approve the merger or take any other action in respect of the offer or the merger at any meeting of the stockholders convened in connection with the offer or the merger. Greenhill was not requested to opine as to, and its opinion did not in any manner address, the Company s underlying business decision to proceed with or effect the offer or the merger. Greenhill did not express any opinion with respect to any aspect of the offer or the merger other than the fairness to the holders of our common stock (excluding Parent, Merger Sub and any of their affiliates) of the $5.50 per share in cash to be received by them from a financial point of view. Greenhill did not express any opinion with respect to the amount or nature of any compensation to any officers, directors or employees of the Company, or any class of such

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persons, relative to the $5.50 per share in cash to be received by the holders of our common stock in the offer and the merger or with respect to the fairness of any such compensation. Greenhill expressed no opinion as to the impact of the offer or the merger on the solvency or viability of the Company or Parent or the ability of the Company or Parent to pay its obligations when they come due. Greenhill s opinion was approved by its fairness committee.

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 publicly available, supplied or otherwise made available to it by representatives and management of the Company for the purposes of its opinion and further relied upon the assurances of the representatives and management of the Company that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the most recent financial forecasts and projections and other data that was furnished or otherwise provided to it, Greenhill assumed that such projections and data were reasonably prepared on a basis reflecting the best currently available estimates and good faith judgments of the management of the Company as to those matters, and Greenhill relied upon such financial forecasts and data in arriving at its opinion. Greenhill expressed no opinion with respect to such projections and data or the assumptions upon which they were based.

Greenhill did not make any independent valuation or appraisal of the assets or liabilities of the Company, nor was it furnished with any such appraisals. Greenhill assumed that the offer and the merger will be consummated in accordance with the terms set forth in the merger agreement and without waiver of any material terms or conditions set forth in the merger agreement. Greenhill further assumed that all material governmental, regulatory and other consents and approvals necessary for the consummation of the offer or the merger will be obtained without any effect on the offer or the merger meaningful to its analysis.

Greenhill s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it, as of December 14, 2010. Subsequent developments may affect its opinion, and Greenhill does not have any obligation to update, revise, or reaffirm its opinion.

The special committee and the board retained Greenhill based on its qualifications and expertise in providing financial advice and on its reputation as an internationally recognized investment banking firm. Greenhill acted as financial advisor to the independent director committee of the board in connection with the purchase by LS Power of (i) the Company s interests in eight power generating project companies and Dynegy Sandy Creek Holdings, LLC and (ii) $235 million aggregate principal amount of 7.5% Senior Unsecured Notes due 2015 of Dynegy Holdings Inc., a wholly-owned subsidiary of the Company, in exchange for approximately $1.0135 billion in cash and the relinquishment of 245 million shares of Class B common stock of the Company by LS Power, announced in August 2009. In addition, Greenhill acted as financial advisor to the Company in connection with the proposed acquisition of the Company by Denali Parent announced in August 2010.

Under the terms of Greenhill s agreement with the Company, the Company has agreed to pay Greenhill a fee of $11.5 million in the aggregate, of which $5 million was paid following delivery of Greenhill s written opinion dated August 13, 2010, rendered in connection with the board s consideration of the prior merger agreement and $6.5 million is payable upon consummation of the offer or the merger. The Company has also agreed to reimburse Greenhill for certain out-of-pocket expenses incurred by it in connection with its engagement and will indemnify Greenhill against certain liabilities that may arise out of its engagement.

Greenhill s opinion was one of the many factors considered by the special committee and the board in evaluating the merger agreement and should not be viewed as determinative of the views of the special committee or the board with respect to the offer or the merger.

Opinion of Goldman, Sachs & Co.

On December 14, 2010, at meetings of the special committee and the board held to consider the merger agreement, Goldman Sachs rendered to the special committee and the board an oral opinion, which was confirmed by delivery of a written opinion, dated December 15, 2010, to the effect that, as of the date of the

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written opinion, and based upon and subject to the factors, assumptions and limitations set forth therein, the $5.50 per share in cash to be paid to the holders (other than Parent and its affiliates) of our common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

The full text of the written opinion of Goldman Sachs, dated December 15, 2010, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex E to this proxy statement. Goldman Sachs provided its opinion for the information and assistance of the special committee and the board in connection with their consideration of the merger agreement. The Goldman Sachs opinion is not a recommendation as to whether or not any holder of our common stock should tender their common stock in connection with the offer or how any holder of our common stock should vote with respect to the merger or any other matter.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

- the merger agreement;
- annual reports to stockholders and Annual Reports on Form 10-K of the Company for the five fiscal years ended December 31, 2009;
- certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company;
- certain other communications from the Company to its stockholders;
- certain publicly available research analyst reports for the Company; and
- certain internal financial analyses and forecasts for the Company prepared by its management and approved for Goldman Sachs use by the Company, reflecting updated commodity pricing and financing assumptions, as disclosed under Certain Company Forecasts beginning on page [ ].

Goldman Sachs also held discussions with members of the senior management of the Company regarding their assessment of the past and current business operations, financial condition and future prospects of the Company; reviewed the reported price and trading activity for our common stock and the publicly traded debt securities of the Company and its subsidiaries; compared certain financial and stock market information for the Company with similar information for certain other companies the securities of which are publicly traded; reviewed the financial terms of certain recent business combinations in the unregulated merchant power generation industry and in other industries; and performed such other studies and analyses, and considered such other factors, as Goldman Sachs deemed appropriate.

For purposes of rendering the opinion described above, Goldman Sachs relied upon and assumed, without assuming any responsibility for independent verification, the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by it and Goldman Sachs did not assume any responsibility for any such information. In that regard, Goldman Sachs assumed with the consent of the special committee and the board that the most recent internal financial analyses and updated financial forecasts for the Company prepared by its management were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company. Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or other off-balance-sheet assets and liabilities) of the Company or any of its subsidiaries, nor was any evaluation or appraisal of the assets or liabilities of the Company or any of its subsidiaries furnished to Goldman Sachs. Goldman Sachs assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the offer or the merger will be obtained without any adverse effect on the Company or on the expected benefits of the offer and the merger in any way meaningful to its analysis. Goldman Sachs also assumed that the offer and the merger will be consummated on the terms set forth in the merger agreement, without the waiver or modification of any term or condition of the merger agreement the effect of which would be in any way meaningful to its analysis.

Goldman Sachs opinion did not address the underlying business decision of the Company to engage in the offer or the merger, or the relative merits of the offer or the merger as compared to any strategic alternatives that may be available to the Company; nor did it address any legal, regulatory, tax or accounting matters. Goldman Sachs opinion addresses only the fairness from a financial point of view, as of December 15, 2010, of the $5.50 per share in cash to be paid to the holders (other than Parent and its affiliates) of our common stock pursuant to the merger agreement. Goldman Sachs opinion did not express any view on, and did not address, any other term or aspect of the merger agreement or the offer or the merger or any term or aspect of any other agreement or instrument contemplated by the merger agreement or entered into or amended in connection with the offer or the merger, or the impact thereof, the fairness of the offer or the merger to, or any consideration received in connection therewith by, the holders of any other class of securities, creditors, or other constituencies of the Company; nor as to the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors or employees of the Company, or class of such persons, in connection with the offer or the merger, whether relative to the offer price and the per share merger consideration to be paid to the holders of shares pursuant to the merger agreement or otherwise. Goldman Sachs did not express any opinion as to the impact of the offer or the merger or any transaction entered into in connection therewith on the solvency or viability of the Company or Parent or the ability of the Company or Parent to pay its obligations when they come due. Goldman Sachs opinion was necessarily based on economic, monetary market and other conditions, as in effect on, and the information made available to it as of, December 15, 2010 and Goldman Sachs assumed no responsibility for updating, revising or reaffirming its opinion based on circumstances, developments or events occurring after December 15, 2010. Goldman Sachs opinion was approved by a fairness committee of Goldman Sachs.

Goldman Sachs opinion to the special committee and the board was one of many factors taken into consideration by the special committee and the board in making their determinations to recommend and approve the merger agreement, the offer and the merger.

Goldman Sachs and its affiliates are engaged in investment banking and financial advisory services, commercial banking, securities trading, investment management, principal investment, financial planning, benefits counseling, risk management, hedging, financing, brokerage activities and other financial and non-financial activities and services for various persons and entities. In the ordinary course of these activities and services, Goldman Sachs and its affiliates may at any time make or hold long or short positions and investments, as well as actively trade or effect transactions, in the equity, debt and other securities (or related derivative securities) and financial instruments (including bank loans and other obligations) of the Company, any of their respective affiliates, or third parties, including Icahn Enterprises L.P., an affiliate of Parent, which is referred to as Icahn Enterprises, or any of the affiliates and portfolio companies of Icahn Enterprises or its affiliates or any currency or commodity that may be involved in the offer or the merger for their own account and for the accounts of their customers. Goldman Sachs has acted as financial advisor to the Company in connection with, and participated in certain of the negotiations leading to, the offer and the merger.

Goldman Sachs has provided certain investment banking services to the Company and its affiliates from time to time for which its investment banking division has received, and may receive, compensation, including having acted as financial advisor to the independent director committee of the board in connection with the dissolution of the Company s power development joint venture with LS Power in December 2008, as financial advisor to the Company in connection with the exchange of the Company s interests in eight power generation facilities and Dynegy Sandy Creek Holdings, LLC and $235 million aggregate principal amount of 7.5% Senior Unsecured Notes due 2015 of a subsidiary of the Company, for cash and shares of Class B common stock of the Company relinquished by LS Power, announced in August 2009, and as financial advisor to the Company in connection with the proposed acquisition of the Company by Denali Parent announced in August 2010. Goldman Sachs may also in the future provide investment banking services to the Company and its affiliates and Icahn Enterprises and its affiliates and its and its affiliates portfolio companies for which its investment banking division may receive compensation. Affiliates of Goldman Sachs also may have co-invested with Icahn Enterprises and its affiliates from time to time and may have invested in limited partnership units of affiliates of Icahn Enterprises from time to time and may do so in the future.

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The special committee and the board selected Goldman Sachs as one of its financial co-advisors because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the offer and the merger. Under the terms of Goldman Sachs agreement with the Company, the Company has agreed to pay Goldman Sachs a fee of $11.5 million in the aggregate, of which $5 million was paid in connection with the announcement in August 2010 of the prior merger agreement and $6.5 million is payable upon consummation of the offer or the merger. In addition, the Company has agreed to reimburse Goldman Sachs for its expenses, including attorneys fees and disbursements, and to indemnify Goldman Sachs and related persons against various liabilities, including certain liabilities under the federal securities laws.

Financial Analyses by Financial Co-Advisors

The following is a summary of the material financial analyses presented by Greenhill and Goldman Sachs, which we refer to collectively as the financial co-advisors, to the special committee and the board in connection with rendering the respective opinions described above. The following summary, however, does not purport to be a complete description of the financial analyses performed by the financial co-advisors, nor does the order of analyses described represent the relative importance or weight given to those analyses by the financial co-advisors. Some of the summaries of the financial analyses include information presented in tabular format. In order to fully understand the financial analyses performed by the financial co-advisors, the tables must be read together with the full text of each summary and are alone not a complete description of the financial co-advisors financial analyses. Considering the data set forth in the tables below without considering the narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial co-advisors financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before December 14, 2010, and is not necessarily indicative of current market conditions.

Selected Companies Analysis

The financial co-advisors reviewed and compared certain financial information for the Company to corresponding financial information and public market multiples for the following publicly traded companies in the merchant power generation industry, which are collectively referred to below as the selected companies:

- Calpine Corporation (basic share count includes 44 million shares held in trust for settlement of future bankruptcy creditor claims. Adjusted pro forma for the Conectiv acquisition, the acquisition of the Broad River and South Point facilities, the sale of the Blue Spruce and Rocky Mountain facilities, and the sale of a partial interest in the Freestone facility);

- GenOn Energy, Inc. (formerly RRI Energy, Inc.) (adjusted for the merger of RRI Energy, Inc. and Mirant Corporation at the applicable exchange ratio and based on EBITDA estimates derived by combining estimates for both companies and adjusting for the forecasted synergies for the combined company as publicly disclosed by the parties to that merger); and

- NRG Energy, Inc. (adjusted pro forma for the acquisition of Green Mountain Energy Company and the Cottonwood Generating Station facility).

Although none of the selected companies is directly comparable to the Company, these companies were chosen because they are publicly traded companies with operations that for the purposes of this analysis may be considered similar to certain operations of the Company. With respect to the Company and the selected companies, the financial co-advisors calculated:

- The rent-adjusted enterprise value, referred to as Rent-Adjusted EV, which is defined as the market value of common equity plus the book value of debt and preferred stock, plus an estimate of the present value of anticipated rent expense, plus minority interest, less cash, as a multiple of estimated earnings plus rent expense, before interest, taxes, depreciation and amortization, referred to as Rent-Adjusted EBITDA, for calendar year 2010;

The Rent-Adjusted EV as a multiple of estimated Rent-Adjusted EBITDA for calendar year 2011; and

The Rent-Adjusted EV as a multiple of estimated Rent-Adjusted EBITDA for calendar year 2012.

For purposes of this analysis, the multiples for each of the selected companies were calculated using (i) Rent-Adjusted EV amounts derived using the closing price of the Company s and the selected companies common stock on December 14, 2010, and book value of debt, preferred stock, minority interest and cash amount reflected in, and an estimate of the present value of anticipated rent expense under operating leases based on, publicly available information regarding the selected companies as of December 14, 2010 and (ii) Rent-Adjusted EBITDA estimates for the selected companies based on the median estimates of the Company s and the selected companies earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, most recently published by Institutional Broker s Estimate System, or IBES, as of December 14, 2010 and publicly available information regarding the selected companies anticipated rent expense as of December 14, 2010. These multiples based on December 14, 2010 data are summarized as follows:

	Selected Companies	
	Range	**Median**
Rent-Adjusted EV as a Multiple of:		
2010E Rent-Adjusted EBITDA	4.5x 8.5x	5.4x
2011E Rent-Adjusted EBITDA	6.0x 8.5x	6.7x
2012E Rent-Adjusted EBITDA	6.1x 8.9x	7.7x

The multiples for the Company and each of the selected companies were also calculated using (i) Rent-Adjusted EV amounts derived using the closing price of the Company s and the selected companies common stock on August 12, 2010 (the last trading day prior to the announcement of the proposed acquisition of the Company by Denali Parent), and book value of debt, preferred stock, minority interest and cash amount reflected in, and an estimate of the present value of anticipated rent expense under operating leases based on, publicly available information regarding the Company and the selected companies as of August 12, 2010 (the last trading day prior to the announcement of the proposed acquisition of the Company by Denali Parent) and (ii) Rent-Adjusted EBITDA estimates for the Company and the selected companies based on the median estimates of the Company s and the selected companies EBITDA, most recently published by IBES, as of August 12, 2010 and publicly available information as of August 12, 2010 regarding the Company s and the selected companies anticipated rent expense.

These multiples based on August 12, 2010 data are summarized as follows:

	Selected Companies		
	Range	**Median**	**Company**
Rent-Adjusted EV as a Multiple of:			
2010E Rent-Adjusted EBITDA	4.8x 8.7x	5.6x	7.9x
2011E Rent-Adjusted EBITDA	6.1x 8.3x	6.6x	8.1x
2012E Rent-Adjusted EBITDA	6.1x 8.2x	6.6x	8.0x

Based on these analyses and utilizing their professional judgment and experience, the financial co-advisors applied selected multiples ranging from 6.5x to 8.5x to estimated 2011 Rent-Adjusted EBITDA for the Company derived from the consensus estimates of the Company s 2011 EBITDA most recently published by IBES as of December 14, 2010 and the Company s estimated 2011 rent expense under its Central Hudson lease to derive a range of implied Rent-Adjusted EVs for the Company. The financial co-advisors then calculated an indicative range of implied equity values for the Company by reducing the range of implied Rent-Adjusted EVs by the book value of the Company s net debt as of September 30, 2010 and by the present value of the Company management s estimated future rent expenses under its Central Hudson lease, calculated using a 10% discount rate, based on public presentations made by Company management. By dividing this range of implied equity

values by the number of fully-diluted shares of our common stock outstanding, the financial co-advisors calculated a range of illustrative value indications per share for our common stock, summarized as follows:

	Illustrative Per Share Value Indications	
Company 2011E IBES Rent-Adjusted EBITDA	$ (4.00)	$4.83

Selected Transactions Multiples Analysis

The financial co-advisors analyzed, to the extent publicly available, certain information relating to the following selected pending or previously proposed merchant power corporate transactions:

Date Announced	Acquiror	Target	Status
04/11/2010	RRI Energy, Inc. (merger of equals)	Mirant Corporation	Closed
07/02/2009 *(Second Bid)*	Exelon Corporation	NRG Energy, Inc.	Failed
10/19/2008 *(First Bid)*	Exelon Corporation	NRG Energy, Inc.	Failed
05/21/2008	NRG Energy, Inc.	Calpine Corporation	Failed

For each of the selected transactions, the financial co-advisors calculated and reviewed the enterprise value of the target company as a multiple of estimated EBITDA for the first full fiscal year period beginning after the applicable transaction announcement date, or FY1 EBITDA, based on IBES estimates most recently published prior to the date of the announcement of the applicable transaction. For purposes of this analysis, the target companies enterprise values were generally calculated by multiplying the announced per-share transaction price by the number of that target company s fully diluted outstanding shares as disclosed in the target company s most recent filings with the SEC prior to the announcement of the applicable transaction and adding to that result the target company s net debt as disclosed in the target company s most recent public filings with the SEC prior to the announcement of the applicable transaction. While none of the companies that participated in the selected transactions are directly comparable to the Company, the companies that participated in the selected transactions are publicly traded companies with operations that, for the purposes of analysis, may be considered similar to certain of the Company s operations. The results of this analysis are summarized as follows:

	Selected Transactions[(1)]		
	Range		Median
Enterprise Value as a Multiple of:			
FY1 EBITDA	5.5x	11.4x	6.3x

(1) Excluding NRG s attempted acquisition of Calpine Corporation from the analysis results in a range from 5.5x to 6.4x and a median of 6.2x.

Based on this analysis, and utilizing their professional judgment and experience, the financial co-advisors applied selected multiples ranging from 5.5x to 6.5x to the unadjusted IBES consensus EBITDA estimate for the Company for calendar year 2011 to determine an indicative range of implied enterprise values of the Company. The financial co-advisors then calculated an indicative range of implied equity values for the Company by reducing the range of implied enterprise values by the amount of the Company s net debt as of September 30, 2010. By dividing this range of implied equity values by the number of fully-diluted shares of our common stock outstanding, the financial co-advisors calculated a range of illustrative value indications per share for our common stock, summarized as follows:

	Illustrative Per Share Value Indications	
Company 2011E IBES EBITDA	$ (5.34)	$(1.34)

Selected Transactions Premiums Analysis

Based on publicly-available information, the financial co-advisors analyzed the premiums paid in publicly announced change of control transactions (excluding self-tender offers, stock repurchases and exchange offers) within the United States during the five-year period ending December 14, 2010 having transaction values between $1 billion and $10 billion, and separately analyzed such change of control transactions only involving companies in the energy and power industries. None of the other companies that participated in the transactions used in this analysis is directly comparable to the Company or the transaction.

The financial co-advisors reviewed the premiums paid in these transactions represented by the per share acquisition price in each of the selected transactions as compared to the average closing share price of the target company over the periods one day, one week and one month prior to the announcement of such selected transaction. The financial co-advisors also analyzed the premiums paid in these selected transactions based on the type of consideration (e.g., all cash, mixed consideration, all stock) offered in the transaction. The results of this analysis are summarized as follows:

Section / Consideration Type	One Day	One Week	One Month
General M&A All Deals	24%	27%	28%
General M&A All Cash	28%	29%	30%
General M&A Mixed Consideration	22%	25%	26%
General M&A All Stock	16%	19%	20%
Energy / Power M&A All Deals	17%	19%	21%
Energy / Power M&A All Cash	27%	26%	28%
Energy / Power M&A Mixed Consideration	18%	18%	21%
Energy / Power M&A All Stock	11%	12%	17%

Based on this review and their professional judgment and experience, the financial co-advisors applied a range of premiums from 20% to 30% to the average closing share price of the shares over the periods one day, one week and one month prior to August 12, 2010, the last trading day before the announcement of the proposed acquisition of the Company by Denali Parent and derived a range of illustrative value indications per share for our common stock, summarized as follows:

Average Company Share Price Over Period				Illustrative Per Share
One Day	One Week	One Month	Premium Range	Value Indications
$2.78	$3.69	$3.75	20% 30%	$4.09 $4.43

Illustrative Discounted Cash Flow Analysis

The financial co-advisors performed an illustrative discounted cash flow analysis of the Company using the financial forecasts, which are described under Certain Company Forecasts beginning on page [ ]. The financial co-advisors calculated an illustrative range of implied present values per share of our common stock by discounting to present value as of December 31, 2010 (a) estimates of the Company s unlevered free cash flow for the calendar years 2011 through 2015 calculated using the updated financial forecasts and (b) illustrative terminal values for the Company as of December 31, 2015 derived by multiplying the Company management s estimates of the Company s 2015 Rent-Adjusted EBITDA by multiples ranging from 6.5x to 8.5x. These illustrative unlevered free cash flows and terminal values were then discounted to calculate implied indications of present values using illustrative discount rates ranging from 8% to 12%, reflecting estimates of the Company s weighted average cost of capital. The following table presents the results of this analysis:

	Illustrative Per Share Value Indications
Company management updated financial forecasts	$ (10.57) $(1.07)

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Illustrative Sum-of-the-Parts Analysis

The financial co-advisors performed an illustrative sum-of-the-parts analysis to determine a range of implied equity values for our common stock, based on hypothetical standalone valuations of each of the Company s scrubbed coal generation assets, unscrubbed coal generation assets, simple cycle gas generation assets and combined cycle gas generation assets. In conducting this analysis, the financial co-advisors reviewed and analyzed, to the extent publicly available, certain information relating to four selected pending or closed coal asset transactions and 26 selected pending or closed natural gas asset transactions, including ten natural gas asset transactions announced in 2010.

For each selected coal or natural gas asset transaction reviewed, the financial co-advisors calculated the standalone enterprise value of the applicable coal or natural gas assets (derived from the purchase price paid in the transaction) as a multiple, referred to as EV/kW, of the generating capacity of the coal assets (expressed in kilowatts). The following summarizes the review of the four pending or closed coal asset transactions performed by the financial co-advisors:

Date Announced	Acquiror	Seller	Assets	EV/kW
11/08/2010	Arizona Public Services Company	Southern California Edison Company	Four Corners facility (Units 4 and 5)	$ 398
02/11/2010	First Energy Corporation	Allegheny Energy, Inc.	Allegheny Energy, Inc. s Coal Fleet[(1)]	$ 620
04/12/2007	Cascade Investment LLC	PNM Resources, Inc.	Twin Oaks facility	$ 1,586
04/20/2006	International Power plc	Sempra Energy /Riverstone Holdings LLC	Coleto Creek facility	$ 1,903

(1) Of the total $9.0 billion enterprise value of Allegheny Energy, Inc. implied by the transaction based on publicly available information, $5,637 million was attributed to Allegheny Energy s regulated utility and $116 million was attributed to Allegheny Energy s peaking and hydro facilities (total of 1,046 megawatts) based on an analyst research report published by an internationally recognized investment banking firm, as of February 1, 2010. The remaining value of $3,247 million was attributed to Allegheny Energy s 5,236MW merchant baseload coal fleet.

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The following are the 26 natural gas asset transactions, including ten transactions announced in 2010, reviewed by the financial co-advisors:

Date Announced	Acquiror	Seller	Assets
10/29/2010	Rayburn Country Electric Cooperative Inc.	Calpine Corporation	Interest in Freestone Energy Center facility
10/25/2010	Tyr Energy, Inc. and Chubu Electric Power Co.	Tenaska, Inc.	Interests in five facilities
09/09/2010	LS Power Equity Advisors LP	PPL Corporation	Interests in three facilities
08/13/2010	NRG Energy, Inc.	Kelson Limited Partnership	Cottonwood Generating Station facility
08/09/2010	Constellation Energy	Boston Generating	Five Boston facilities
05/06/2010	ArcLight Energy Partners Fund III, L.P.	KGen Power Corporation	Sandersville facility
04/21/2010	Calpine Corporation	Pepco Holdings, Inc.	Conectiv Energy fleet
04/16/2010	Constellation Energy	Navasota Holdings	Colorado Bend Energy and Quail Run Energy facilities
04/05/2010	Xcel Energy Inc.	Calpine Corporation	Rocky Mountain and Blue Spruce facilities
03/23/2010	Energy Capital Partners	BG Group plc.	Lake Road, Masspower and Dighton facilities
08/03/2009	Oglethorpe Power Corporation	Hartwell Energy Limited Partnership	Hartwell facility
08/10/2009	L.S. Power Associates, L.P.	Dynegy, Inc.	Eight gas facilities and stake in Sandy Creek
02/26/2009	Cleco Power LLC	Acadia Power Partners, LLC	Acadia Power Station
10/13/2008	Tenaska Capital Management, LLC	MACH Gen, LLC	Covert facility
09/25/2008	Puget Sound Energy, Inc.	Wayzata Opportunities Fund, LLC	Mint Farm facility
09/02/2008	SUEZ Energy North America, Inc.	FirstLight Power Enterprises, Inc.	15 facilities
06/10/2008	Global Infrastructure Partners and Foristar LLC	GIM Channelview Cogeneration, LLC	Channelview facility
05/12/2008	International Power plc	Tenaska Power Fund, L.P. and Warburg Pincus LLC	Four facilities
05/12/2008	GSC Acquisition Company	Complete Energy Holdings, LLC	La Paloma and Batesville facilities
04/22/2008	Nevada Power Company	Reliant Energy, Inc.	Bighorn facility
04/30/2008	Hastings Funds Management Ltd. and IIF BH Investment LLC	Black Hills Corporation	Seven gas facilities

Date Announced	Acquiror	Seller	Assets
04/15/2008	Hoosier Energy Rural Electric Cooperative, Inc. and Wabash Valley Power Association, Inc.	Tenaska Power Fund, L.P.	Beecher City facility
04/03/2008	Tennessee Valley Authority	Southaven Power, LLC	Southaven facility
03/31/2008	TransCanada Corporation	National Grid plc	Ravenswood facility
01/29/2008	FirstEnergy Corp.	Calpine Corporation	Fremont facility
01/21/2008	Oklahoma Gas and Electric Company	Kelson Holdings LLC	Redbud facility

The results of the review of these natural gas asset transactions are summarized as follows:

	Selected Transactions		
	Range		Median
All Natural Gas Asset Transactions (EV/kW)	**$ 203/kW**	**$1,235/kW**	**$ 565/kW**
2010 Natural Gas Asset Transactions (EV/kW)	**$ 203/kW**	**$829/kW**	**$ 387/kW**

Based on the foregoing analysis and other factors considered in their professional judgment and experience, including an analysis of the spot price of natural gas on the date of the announcement of each of the selected transactions, current market dynamics, the current regulatory and legislative environment and guidance from the Company s management, the financial co-advisors selected reference ranges for the EV/kW multiples with respect to each of the Company s scrubbed coal generation assets, unscrubbed coal generation assets, simple cycle generation assets and combined cycle generation assets. By applying these reference ranges to the respective generating capacities of each of the Company s generation assets (excluding the Plum Point development project ownership interest), this analysis indicated an indicative range of implied generation enterprise values for the Company s standalone generation assets, individually and in the aggregate, as summarized in the following table:

(US$ in millions)					
	Generation Capacity	Illustrative Multiple Ranges (EV/kW)		Implied Generation Enterprise Value Indications	
Asset Segment	(MW)	Low	High	Low	High
Scrubbed Coal	2,241	$ 500	$ 700	$ 1,121	$ 1,569
Unscrubbed Coal	1,273	100	150	127	191
Simple Cycle Gas Generation	4,120	200	300	824	1,236
Combined Cycle Gas Generation	4,447	300	500	1,334	2,224
Total Generation Enterprise Value	12,081	$ 282(1)	$ 432(1)	$ 3,406	$ 5,219

(1) Range of EV/kW for total generation based on weighted average of capacity and ranges for each asset segment.

The financial co-advisors then calculated an indicative range of implied equity values for the Company by reducing the range of implied generation enterprise values by the amount of the Company s projected net debt as of December 31, 2010 (including the present value (calculated using a 10% discount rate) of the Company management s estimated future rent expenses under the Company s Central Hudson lease and Company management s estimated environmental capital expenditures) and by an implied value of the Company s unallocated corporate overhead expenses, derived by applying a multiple of 7.5x to Company management s estimated 2011 general and administrative expense. By dividing this range of implied equity values by the

number of fully-diluted shares of our common stock outstanding, the financial co-advisors calculated a range of illustrative value indications per share for our common stock, summarized as follows:

	Illustrative Per Share Value Indications	
Power Generation Assets (EV/kW)	$ (15.80)	$(0.80)

Historical Trading Share Prices

The financial co-advisors reviewed the highest and lowest daily closing trading share prices of our common stock during the 52-week and the 3-month periods ending on August 12, 2010, the last trading day before the announcement of the proposed acquisition of the Company by Denali Parent. The results of this review are summarized as follows:

	Daily Closing Share Price	
	Low	High
Period Ending August 12, 2010:		
52-week	$ 2.78	$ 13.15
3-month	$ 2.78	$ 6.65

Additional Financial Analysis

The financial co-advisors also reviewed and analyzed, referencing certain of the foregoing value indication analyses, the approximate market value of the Company s outstanding publicly-traded debt securities referencing trading levels as of August 12, 2010, the last trading day before the announcement of the proposed acquisition of the Company by Denali Parent, rather than the book value of those debt securities. The results of these analyses are summarized below.

Selected Companies Analysis. Using the same methodology as the selected companies analysis described above, the financial co-advisors calculated the Rent-Adjusted EV for the Company using the market value of the Company s debt securities as of August 12, 2010 (except that book values were used for certain debt for which no market data was available). This Rent-Adjusted EV amount is referred to below as the Company August 12 Debt-Adjusted EV. The financial co-advisors calculated and reviewed the Company August 12 Debt-Adjusted EV as a multiple of the Company s estimated Rent-Adjusted EBITDA for calendar years 2010, 2011 and 2012, respectively, based on median IBES estimates as of August 12, 2010. Rent-Adjusted EBITDA based on median IBES estimates as of August 12, 2010 is referred to below as the August 12 Rent-Adjusted EBITDA.

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The financial co-advisors also calculated the Rent-Adjusted EV for each of the selected companies as a multiple of both (i) their respective estimated August 12 Rent-Adjusted EBITDA for calendar years 2010, 2011 and 2012 and (ii) their respective Rent-Adjusted EBITDA for calendar years 2010, 2011 and 2012 based on median IBES estimates as of December 14, 2010. Rent-Adjusted EBITDA based on median IBES estimates as of December 14, 2010 is referred to below as the December 14 Rent-Adjusted EBITDA. The financial co-advisors observed that the market value of the debt securities for each of the selected companies was trading approximately in line with the book value of those securities. These calculations yielded the following indicative multiples:

	Selected Companies Rent-Adjusted EV (multiple)		Company August 12 Debt-Adjusted EV (multiple)
	Range	Median	
Rent-Adjusted EV as a Multiple of:			
2010E August 12 Rent-Adjusted EBITDA	4.8x 8.7x	5.6x	6.4x
2010E December 14 Rent-Adjusted EBITDA	4.5x 8.5x	5.4x	
2011E August 12 Rent-Adjusted EBITDA	6.1x 8.3x	6.6x	6.6x
2011E December 14 Rent-Adjusted EBITDA	6.0x 8.5x	6.7x	
2012E August 12 Rent-Adjusted EBITDA	6.1x 8.2x	6.6x	6.4x
2012E December 14 Rent-Adjusted EBITDA	6.1x 8.9x	7.7x	

Illustrative Discounted Cash Flow Sensitivity to Debt Valuation Analysis. Using the same methodology as the illustrative discounted cash flow analysis described above, the financial co-advisors calculated the sensitivity of the results of the illustrative discounted cash flow analysis to variations in the assumed value of the Company s debt, using illustrative discount rates ranging from 8% to 12% and an illustrative terminal value for the Company derived from a 2015 Rent-Adjusted EBITDA multiple of 7.0x. In performing this sensitivity analysis, the financial co-advisors varied the assumed values of the Company s debt used in the illustrative discounted cash flow analysis by amounts ranging from book value of the debt to the observed market value of the Company s debt (except that book values were used for certain debt for which no market data was available), each reflecting projected debt balances as of December 31, 2010 but referencing trading levels as of December 14, 2010. The results of this sensitivity analysis are summarized as follows:

	Illustrative Per Share Value Indications
Variation in the Company s debt value (book to observed market)	$ (9.41) $2.23

Illustrative Sum-of-the-Parts Analysis. Using the same methodology as the illustrative sum-of-the-parts analysis described above, the financial co-advisors also calculated an indicative range of implied per share equity values of our common stock based on the Company s projected net debt as of December 31, 2010, as adjusted to reflect a discount to book value based on the approximate market value of the Company s debt as of December 14, 2010. The results of this sensitivity analysis are summarized as follows:

	Illustrative Per Share Value Indications
Variation in the Company s debt value (book to observed market)	$ (8.30) $6.70

Research Analysts Stock Price Targets. Using publicly available information, the financial co-advisors reviewed and analyzed the most recent price targets as of August 12, 2010, the last trading day before the announcement of the proposed acquisition of Dynegy by Denali Parent, for our common stock published by 13 equity research analysts. These targets reflect each analyst s estimate of the future public market trading price of our common stock and are not discounted to present value. The results of this review are summarized as follows:

	Range[1]	Median[2]	Mean[2]
Research Analysts Price Targets ($/share)	$ 2.50 $7.50	$ 4.25	$ 4.51

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(1) Excludes the lowest ($1.00/share) and the highest ($25.00/share) published price targets
(2) Median and Mean excludes price targets ($7.00/share and $25.00/share) published by two research analysts which, according to Company management, represented long-term price targets.

Using publicly available information, the financial co-advisors reviewed and analyzed the most recent price targets as of December 14, 2010 for our common stock published by nine equity research analysts. These targets reflect each analyst s estimate of the future public market trading price of our common stock and are not discounted to present value. The results of this review are summarized as follows:

	Range	Median	Mean
Research Analysts Price Targets ($/share)	$ 4.00 $7.00	$ 5.00	$ 5.33

General

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying the respective opinions of Greenhill and Goldman Sachs. In arriving at their fairness determination, Greenhill and Goldman Sachs each considered the results of all of their analyses and did not attribute any particular weight to any factor or analysis considered by them. Rather, Greenhill and Goldman Sachs each made their determination as to fairness on the basis of their experience and professional judgment after considering the results of all of their analyses. No company or transaction used in the above analyses as a comparison is directly comparable to the Company or the offer or the merger.

Greenhill prepared these analyses for purposes of Greenhill s providing its opinion to the special committee and the board that, as of December 14, 2010 and based upon and subject to the limitations and assumptions set forth therein, the $5.50 per share in cash to be received by the holders of our common stock (excluding Parent, Merger Sub and any of their affiliates) pursuant to the merger agreement was fair, from a financial point of view, to such holders. Goldman Sachs prepared these analyses for purposes of Goldman Sachs providing its opinion to the special committee and the board that, as of December 15, 2010, and based upon and subject to the factors, assumptions and limitations set forth therein, the $5.50 per share in cash to be paid to the holders (other than Parent and its affiliates) of our common stock pursuant to the merger agreement was fair from a financial point of view to such holders. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of the Company, Greenhill, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast.

As described above, Greenhill s and Goldman Sachs opinions to the special committee and the board were amongst many factors taken into consideration by the special committee and the board in making their determinations to recommend and approve the merger agreement, the offer and the merger. The offer price and the per share merger consideration was determined through arm s-length negotiations between the special committee and the board, on the one hand, and Parent, on the other hand, and was recommended to the board by the special committee and approved by the board. Greenhill and Goldman Sachs provided advice to the special committee and the board during these negotiations. Greenhill and Goldman Sachs did not, however, recommend any specific amount of consideration to the Company or the special committee or the board or that any specific amount of consideration constituted the only appropriate consideration for the offer or the merger.

The foregoing summary does not purport to be a complete description of the analyses performed by Greenhill or Goldman Sachs in connection with their respective fairness opinions and is qualified in its entirety by reference to the written opinions of Greenhill and Goldman Sachs attached as Annex D and Annex E, respectively, to this proxy statement.

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Certain Company Forecasts

While the Company s general practice has been to provide public guidance in November of each year for its financial performance for the subsequent fiscal year, and to periodically update such guidance during the course of the subsequent fiscal year, it does not, as a matter of course, publicly disclose financial forecasts as to future financial performance, earnings or other results for periods longer than one year. The Company is especially cautious of making financial forecasts for periods longer than one fiscal year due to unpredictability of the underlying assumptions and estimates. However, in connection with the prior merger agreement the Company provided Blackstone, the board and their respective advisors, and thereafter in connection with Amendment No. 1 to the prior merger agreement, dated November 16, 2010, the board and its advisors, with certain non-public financial forecasts covering multiple years that were prepared by management of the Company and not for public disclosure; a summary of the forecasts prepared in connection with the prior merger agreement was provided in the Company s definitive proxy statement filed with the SEC on Schedule 14A on October 4, 2010, and a summary of the forecasts prepared in connection with Amendment No. 1 to the prior merger agreement was provided in the Company s additional definitive soliciting materials filed with the SEC on Schedule 14A on November 18, 2010.

In connection with the merger agreement, the Company provided the board and its advisors with certain updated non-public financial forecasts covering multiple years that were prepared by management of the Company and not for public disclosure.

Our public guidance updated in November 2010 does not reflect certain changes experienced in the first eleven months of 2010, including approximately $60 million of positive working capital changes, primarily caused by changes in the value of mark to market positions and cash collateral, whereas these updated financial forecasts include such changes.

A summary of the updated financial forecasts is not being included in this document to influence your decision whether to vote for or against the proposal to adopt the merger agreement, but is being included because updated financial forecasts were made available to the board and its advisors. The inclusion of this information should not be regarded as an indication that the board, its advisors or any other person considered, or now considers, such updated financial forecasts to be material or to be a reliable prediction of actual future results, and these updated financial forecasts should not be relied upon as such. Our management s internal financial forecasts, upon which the updated financial forecasts were based, are subjective in many respects. There can be no assurance that the updated financial forecasts will be realized or that actual results will not be significantly higher or lower than forecasted. The updated financial forecasts cover multiple years and such information by its nature becomes subject to greater uncertainty with each successive year. As a result, the inclusion of the updated financial forecasts in this proxy statement should not be relied upon as necessarily predictive of actual future events.

In addition, the updated financial forecasts were not prepared with a view toward public disclosure or toward complying with generally accepted accounting principles, which we refer to as GAAP, the published guidelines of the SEC regarding projections and the use of non-GAAP measures or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Neither our independent registered public accounting firm, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the updated financial forecasts contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

These updated financial forecasts were based on numerous variables and assumptions that were deemed to be reasonable as of December 10, 2010, when the projections were finalized. Such assumptions are inherently uncertain and may be beyond the control of the Company. Important factors that may affect actual results and cause these updated financial forecasts to not be achieved include, but are not limited to, risks and uncertainties relating to the Company s business (including its ability to achieve strategic goals, objectives and targets over the

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applicable periods), industry performance, the regulatory environment, general business and economic conditions and other factors described or referenced under Cautionary Statement Regarding Forward Looking Statements beginning on page [ ]. In addition, the updated financial forecasts also reflect assumptions that are subject to change and do not reflect revised prospects for the Company s business, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the updated financial forecasts were prepared, including assumptions with respect to the future prices of natural gas and electricity. The Company s forecasted results of operations and cash flows depend, in large part, upon prevailing market prices for power and the fuel to generate such power. The forecasts were based on commodity pricing assumptions through 2012 based upon November 29, 2010 price curves and commodity pricing assumptions after 2012 based upon November 29, 2010 price curves and adjusted based upon management s fundamental outlook. We have not prepared revised forecasts to take into account other variables that may have changed since December 10, 2010 including changes to the November 29, 2010 price curves. Accordingly, there can be no assurance that these updated financial forecasts will be realized or that the Company s future financial results will not materially vary from these updated financial forecasts.

No one has made or makes any representation to any stockholder or anyone else regarding the information included in the updated financial forecasts set forth below. Readers of this proxy statement are cautioned not to rely on the forecasted financial information. Some or all of the assumptions which have been made regarding, among other things, the timing of certain occurrences or impacts, may have changed since the date such updated financial forecasts were made. We have not updated and do not intend to update, or otherwise revise the updated financial forecasts to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions on which such updated financial forecasts were based are shown to be in error. The Company has made no representation to Parent or Merger Sub or any other person in the merger agreement or otherwise, concerning these updated financial forecasts.

The updated financial forecasts are forward-looking statements. For information on factors that may cause the Company s future financial results to materially vary, see Cautionary Statement Regarding Forward Looking Statements beginning on page [ ].

The following is a summary of the updated financial forecasts prepared by management of the Company and given to the board and their advisors.

Summary Financial Forecasts

	Fiscal Year Ending December 31, (dollars in millions)					
	2010E[1]	**2011E[1]**	**2012E[1]**	**2013E[1]**	**2014E[1]**	**2015E[1]**
Gross Margin	$ 1,209	$ 867	$ 920	$ 1,057	$ 932	$ 1,020
Adjusted EBITDA[2][3]	$ 507	$ 418	$ 308	$ 483	$ 380	$ 449
Operating Cash Flow	$ 317	$ (13)	$ (147)	$ 47	$ (93)	$ (28)
Operating Cash Flow less Total Capital Expenditures	$ (27)	$ (279)	$ (348)	$ (99)	$ (201)	$ (122)
Total Debt (excluding capitalized Central Hudson lease)		$ 4,025	$ 4,311	$ 4,424	$ 4,621	$ 4,722
Debt Amortization	$ 62	$ 218	$ 166	$ 85	$ 3	$ 3
Operating Cash Flow less Total Capital Expenditures and Debt Amortization Amounts	$ (89)	$ (497)	$ (514)	$ (184)	$ (204)	$ (125)

Notes:

(1) Forecasted values.

(2) Adjusted EBITDA means EBITDA plus interest income and other adjustments related to mark-to-market changes.

(3) Rent-Adjusted EBITDA, which was used in certain financial analyses described under The Merger Opinions of Financial Co-Advisors beginning on page [ ], means Adjusted EBITDA plus the $50.5 million annual rent expense associated with the Central Hudson lease obligation.

In preparing the summary financial forecasts, our management made the following assumptions:

- apart from the Company s existing contracts, commodity (power, fuel and transportation) pricing assumptions through 2012 were based upon November 29, 2010 price curves and commodity pricing assumptions after 2012 were based upon November 29, 2010 price curves and adjusted based upon management s fundamental outlook, which includes improved reserve margins in the Midwest Independent Transmission System Operator region and the PJM Interconnection, LLC region as a result of a meaningful number of coal plant retirements driven by existing and potential environmental regulations primarily impacting coal plants.
- implementation of a cost savings program focused on reducing general, administrative and operational expenses generates approximately $50 million in annual cost savings beginning in 2011, which implementation has not yet commenced and would result in cost savings incremental to the cost savings targets included in the Company s previously announced 2010-2013 cost savings program.
- general and administrative expenses reflect the Company s stand-alone expenses, including identified cost savings opportunities.
- the Central Hudson lease obligation remains in place.
- the occurrence of the following financing activities:
  - $400 million revolver refinancing at the London Interbank Offered Rate, or LIBOR, plus 500 basis points, or bps, (with a 2% LIBOR floor) at March 31, 2011;
  - $300 million term loan issuance at LIBOR plus 500 bps (with a 2% LIBOR floor) to replace the Company s synthetic letter of credit facility at March 31, 2011;
  - issuance of notes at 10% interest in the amounts of $450 million, $200 million and $200 million in 2012, 2013 and 2014, respectively;
  - total collateral requirements of $500 million (comprising $150 million in cash collateral and $350 million in posted letters of credit);
  - $785 million in 7.5% senior notes due 2015 refinanced at maturity; and
  - $68 million term loan B repaid at March 31, 2011.
- two plant retirements (Vermilion and Hennepin at the beginning of 2012 and 2014, respectively), one plant sale (Plum Point in 2010 for $0, which is de-consolidated for purposes of the financial forecast and accounted for through the equity method) and one plant

decommissioning (South Bay, beginning in 2011); and

the absence of any incremental capital expenditures mandated by new environmental laws or regulations that may come into effect in the future.

Financing of the Merger

We anticipate that the total funds needed by Parent to pay (i) our stockholders the amounts due to them under the merger agreement as holders of shares and/or Company restricted stock (which we anticipate, based upon the shares and Company restricted stock outstanding as of January 5, 2011, will be approximately $669,279,589), (ii) any and all fees and expenses required to be paid by Parent, Merger Sub and the surviving corporation in connection with the transactions contemplated by the merger agreement and (iii) all amounts, up to a maximum of $1.0 billion, required to satisfy Parent s obligations to provide or cause to be provided sufficient funding to the Company and its subsidiaries to permit them to operate their respective business and operations in the ordinary course consistent with past practice and, to the extent requested by the Company, to repay any outstanding indebtedness of the Company and its subsidiaries that is due and payable in connection with the closing of the offer, including (a) to

repay or refinance indebtedness outstanding under the Company s existing credit facility that will come due as a result of the transactions contemplated by the merger agreement (which we anticipate, based upon indebtedness outstanding as of January 5, 2011, will be approximately $918 million, consisting of an $850 million term letter of credit facility, which we refer to as the term LC facility, and a $68 million senior secured term loan facility) and (b) to replace or refinance the letters of credit issued under the term LC facility (as of January 5, 2011, letters of credit issued under the term LC facility were approximately $370 million), will collectively be funded by Parent from the cash and cash equivalents available to Parent and the guarantor and from the cash on hand of the Company and restricted cash of the Company associated with the term LC facility (as of January 5, 2011, the cash on hand of the Company was approximately $410 million and restricted cash of the Company associated with the term LC facility was approximately $850 million).

We believe the funds available to Parent, together with cash on hand of the Company and cash of the Company that is restricted under our existing credit facility, will be sufficient to complete the transactions contemplated by the merger agreement, to operate our business after the completion of the offer and to repay or refinance any outstanding indebtedness that will come due as a result of the offer and the merger, but we cannot assure you of that. Those amounts may be insufficient if, among other things, the guarantor fails to comply with its obligations in breach of the guarantee (as described below), the outstanding indebtedness of the Company at the closing of the merger is greater than anticipated or the funds needed to operate our and our subsidiaries businesses are greater than anticipated.

Parent has agreed that in connection with the closing of the transactions contemplated by the merger agreement, no credit support will be provided by the Company or any of its affiliates and no new indebtedness nor any assets of the Company or any of its subsidiaries may be used to make payments to holders of shares or to the paying agent in connection with the closing of the transactions contemplated by the merger agreement.

Guarantee

Concurrently with the execution of the merger agreement, pursuant to the guarantee entered into between the Company and the guarantor, the guarantor has guaranteed the full and timely performance by Parent and Merger Sub of their respective payment and other obligations under the merger agreement, other than with respect to certain obligations of the surviving corporation to indemnify the present and former directors and officers of the Company and its subsidiaries and certain obligations of the Company and Parent to provide for directors and officers insurance following completion of the merger. The guarantee terminates upon the completion of the merger.

Support Agreement

Pursuant to the support agreement, entered into simultaneously with the merger agreement among certain stockholders affiliated with the guarantor and the Company, the support parties have agreed, subject to the terms and conditions of such agreement, to, among other things, vote shares (and shares underlying call options to the extent exercised), constituting up to approximately 14.92% of the issued and outstanding shares, in favor of the adoption of the merger agreement, if necessary. The support parties have also agreed that, in certain circumstances, if an all cash all-shares superior proposal is made to acquire the Company and the superior proposal meets certain criteria (as described in The Merger Agreement Parent Ownership and Vote beginning on page [ ]), the support parties will vote, consent or tender their shares in favor of the adoption of the agreement relating to such superior proposal and/or into any tender offer contemplated thereby.

Closing and Effective Time of Merger

If the proposal to adopt the merger agreement is approved at the special meeting, the merger agreement provides that the closing of the merger will take place on the third business day after which the last of the conditions to closing of the merger (described under The Merger Agreement Conditions to the Merger

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beginning on page [ ]) has been satisfied or waived (other than the conditions that by their nature are to be satisfied at the closing of the merger, but subject to the fulfillment or waiver of those conditions). We currently expect the closing of the merger to occur before the end of the first quarter of 2011.

The effective time of the merger will occur as soon as practicable following the closing of the merger upon the filing of a certificate of merger (or certificate of ownership and merger, as applicable) with the Secretary of State of the State of Delaware (or at such later time as we and Parent may agree and specify in the certificate of merger).

Payment of Merger Consideration and Surrender of Stock Certificates

Each record holder of shares of our common stock (other than holders of solely the excluded shares) will be sent a letter of transmittal describing how such holder may exchange its shares of our common stock for the per share merger consideration promptly, and in any event within two business days, after the completion of the merger.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.

You will not be entitled to receive the per share merger consideration until you deliver a duly completed and executed letter of transmittal to the paying agent. If your shares are certificated, you must also surrender your stock certificate or certificates to the paying agent. If ownership of your shares is not registered in the transfer records of the Company, a check for any cash to be delivered will only be issued if the applicable letter of transmittal is accompanied by all documents reasonably required to evidence and effect transfer and to evidence that any applicable stock transfer taxes have been paid or are not applicable.

Interests of Certain Persons in the Merger

In considering the recommendation of the board with respect to the proposal to adopt the merger agreement, you should be aware that our directors and executive officers have interests in the offer and the merger that are different from, or in addition to, the interests of our stockholders generally. Each of the special committee and the board was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the transactions contemplated by the merger agreement, and in making its recommendation. For purposes of all of the agreements and plans described below, the completion of the offer or the merger contemplated by the merger agreement will constitute a change in control.

Long-Term Incentive Awards

As of the date of this proxy statement, certain of the Company s executive officers hold (i) Company stock options, (ii) shares of Company restricted stock, (iii) Company phantom stock units, which entitle the holder to cash awards in accordance with the terms and conditions of the applicable awards, and (iv) Company performance awards, which entitle the holder to cash awards in accordance with the terms and conditions of the applicable awards.

The offer is made only for shares and is not made for any Company stock options, Company restricted stock, Company phantom stock units or Company performance awards. Holders of vested but unexercised Company stock options may exercise such options in accordance with the terms of the applicable equity compensation plan and award agreement and tender some or all of the shares issued upon such exercise. Holders of Company restricted stock may tender some or all of the shares received upon vesting and settlement of Company restricted stock in accordance with the terms of the applicable equity compensation plan and award agreement. However, at the effective time of the merger, each outstanding Company stock option, vested or unvested, will be cancelled for no payment if such Company stock option has an exercise price greater than the offer price and, if such Company stock option exercise price is not greater than the offer price, will only entitle

the holder thereof to receive, as soon as reasonably practicable (but in any event no later than three business days after the effective time of the merger), an amount in cash equal to the product of (i) the total number of shares of our common stock subject to the applicable Company stock option immediately prior to the effective time of the merger and (ii) the excess, if any, of the offer price *over* the exercise price per share of our common stock under such Company stock option, less applicable taxes required to be withheld with respect to such payment. In addition, at the effective time of the merger, each outstanding share of Company restricted stock, if any, will only entitle the holder thereof to receive, as soon as reasonably practicable and no later than the earlier of (i) the second payroll period or (ii) 30 days following the effective time of the merger, an amount in cash, for each share of the Company restricted stock, equal to the offer price, less applicable taxes required to be withheld with respect to such payment. At the acceleration time, each outstanding Company phantom stock unit will be cancelled and will only entitle the holder thereof to receive, as soon as reasonably practicable after the acceleration time, but in any event no later than the earlier of (i) the second payroll period or (ii) thirty (30) days following the acceleration time, an amount in cash, for each Company phantom stock unit, equal to the offer price, less applicable taxes required to be withheld with respect to such payment. At the acceleration time, (i) Company performance awards granted in 2009 and 2010 will be payable at 100% of target (as defined in the applicable agreements for such awards), fully vested and settled for a payment of cash, as required by the terms of the agreements governing such Company performance awards, and (ii) each outstanding Company performance award granted prior to 2009 will be fully vested and canceled for no payment in accordance with the terms of the agreements governing such Company performance awards. Further, at the acceleration time, each outstanding Company stock option, share of Company restricted stock and Company phantom stock unit will fully vest.

The following table sets forth, as of January 5, 2011, the long-term incentive award holdings of the Company s executive officers and the gross value of such holdings assuming (i) in the case of shares of Company restricted stock, the merger is consummated, and (ii) in the case of the Company phantom stock units and the Company performance awards, either the offer or the merger is consummated:

	Number of shares of Company Restricted Stock	Value of Company Restricted Stock	Number of Company Phantom Stock Units	Value of Company Phantom Stock Units	Number of Company Performance Awards	Value of Company Performance Awards[1]
Bruce A. Williamson[2]	132,501	$ 728,755.50	318,584	$ 1,752,212.00	54,000	$ 5,400,000.00
Holli C. Nichols	34,514	$ 189,827.00	79,646	$ 438,053.00	13,800	$ 1,380,000.00
J. Kevin Blodgett	25,852	$ 142,186.00	59,236	$ 325,798.00	10,304	$ 1,030,400.00
Lynn A. Lednicky	25,123	$ 138,176.50	59,236	$ 325,798.00	10,147	$ 1,014,700.00
Charles C. Cook	26,861	$ 147,735.50	55,752	$ 306,636.00	9,818	$ 981,800.00
TOTAL	244,850	$ 1,346,675.00	572,454	$ 3,148,497.00	98,069	$ 9,806,900.00

(1) Based on a target price of $100 per unit.

(2) Mr. Williamson also serves as the chairman of the board.

Each outstanding Company stock option has an exercise price greater than the offer price and would be cancelled for no payment upon the effective time of the merger.

As of the date of this proxy statement, our non-employee directors hold Company phantom stock units, which are granted on an annual basis and credited quarterly to the non-employee directors pursuant to the Company s Deferred Compensation Plan for Certain Directors, as amended and restated. The Directors Deferred Compensation Plan states that quarterly contributions of Company phantom stock units are to be made on the last day of each calendar quarter. Given that these contributions represent compensation for amounts earned by non-employee directors for service during the calendar quarter, the Company intends to make cash payments to non-employee directors following their termination of service from the board in amounts equal to the value of the Company phantom stock units that would have been contributed but for the failure of such termination to occur on the last day of the applicable calendar quarter, prorated as appropriate.

Generally, upon termination of service as a director, the Company phantom stock units become payable in cash or shares, based on each director s one-time election, and in a lump-sum payment or in monthly, quarterly or annual installments over a specified term, also at the director s election. All of the Company s current non-employee directors have previously elected to receive the value of the Company phantom stock units in cash rather than shares. If a director s service as a director terminates no later than two years following a change in control, the total unpaid balance in the director s accounts under the plan (determined as of the later of the date of the change in control or the date the director has a termination of service with the Company or any successor, which we refer to as the computation date), will be paid to the director in a single, lump sum cash payment as soon as administratively feasible, but no later than 30 days, after the computation date. A change in control does not increase a director s benefit under the plan and may also impose a time of payment of the benefit that is different from the director s prior election.

Change in Control Arrangements

We maintain certain policies, plans and agreements, including our Executive Change in Control Severance Pay Plan, which we refer to as the Change in Control Plan, which provide for certain change in control benefits for our executives. The Change in Control Plan provides for the payment of certain severance benefits to our executives if, (i) in connection with but no earlier than 60 days before or (ii) on or within two years after, in each case, a change in control , as defined in this plan, any such executive is subject to an involuntary termination , as defined in this plan. In general, an executive experiences an involuntary termination if such executive s employment is terminated without cause or such executive resigns for good reason , generally meaning he or she suffers a material reduction in authority or duties, a material reduction in total compensation or relocation to a location 50 miles or more from the previous principal employment location.

Severance benefits for certain of our executive officers under the Change in Control Plan include:

- a lump sum cash payment equal to:
  - for our Chief Executive Officer, 2.99 times such executive s compensation , which is defined under the plan as the sum of any covered executive s (i) annual base salary based on the greater of the rate in effect immediately prior to the change in control, 60 days prior to an involuntary termination or the date of any such involuntary termination and (ii) the greater of a covered executive s target annual bonus under our short-term incentive plan for the fiscal year in which the change in control occurs, any fiscal year beginning after the fiscal year in which the change in control occurs and before the year in which such covered executive s involuntary termination occurs or the fiscal year in which such covered executive s involuntary termination occurs; or
  - for any Executive Vice President, 2.5 times such executive s compensation;
- a lump sum cash payment equal to the aggregate target annual incentive compensation under any applicable short-term incentive compensation plan for the fiscal year during which such involuntary termination of employment occurs (determined as if all applicable goals and targets had been satisfied in full), pro-rated to the date of such executive s termination plus the aggregate target annual incentive compensation under any applicable short term incentive compensation plan earned but yet not paid for the fiscal year prior to the fiscal year during which the involuntary termination occurs (determined as if all applicable goals and targets had been satisfied in full);
- all medical, dental, vision and life insurance benefits maintained for such executive as of the termination date, contingent upon continued payment of premiums by such executive based on rates no greater than the lesser of the cost of coverage paid by such executive immediately before the involuntary termination or the change in control, for a period equal to (i) 36 months from termination for our Chief Executive Officer and (ii) 30 months from termination for any Executive Vice President, so long as such executive does not obtain new employment and eligibility for coverage under a similar benefit plan maintained by the new employer; and

outplacement assistance benefits at least equivalent to those that would have been provided to the executive officer before the change in control.

The board has appointed David Biegler, a member of the board, as the plan administrator of the Change in Control Plan. This appointment is contingent upon, and is effective as of, the acceleration time. Mr. Biegler is not a beneficiary of the Change in Control Plan and will no longer be a member of the board as of the closing of the merger. The Company intends to enter into customary agreements with Mr. Biegler prior to the acceleration time pursuant to which Mr. Biegler will receive customary compensation, expense reimbursement and indemnification for his services as plan administrator. The Board has appointed Bill Trubeck, a member of the board, as the contingent plan administrator, to serve as plan administrator in the event that Mr. Biegler resigns or is otherwise unwilling or unable to serve as plan administrator.

In connection with a change in control, such as the completion of the offer or the merger, any outstanding Company stock options, Company restricted stock, Company phantom stock units and other equity-based awards previously granted to our executives will vest in accordance with the terms of the underlying award agreements. For additional detail regarding the treatment of such awards in connection with the merger, see Long-Term Incentive Awards above.

In addition, pursuant to our Excise Tax Reimbursement Policy, any of our executive officers who incurs excise taxes under Section 4999 of the Internal Revenue Code of 1986, as amended, as a result of a payment in connection with a change in control is entitled to receive an additional payment in an amount equal to the excise tax, interest on the excise tax amount and any penalties related to the excise tax payment imposed. Under the Dynegy Inc. Restoration Pension Plan and Restoration 401(k) Savings Plan, which are nonqualified supplemental executive retirement plans, participants, including all executives, fully vest in their benefits under the plans to the extent not already vested upon a change in control. However, all current participants under the plans are already fully vested based on their years of service, so a change in control will not alter their vesting under the plans.

The following table sets forth the estimated total payouts (excluding any effect related to long-term incentive awards discussed above) to our executive officers following a change in control transaction assuming each such executive s employment is involuntarily terminated as contemplated by the change in control agreements:

	Bruce A. Williamson	**Holli C. Nichols**	**J. Kevin Blodgett**	**Lynn A. Lednicky**	**Charles C. Cook**
Cash Severance (Multiple of Annual Compensation)	$ 5,980,000	$ 2,625,000	$ 2,250,000	$ 2,175,000	$ 2,175,000
Pro-rated Short-term Incentive Bonus	$ 249,315	$ 130,890	$ 112,192	$ 108,452	$ 108,452
Medical, Dental, Vision and Life Insurance Benefits	$ 37,008	$ 10,290	$ 30,660	$ 31,020	$ 31,020
Outplacement Services	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Tax Gross-Up	$ 0	$ 1,554,562	$ 1,197,811	$ 1,205,486	$ 1,283,490
TOTAL[(1)]	$ 6,291,323	$ 4,345,742	$ 3,615,663	$ 3,544,958	$ 3,622,962

(1) Amounts reflected assume no increase in salaries or changes in rates and coverage regarding medical, dental, vision and life insurance benefits and the executive s termination occurs on April 1, 2011. As described below, no discussions have occurred between any members of the Company s current management team and representatives of Parent, Merger Sub or their affiliates regarding continuing employment of our executive officers or any termination thereof.

Receipt of the cash severance payment and other severance benefits under the Change in Control Plan is subject to forfeiture if the executive materially breaches his or her confidentiality and non-disparagement agreement and is further subject to the executive s execution of a general release of claims in favor of the Company.

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The following table describes the estimated potential payments (including any effect related to long-term incentive awards discussed above) we would be required to make to our executive officers at the acceleration time and upon an involuntary termination in connection with a change in control. The following assumptions and general principles apply with respect to these tables:

Amounts under Offer/Merger Acceleration Time assume: 1) a change in control upon completion of the offer or the merger resulting in the vesting of any outstanding Company stock options, Company restricted stock and Company phantom stock units in accordance with the terms of the underlying award agreements; and 2) shares owned outright, including shares held within the applicable 401K plan, have been tendered and paid out at the offer price.

Amounts under Severance Change in Control assume an involuntary termination on April 1, 2011 in connection with a change in control. As described below, no discussions have occurred between any members of the Company s current management team and representatives of Parent, Merger Sub, or their affiliates regarding continuing employment of our executive officers or any termination thereof.

Amounts under Overall Total assume both a change in control event and involuntary termination in connection with such change in control resulting in payments of outstanding equity awards and severance.

	Offer/Merger Acceleration Time[1]	Severance Change in Control[2]	Overall Total
Bruce A. Williamson			
Cash Severance (Multiple of Annual Compensation)	$	$ 5,980,000	
Pro-rated Short-term Incentive Bonus		$ 249,315	
Vested/accelerated Company Stock Options[3]			
Accelerated Company Restricted Stock	$ 728,756		
Accelerated Company Phantom Stock Units	$ 1,752,212		
Accelerated Company Performance Awards[4]	$ 5,400,000		
Common Stock Owned Outright (includes 401K Shares)[5]	$ 1,075,261		
Incremental Non-qualified Pension[6]		$ 145,377	
Medical, Dental and Vision and Life Insurance Benefits		$ 37,008	
Outplacement Services		$ 25,000	
280G Tax Gross-Up			
Total	$ 8,956,229	$ 6,436,700	$ 15,392,929
Holli C. Nichols			
Cash Severance (Multiple of Annual Compensation)	$	$ 2,625,000	
Pro-rated Short-term Incentive Bonus		$ 130,890	
Vested/accelerated Company Stock Options[3]			
Accelerated Company Restricted Stock	$ 189,827		
Accelerated Company Phantom Stock Units	$ 438,053		
Accelerated Company Performance Awards[4]	$ 1,380,000		
Common Stock Owned Outright (includes 401K Shares)[5]	$ 96,553		
Incremental Non-qualified Pension[6]		$ 51,051	
Medical, Dental and Vision and Life Insurance Benefits		$ 10,290	
Outplacement Services		$ 25,000	
280G Tax Gross-Up		$ 1,554,562	
Total	$ 2,104,433	$ 4,396,793	$ 6,501,226

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	Offer/Merger Acceleration Time[1]	Severance Change in Control[2]	Overall Total
J. Kevin Blodgett			
Cash Severance (Multiple of Annual Compensation)	$	$ 2,250,000	
Pro-rated Short-term Incentive Bonus		$ 112,192	
Vested/accelerated Company Stock Options[3]			
Accelerated Company Restricted Stock	$ 142,186		
Accelerated Company Phantom Stock Units	$ 325,798		
Accelerated Company Performance Awards[4]	$ 1,030,400		
Common Stock Owned Outright (includes 401K Shares)[5])	$ 55,842		
Incremental Non-qualified Pension[6]		$ 36,973	
Medical, Dental and Vision and Life Insurance Benefits		$ 30,660	
Outplacement Services		$ 25,000	
280G Tax Gross-Up		$ 1,197,811	
Total	$ 1,554,226	$ 3,652,636	$ 5,206,862
Lynn A. Lednicky			
Cash Severance (Multiple of Annual Compensation)	$	$ 2,175,000	
Pro-rated Short-term Incentive Bonus		$ 108,452	
Vested/accelerated Company Stock Options[3]			
Accelerated Company Restricted Stock	$ 138,177		
Accelerated Company Phantom Stock Units	$ 325,798		
Accelerated Company Performance Awards[4]	$ 1,014,700		
Common Stock Owned Outright (includes 401K Shares)[5]	$ 92,307		
Incremental Non-qualified Pension[6]		$ 36,087	
Medical, Dental and Vision and Life Insurance Benefits		$ 31,020	
Outplacement Services		$ 25,000	
280G Tax Gross-Up		$ 1,205,486	
Total	$ 1,570,982	$ 3,581,045	$ 5,152,027
Charles C. Cook			
Cash Severance (Multiple of Annual Compensation)	$	$ 2,175,000	
Pro-rated Short-term Incentive Bonus		$ 108,452	
Vested/accelerated Company Stock Options[3]			
Accelerated Company Restricted Stock	$ 147,736		
Accelerated Company Phantom Stock Units	$ 306,636		
Accelerated Company Performance Awards[4]	$ 981,800		
Common Stock Owned Outright (includes 401K Shares)[5]	$ 40,398		
Incremental Non-qualified Pension[6]		$ 28,932	
Medical, Dental and Vision and Life Insurance Benefits		$ 31,020	
Outplacement Services		$ 25,000	
280G Tax Gross-Up		$ 1,283,490	
Total	$ 1,476,570	$ 3,651,894	$ 5,128,464

(1) Amounts reflected assume closing of the offer or merger at the offer price of $5.50.

(2) Amounts reflected assume no increase in salaries or changes in rates and coverage regarding medical, dental, vision and life insurance benefits, and the executive s involuntary termination occurs on April 1, 2011.

(3) Outstanding Company stock options have exercise prices greater than the offer price and would be canceled for no payment at the effective time of the merger.

(4) Based on target price of $100 per unit.

(5) Amounts reflected are as of January 5, 2011.
(6) Amounts reflected are as of December 31, 2010.

Deferred Compensation Plan

Mr. Lednicky is the only named executive officer with a balance in our suspended non-qualified executive deferred compensation plan. This plan provides that, upon a change in control, participants fully vest in their employer contributions under the plan to the extent not already vested. However, Mr. Lednicky is already fully vested based on his years of service, so a change in control will not alter his vesting under the plan

Indemnification; Directors and Officers Insurance

The Company s directors and officers are entitled under the merger agreement to continued indemnification, advancement of expenses and director and officer insurance coverage. For additional information regarding these arrangements, see The Merger Agreement Indemnification; Directors and Officers Insurance beginning on page [ ].

Arrangements with the Surviving Corporation

The merger agreement provides that the officers of the Company immediately prior to the effective time of the merger will, from and after the effective time of the merger, be the officers of the surviving corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the organizational documents of the surviving corporation.

As of the date of this proxy statement, no members of the Company s current management have entered into any agreement, arrangement or understanding with Parent, Merger Sub or their affiliates to provide continuing employment with, or the right to convert into or reinvest or participate in the equity of, Parent, the surviving corporation or any of its subsidiaries. Moreover, as of the date of this proxy statement, no discussions have occurred between members of the Company s current management and representatives of Parent, Merger Sub or their affiliates with respect to any such agreement, arrangement or understanding. Although it is possible that certain members of the Company s current management team will enter into arrangements with Parent or its affiliates regarding employment (and severance arrangements) with, and the right to purchase or participate in the equity of, Parent (and/or a subsidiary of Parent), as of the date of this proxy statement no discussions have occurred between members of the Company s current management and representatives of Parent, Merger Sub or their affiliates regarding any such arrangements, and there can be no assurance that any parties will reach an agreement. Any new arrangements would not become effective until after the acceleration time.

Material U.S. Federal Income Tax Consequences of the Merger

The following is a summary of the material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) whose shares of our common stock are converted into the right to receive cash in the merger. This summary does not purport to consider all aspects of U.S. federal income taxation that might be relevant to our stockholders. For purposes of this discussion, we use the term U.S. holder to mean a beneficial owner of shares of our common stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any of its political subdivisions;
- a trust that (i) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an estate that is subject to U.S. federal income tax on its income regardless of its source.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. A partner of a partnership holding our common stock should consult the partner s tax advisor regarding the U.S. federal income tax consequences of the merger to such partner.

This discussion is based on current law, which is subject to change, possibly with retroactive effect. The discussion applies only to beneficial owners who hold shares of our common stock as capital assets, and does not apply to shares of our common stock received in connection with the exercise of employee stock options or otherwise as compensation, stockholders who hold an equity interest, actually or constructively, in Parent or the surviving corporation after the merger, stockholders who have perfected and not withdrawn a demand for, or lost the right to, appraisal under the DGCL or to certain types of beneficial owners who may be subject to special rules (such as insurance companies, banks, tax-exempt organizations, financial institutions, broker-dealers, partnerships, S corporations or other pass-through entities, mutual funds, traders in securities who elect the mark-to-market method of accounting, stockholders subject to the alternative minimum tax, stockholders that have a functional currency other than the U.S. dollar or stockholders who hold our common stock as part of a hedge, straddle, constructive sale or conversion transaction). This discussion also does not address the U.S. tax consequences to any stockholder who, for U.S. federal income tax purposes, is a non-resident alien individual, foreign corporation, foreign partnership or foreign estate or trust, and does not address the receipt of cash in connection with the cancellation of Company phantom stock units, or Company stock options to purchase shares of our common stock, or the treatment of shares of Company restricted stock or Company performance awards, or any other matters relating to equity compensation or benefit plans (including the plans). This discussion does not address any aspect of state, local or foreign tax laws.

Exchange of Shares for Cash Pursuant to the Merger Agreement

The exchange of shares of our common stock for cash in the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder whose shares of our common stock are converted into the right to receive cash in the merger will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash received with respect to such shares (determined before the deduction of any applicable withholding taxes, as described below under Backup Withholding and Information Reporting) and the U.S. holder s adjusted tax basis in such shares of common stock. A U.S. holder s adjusted tax basis will generally equal the price the U.S. holder paid for such shares of common stock. Gain or loss will be determined separately for each block of shares of our common stock (i.e., shares of our common stock acquired at the same cost in a single transaction). Such gain or loss will be long-term capital gain or loss provided that the U.S. holder s holding period for such shares of our common stock is more than 12 months at the effective time of the merger. Long-term capital gains of non-corporate U.S. holders are generally subject to tax at a maximum rate of 15% under current law. There are limitations on the deductibility of capital losses.

Backup Withholding and Information Reporting

Backup withholding of tax (at the rate of 28%) may apply to cash payments to which a non-corporate U.S. holder is entitled under the merger agreement, unless the U.S. holder or other payee provides a taxpayer identification number, certifies that such number is correct, and otherwise complies with the backup withholding rules. Each of our U.S. holders should complete and sign, under penalty of perjury, the Substitute Form W-9 included as part of the letter of transmittal and return it to the paying agent, in order to provide the information and certification necessary to avoid backup withholding, unless an exemption applies and is established in a manner satisfactory to the paying agent.

Backup withholding is not an additional tax. Any amounts withheld from cash payments to a U.S. holder pursuant to the merger under the backup withholding rules will be allowable as a refund or a credit against such U.S. holder s U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

Cash payments made pursuant to the merger will also be subject to information reporting unless an exemption applies.

The U.S. federal income tax consequences described above are not intended to constitute a complete description of all tax consequences relating to the merger. Because individual circumstances may differ,

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each stockholder should consult the stockholder s tax advisor regarding the applicability of the rules discussed above to the stockholder and the particular tax effects to the stockholder of the merger in light of such stockholder s particular circumstances, the application of state, local and foreign tax laws, and, if applicable, the tax consequences of the receipt of cash in connection with the cancellation of Company phantom stock units or Company stock options to purchase shares of our common stock, or the treatment of shares of Company restricted stock or Company performance awards, including the transactions described in this proxy statement relating to our other equity compensation and benefit plans.

Regulatory Approvals

The merger is conditioned on satisfaction (or waiver, only with the prior written consent of the Company and only subject to and to the extent permitted by applicable law) of certain regulatory conditions. In order to satisfy such regulatory conditions the parties must make filings with a number of federal, state, public utility, antitrust and other regulatory authorities.

Federal Energy Regulatory Commission

In relevant part, section 203(a) of the FPA, 16, U.S.C. § 824b(a), specifies that prior approval by FERC is required before a public utility may sell, lease or dispose of the whole of its facilities with a value in excess of $10 million, or any holding company, as defined by the Public Utility Holding Company Act of 2005, 42 U.S.C. § 16451, et seq., may purchase, acquire or take any security of an electric utility company or merge or consolidate its facilities with such company, directly or indirectly, with a value in excess of $10 million. The purchase of shares pursuant to the offer and/or the merger is subject to this approval requirement. Section 203(a)(4) of the FPA further specifies that, after notice and an opportunity for hearing, FERC shall approve such applications, if it finds the proposed transaction to be consistent with the public interest, and will not result in cross-subsidization of a non-utility associate company, or pledge or encumbrance of utility assets, unless such is determined to be consistent with the public interest. FERC determines whether a transaction is consistent with the public interest, in view of the impact on (i) competition in FERC-jurisdictional markets; (ii) rates; and (iii) regulation. Parent, Merger Sub and certain affiliates of Parent and Merger Sub filed with FERC a joint amended application for the approval of the offer and the merger under Section 203(a) of the FPA on December 21, 2010. The Company has determined that there is good ground for FERC to conclude that the application is consistent with the public interest, as that term is understood in governing precedent.

New York Public Service Commission

Sections 70 and 83 of the New York Public Service Law similarly requires that the purchase of more than 10% of the voting capital stock of an electric or steam corporation shall require approval of the NYPSC. The purchase of shares pursuant to the offer and/or the merger is subject to this approval requirement. New York law further provides that such consent will not be given unless it is shown that the acquisition is in the public interest. In addition, New York precedent indicates that the NYPSC will apply a presumption against reviewing acquisitions where it is demonstrated that the proposed acquisition is confined to lightly regulated wholesale electric generation facilities and where little potential for harm to captive ratepayers exists. Parent, Merger Sub and certain affiliates of Parent and Merger Sub and the Company filed a joint petition for the approval of, or a determination that no approval is required for the offer and the merger with the NYPSC under Sections 70 and 83 of the New York Public Service Law on December 23, 2010. The Company has determined that there is good ground for the NYPSC to apply the presumption in favor of the transaction, or, in the alternative, to conclude that the proposed transaction is in the public interest.

Antitrust

Under the HSR Act and the rules that have been promulgated thereunder by the FTC, certain acquisition transactions may not be consummated unless certain information has been furnished to the Antitrust Division and the FTC and certain waiting period requirements have been satisfied. The purchase of shares pursuant to the offer and/or the merger is subject to such requirements.

Pursuant to the requirements of the HSR Act, Parent and the Company each filed a Notification and Report Form with respect to the offer and merger with the Antitrust Division and the FTC on December 20, 2010. The waiting period applicable to the purchase of shares pursuant to the offer and the merger was scheduled to expire on January 4, 2011, 15 days after such filing. Parent and the Company received notice of the early termination of the waiting period applicable to the purchase of shares pursuant to the offer and the merger on December 27, 2010.

The Antitrust Division and the FTC scrutinize the legality under the antitrust laws of transactions such as the acquisition of shares by Parent pursuant to the offer and the merger. At any time before or after the consummation of any such transactions, the Antitrust Division or the FTC could take such action under the antitrust laws of the United States as it deems necessary or desirable in the public interest, including seeking to enjoin the purchase of shares pursuant to the offer and the merger or seeking divestiture of the shares so acquired or divestiture of substantial assets of the Company. Private parties (including individual States) may also bring legal actions under the antitrust laws of the United States. The Company does not believe that the consummation of the offer and/or the merger will result in a violation of any applicable antitrust laws. However, there can be no assurance that a challenge to the offer and/or the merger on antitrust grounds will not be made, or if such a challenge is made, what the result will be.

Prior Merger Agreement

The Company, Denali Parent, an affiliate of Blackstone, and Denali Merger Sub Inc., entered into the prior merger agreement on August 13, 2010 and amended on November 16, 2010. The prior merger agreement was terminated on November 23, 2010. If the offer or the merger is consummated, the Company will be required to pay a termination fee of $16.3 million to Denali Parent within three business days of such consummation.

Litigation Relating to the Merger

In connection with the prior merger agreement, nineteen stockholder lawsuits were filed (one of which was subsequently voluntarily dismissed) in the District Courts of Harris County, Texas between August 13, 2010 and August 24, 2010 against the Company, its directors, certain Blackstone entities, NRG, and/or certain executive officers of the Company. The remaining eighteen Texas state actions were consolidated on September 9, 2010 and are captioned as *Colleen Witmer, et al. v. Dynegy Inc., et al.*, No. 2010-50609 (Consolidated) (234th Judicial District of Harris County, Texas). One stockholder derivative lawsuit was filed in a District Court in Harris County, Texas on September 16, 2010. Three stockholder lawsuits were filed against the Company, its directors, certain of its executive officers, certain Blackstone entities, and/or NRG in the United States District Court in the Southern District of Texas; the first was filed on August 31, 2010; the second was filed on September 16, 2010, and the third was filed on October 7, 2010. Six similar stockholder actions against the Company, its directors, certain Blackstone entities, and/or certain executive officers of the Company were filed in the Court of Chancery of the State of Delaware between August 17, 2010 and August 23, 2010, and were consolidated on August 24, 2010. One of these lawsuits was voluntarily dismissed on August 23, 2010.

The complaints arising out of the prior merger agreement variously alleged, among other things, that the board and certain executive officers violated fiduciary duties and failed to disclose material information. Certain of the complaints also alleged that the Company, Blackstone, and/or NRG aided and abetted such alleged breaches of fiduciary duties. The plaintiffs sought various remedies, including an injunction against the merger and/or the stockholder vote, corrective disclosure, declaratory relief with respect to the alleged breaches of fiduciary duty, and monetary damages including attorneys fees and expenses.

On November 7, 2010, the parties entered into a memorandum of understanding providing for the full and final settlement of the Texas state stockholder class actions and the Delaware actions. In connection with the settlement, the Company denied all allegations of wrongdoing but agreed to make certain additional disclosures to stockholders. On November 8, 2010, Dynegy made supplemental disclosures in a supplement to the Definitive

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Proxy Statement filed with the SEC as Definitive Additional Materials on Schedule 14A on November 8, 2010 and subsequently mailed such supplemental disclosures to the holders of our common stock. The memorandum of understanding and settlement were expressly subject to and conditioned upon the consummation of the transactions contemplated by the prior merger agreement. Accordingly, when the prior merger agreement was terminated, the settlement became null and void.

On December 12, 2010, the plaintiff in the stockholder derivative action moved to nonsuit all defendants without prejudice. The court granted the motion on December 14, 2010. On December 16, 2010, the lead plaintiff in the Texas state class action moved to nonsuit without prejudice defendants Blackstone and NRG. The court granted the motion on December 17, 2010.

On January 6, 2010, the plaintiff in the Texas class action filed a second amended petition challenging the transactions contemplated by the merger agreement. The second amended petition names Dynegy, its directors and the guarantor as defendants and generally alleges that the directors breached their fiduciary duties in connection with approving the transactions contemplated by the merger agreement and by providing misleading information and/or failing to disclose information in the Schedule 14D-9 filed by the Company on December 30, 2010. The second amended petition also alleges that Dynegy and guarantor aided and abetted the directors alleged breaches of fiduciary duties and that all defendants engaged in a conspiracy to deprive stockholders of the full value of their shares. The plaintiff seeks, among other things, to enjoin the offer. The defendants believe that the claims in the second amended petition are meritless and intend vigorously to defend against such claims.

In addition to the state class action, the federal and Delaware actions also remain pending. On December 30, 2010, two of the federal plaintiffs moved to consolidate the three pending federal cases and for appointment of lead counsel. The federal plaintiffs have represented that they intend to file a consolidated complaint challenging the transactions contemplated by the merger agreement, but have not yet done so.

The defendants believe that the federal and Delaware actions, which currently arise out of the prior merger agreement, are also meritless, and in any event, are moot in light of the fact that the transaction was not consummated. The defendants will continue to vigorously defend against all pending present or future claims.

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THE MERGER AGREEMENT

This section describes the material terms of the merger agreement, the support agreement and the guarantee. The description in this section and elsewhere in this proxy statement is qualified in its entirety by reference to the complete text of the merger agreement, the support agreement and the guarantee, copies of which are attached as ***Annex A, Annex B and Annex C****, respectively, and are incorporated by reference into this proxy statement. This summary does not purport to be complete and may not contain all of the information about the merger agreement, the support agreement and the guarantee that is important to you. We encourage you to read each of the merger agreement, the support agreement and the guarantee carefully and in its entirety. This section is not intended to provide you with any factual information about us. Such information can be found elsewhere in this proxy statement and in the public filings we make with the SEC, as described in the section entitled,* *Where You Can Find More Information , beginning on page [ ].*

Explanatory Note Regarding the Merger Agreement

Each of the merger agreement, the support agreement and the guarantee is included to provide you with information regarding its terms. Factual disclosures about the Company contained in this proxy statement or in the Company s public reports filed with the SEC may supplement, update or modify the factual disclosures about the Company contained in the merger agreement, the support agreement and the guarantee. The representations, warranties and covenants made in the merger agreement, the support agreement and the guarantee by the Company, Parent, Merger Sub and/or the support parties were qualified and subject to important limitations agreed to by the Company, Parent, Merger Sub and/or the support parties in connection with negotiating the terms of the merger agreement. In particular, in your review of the representations and warranties contained in the merger agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purposes of establishing the circumstances in which a party to the merger agreement may have the right not to consummate the offer or the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement, rather than establishing matters as facts. The representations and warranties may also be subject to a contractual standard of materiality different from those generally applicable to stockholders and reports and documents filed with the SEC and in some cases were qualified by the matters contained in the disclosure schedule that the Company delivered in connection with the merger agreement, which disclosures were not reflected in the merger agreement. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement, may have changed since the date of the merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement.

The Offer

Tender Offer

Parent commenced a tender offer (with the guarantor as a co-bidder), as disclosed in the Tender Offer Statement on Schedule TO, as may be amended or supplemented from time to time, dated December 22, 2010 and filed by Parent with the SEC, to purchase all of the issued and outstanding shares at the offer price, without interest, less any applicable withholding taxes, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated December 22, 2010 , as amended or supplemented from time to time, and in the related Letter of Transmittal.

The merger agreement contemplates that, after completion of the offer and the satisfaction or waiver of all conditions set forth in the merger agreement, the Company will merge with Merger Sub. Under the terms of the merger agreement, the parties have agreed to complete the merger whether or not the offer is completed. If the offer is not completed, the parties have agreed that the merger would only be completed after our stockholders approve a proposal to adopt the merger agreement that will be considered at the special meeting. We are soliciting proxies for the special meeting to obtain stockholder approval of the adoption of the merger agreement and to consummate the merger regardless of the outcome of the offer.

We refer in this proxy statement to the offer and to terms of the merger agreement applicable to the offer; however, the offer is being made separately to the holders of shares and is not applicable to the special meeting.

The obligation of Parent to accept for payment and pay for shares tendered in the offer is subject to satisfaction or waiver of a number of conditions set forth in the merger agreement, including the expiration or termination of applicable waiting periods under the HSR Act, the approval of FERC under Section 203 of the FPA and the approval, or a determination that no approval is required, of the NYPSC under the New York Public Service Law and other customary closing conditions. In addition, it is a condition to Parent s obligation to accept for payment and pay for shares tendered in the offer that the number of the outstanding shares that have been validly tendered and not properly withdrawn, together with any shares then owned by Parent, its subsidiaries and the support parties, equals at least a majority of the outstanding shares as of the expiration of the offer.

Top-Up Option

Pursuant to the merger agreement, the Company granted to Parent an irrevocable option, which we refer to as the top-up option, to purchase such number of additional shares, at a price per share equal to the offer price, that, when added to the number of shares owned by Parent at the time of such exercise, will constitute at least one share more than 90% of the outstanding shares, which is the number of shares necessary for Merger Sub to be merged with and into the Company without a vote or consent of the stockholders of the Company in accordance with Delaware s short-form merger statute. The top-up option will not be exercisable and will terminate on the date on which Parent accepts for payment and pays for shares pursuant to the offer (or on such later date as any subsequent offering period for the offer may expire) if the number of such shares to be acquired pursuant to the top-up option would exceed the number of authorized but unissued shares. Parent expects to exercise the top-up option if it does not own at least 90% of the outstanding shares immediately after the offer is consummated and the top-up option has not terminated pursuant to the preceding sentence. The exercise price for the top-up option will be paid to the Company by Parent, at Parent s option, by a combination of (i) cash, by wire transfer of same-day funds, and/or (ii) a promissory note (provided that the aggregate par value of the shares issued pursuant to the top-up option shall be paid in cash). In addition, the parties have agreed that, in any appraisal proceeding under Section 262 of the DGCL with respect to the dissenting shares, the surviving corporation shall not assert that the top-up option or any exercise thereof should be considered in connection with the determination of fair value of the dissenting shares in accordance with Section 262 of the DGCL.

If, following the offer and the exercise of the top-up option, Parent owns at least 90% of the shares, Parent, Merger Sub and the Company will take all necessary and appropriate action to consummate the merger as a short-form merger as soon as practicable without a meeting of stockholders of the Company in accordance with Section 253 of the DGCL. The top-up option will terminate concurrently with the termination of the merger agreement in accordance with its terms or upon any termination of the offer in accordance with its terms.

Effects of the Merger; Directors and Officers; Certificate of Incorporation; Bylaws

The merger agreement provides that upon the terms and subject to the conditions set forth in the merger agreement, at the effective time of the merger, Merger Sub will be merged with and into the Company in accordance with the provisions of the DGCL. The Company will be the surviving corporation in the merger.

The merger agreement provides that the officers of the Company and the directors of Merger Sub immediately prior to the effective time of the merger will, from and after the effective time of the merger, be the officers and directors of the surviving corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the organizational documents of the surviving corporation.

The merger agreement provides that the certificate of incorporation of the Company will be amended in connection with the completion of the merger so as to read in its entirety as set forth in Exhibit B to the merger

agreement and, as so amended, will be the certificate of incorporation of the surviving corporation and that the bylaws of the Company in effect immediately prior to the effective time of the merger will be the bylaws of the surviving corporation.

Treatment of Common Stock, Options and Other Equity Awards

Common Stock

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger (other than the excluded shares) will be converted into the right to receive an amount in cash equal to the per share merger consideration, in cash, without interest, less any applicable withholding taxes.

Company Stock Options

At the effective time of the merger, each outstanding Company stock option, vested or unvested, will be cancelled for no payment if such option has an exercise price greater than the per share merger consideration and, if such option exercise price is not greater than the per share merger consideration, will only entitle the holder thereof to receive, as soon as reasonably practicable (but in any event no later than three business days after the effective time of the merger), an amount in cash equal to the product of (i) the total number of shares of our common stock subject to the Company stock option immediately prior to the effective time of the merger and (ii) the excess, if any, of the per share merger consideration *over* the exercise price per share of our common stock under such Company stock option, less applicable taxes required to be withheld with respect to such payment.

Company Restricted Stock

At the effective time of the merger, each outstanding share of Company restricted stock, if any, will be converted into the right to receive, as soon as reasonably practicable after the effective time of the merger and no later than the earlier of (i) the second payroll period or (ii) thirty days following the effective time of the merger, an amount in cash, for each share of Company restricted stock, equal to the per share merger consideration, less any applicable withholding taxes required to be withheld with respect to such payment.

Company Phantom Stock Units

At the acceleration time, each outstanding Company phantom stock unit will be cancelled and converted into the right to receive, as soon as reasonably practicable after the acceleration time, but in any event no later than the earlier of (i) the second payroll period or (ii) thirty days following the acceleration time, an amount in cash, for each Company phantom stock unit, equal to the per share merger consideration, less any applicable withholding taxes required to be withheld with respect to such payment.

Company Performance Awards

At the acceleration time, (i) Company performance awards granted in 2009 and 2010 will be payable at 100% of target (as defined in the applicable agreements for such awards), fully vested and settled for a payment of cash, as required by the terms of the agreements governing such Company performance awards and (ii) each outstanding Company performance award granted prior to 2009 will be fully vested and cancelled for no payment in accordance with the terms of the agreements governing such Company performance awards.

Further, at the acceleration time, each outstanding Company stock option, share of Company restricted stock and Company phantom stock unit will fully vest.

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Exchange and Payment Procedures

At the effective time of the merger, Parent will deposit, or will cause to be deposited, with the paying agent a cash amount in immediately available funds necessary for the paying agent to make payment of the aggregate per share merger consideration to the holders of shares of our common stock (other than excluded shares). Parent will make available, or will cause to be made available, any additional amounts necessary to make payments to such stockholders who withdraw or otherwise lose their demand for appraisal rights pursuant to the DGCL. With respect to the deposit of funds for shares of our common stock held by The Depository Trust Company, or DTC, if the closing of the merger occurs at or prior to 11:30 a.m., Eastern time, on the date of the closing of the merger, and if the closing of the merger occurs after 11:30 a.m., Eastern time, on the first business day after the date of the closing of the merger, the paying agent will transmit to DTC an amount in cash in immediately available funds equal to the number of shares of our common stock held of record by DTC immediately prior to the effective time of the merger multiplied by the per share merger consideration.

Promptly, and in any event within two business days, after the date of the effective time of the merger, each record holder of shares of our common stock (other than holders who solely hold the excluded shares) will be sent a letter of transmittal describing how it may exchange its shares of our common stock for the per share merger consideration.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.

You will not be entitled to receive the per share merger consideration until you deliver a duly completed and executed letter of transmittal to the paying agent. If your shares are certificated, you must also surrender your stock certificate or certificates to the paying agent. If ownership of your shares is not registered in the transfer records of the Company, a check for any cash to be delivered will only be issued if the applicable letter of transmittal is accompanied by all documents reasonably required to evidence and effect transfer and to evidence that any applicable stock transfer taxes have been paid or are not applicable.

No interest will be paid or accrued on the cash payable as the per share merger consideration upon your surrender of your certificate or certificates. Parent, the surviving corporation and the paying agent will be entitled to deduct and withhold any applicable taxes from the per share merger consideration. Any sum that is withheld will be deemed to have been paid to the person with regard to whom it is withheld.

From and after the effective time of the merger, there will be no transfers on our stock transfer books of shares of our common stock that were outstanding immediately prior to the effective time of the merger. If, after the effective time of the merger, any person presents to the surviving corporation, Parent or the paying agent any certificate, such certificate will be cancelled and, subject to compliance with the exchange procedures set forth in the merger agreement, exchanged for the cash amount to which such person is entitled pursuant to the merger agreement.

Any portion of the per share merger consideration deposited with the paying agent that remains unclaimed by former record holders of our common stock for 180 days after the effective time of the merger will be delivered to the surviving corporation. Record holders of our common stock (other than the excluded shares) who have not complied with the above-described exchange and payment procedures may thereafter only look to the surviving corporation for payment of the per share merger consideration. None of the surviving corporation, Parent, the paying agent or any other person will be liable to any former record holders of our common stock for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar laws.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the per share merger consideration, you will have to make an affidavit of the loss, theft or destruction, and if required by Parent, post a bond in a customary amount as indemnity against any claim

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that may be made against it or the surviving corporation with respect to such lost, stolen or destroyed certificate. These procedures will be described in the letter of transmittal that you will receive, which you should read carefully in its entirety.

Representations and Warranties

We have made customary representations and warranties in the merger agreement that are subject, in some cases to specified exceptions and qualifications contained in the merger agreement or in the disclosure schedule the Company delivered in connection with the merger agreement. These representations and warranties relate to, among other things:

- due organization, existence, good standing and authority to carry on our businesses;
- our capitalization;
- the absence of encumbrances on our ownership of the equity interests of our subsidiaries;
- our joint ventures in which we have a 5% or greater equity interest;
- except for the rights under the rights agreement, the absence of preemptive or other similar rights or any debt securities that give their holders the right to vote with our stockholders;
- except for the rights agreement, the merger agreement and the support agreement, the absence of stockholder agreements, voting trusts or other agreements or understandings by which we or our subsidiaries are bound relating to the voting or registration of any of our or our subsidiaries equity securities;
- our indebtedness for borrowed money;
- our corporate power and authority to enter into, and consummate the transactions under, the merger agreement, and the enforceability of the merger agreement against us;
- the declaration of advisability of the merger agreement and the offer and the merger by a special committee of the board consisting entirely of independent directors and the board, and the approval of the merger agreement and the offer and the merger by such special committee and by the board;
- the absence of violations of, or conflicts with, our or our subsidiaries governing documents, governmental orders, applicable law and certain agreements as a result of our entering into and performing under the merger agreement;
- governmental consents, approvals, notices and filings necessary to consummate the offer or the merger;
- our regulatory and SEC filings since December 31, 2007 and the financial statements included therein;

compliance with the applicable listing and corporate governance rules and regulations of the NYSE;

compliance with the Foreign Corrupt Practices Act of 1977;

our disclosure controls and procedures and internal controls over financial reporting;

the absence of a Company material adverse effect (as described above) since December 31, 2009;

the conduct of business in the ordinary course consistent with past practice since December 31, 2009;

the absence of legal proceedings, investigations and governmental orders against us or our subsidiaries;

the absence of certain undisclosed liabilities;

employee benefit plans and certain employment and labor matters;

compliance with applicable laws and permits;

the inapplicability of any anti-takeover law to the offer or the merger;

- the approval of Parent and Merger Sub each becoming an interested stockholder within the meaning of Section 203 of the DGCL pursuant to the transactions contemplated by the merger agreement;
- the actions taken by us to render the rights agreement inapplicable to the offer, the continuing offer and the merger;
- environmental matters;
- tax matters;
- intellectual property;
- insurance policies;
- the receipt of fairness opinions from Greenhill and Goldman Sachs;
- the absence of any undisclosed broker s or finder s fees;
- real property;
- material contracts and the absence of any default under any material contract;
- our corporate risk policy with respect to commodities trading and derivative products; and
- regulation as a public utility holding company, public utility or public service company.

Many of our representations and warranties are qualified by, among other things, exceptions relating to the absence of a Company material adverse effect , which means an event, effect, change, circumstance or occurrence that has a material adverse effect on the financial condition, business or results of operations of the Company and its subsidiaries, taken as a whole; provided, that none of the following will constitute or be taken into account in determining whether a Company material adverse effect has occurred or may, would or could occur:

- events, effects, changes, circumstances or occurrences arising out of or resulting from:
  - the execution, announcement or performance of obligations, covenants or agreements required by the prior merger agreement, including any litigation arising from allegations of breach of fiduciary duty or violation of law relating to the prior merger agreement or the transactions contemplated by the prior merger agreement, the merger agreement or the consummation of the transactions contemplated by the merger agreement, including the impact on relationships with customers, suppliers, distributors, partners, employees or regulators, or any litigation arising from allegations of breach of fiduciary duty or

violation of law relating to the merger agreement or the transactions contemplated by the merger agreement;

any action taken by the Company or our subsidiaries that is required by the merger agreement or taken at Parent s written request, or failure to take any action that is prohibited by the merger agreement;

any change resulting or arising from the identity of, or any facts or circumstances relating to, Parent, Merger Sub, or their respective affiliates;

any actions taken by the Company or our subsidiaries that are permitted by the merger agreement to obtain approval or consent from any governmental entity in connection with the consummation of the offer or the merger; or

any impact or effect on the rates that the Company or our subsidiaries may charge for electricity, energy, capacity and/or ancillary services or any other product or service subject to regulation by FERC as a result of the affiliation of the Company or such subsidiary with Parent under applicable law;

to the extent the following events, effects, circumstances, changes or occurrences do not have a disproportionate impact on the Company and its subsidiaries, taken as a whole, relative to other participants in the industries in which the Company and such subsidiaries conduct their businesses (taking into account the relative size of the Company and its subsidiaries and their affected businesses as compared to the other participants in the industries in which the Company and its subsidiaries conduct their business and such participants affected businesses):

changes, events, occurrences or effects generally affecting (1) the economy, credit, financial or capital markets, or political conditions in the United States, including changes in interest and exchange rates or (2) the electric generation industry;

changes in GAAP, regulatory accounting standards or law or in the interpretation or enforcement thereof after December 15, 2010;

an act of terrorism or an outbreak or escalation of hostilities or war (whether or not declared) or any natural disasters (whether or not caused by any person or any *force majeure* event) or any national or international calamity or crisis, other than any of the foregoing involving physical damage or destruction to or rendering physically unusable facilities or properties of the Company or any of our subsidiaries;

changes or developments in national, regional, state or local wholesale or retail markets or prices for electric power, capacity, emissions allowances, natural gas, fuel oil, coal, steel, concrete, water, fuel or the transportation of any of the foregoing, including those due to actions by competitors or due to changes in commodities prices or hedging markets; or

changes or developments in national, regional, state or local electric generating, transmission or distribution systems or natural gas transmission or distribution systems, other than changes or developments involving physical damage or destruction to or rendering physically unusable facilities or properties of the Company or any of our subsidiaries; or

events, effects, circumstances, changes or occurrences arising out of or resulting from:

any change in our credit ratings;

any decline in the market price or change in trading volume of our capital stock; or

any failure to meet any internal or public forecasts, projections or estimates of revenue, earnings, cash flow or cash position, provided, however, that the exceptions provided in the three bullet points immediately above will not prevent or otherwise affect a determination that the underlying cause of the change, decline or failure (if not otherwise falling within any of the other exceptions provided above) has resulted in, or contributed to, a Company material adverse effect.

In the merger agreement, Parent and Merger Sub have made representations and warranties subject to specified exceptions and qualifications contained in the merger agreement to the Company with respect to, among other things:

their due organization, existence, good standing and authority to carry on their businesses;

their corporate power and authority to enter into, and consummate the offer, the merger and the transactions under the merger agreement, and the enforceability of the merger agreement against them;

the absence of violations of, or conflicts with, their governing documents, governmental orders, applicable law and certain agreements as a result of entering into and performing under the merger agreement and completing the offer and the merger;

required governmental consents, approvals, notices and filings;

the absence of legal proceedings, investigations and governmental orders against Parent and Merger Sub;

- sufficiency and availability of funds;
- the capitalization of Merger Sub and the ownership of Merger Sub and Parent;
- the absence of any undisclosed broker s or finder s fees;
- Parent s, Merger Sub s and their affiliates ownership of shares of our capital stock;
- neither Parent nor Merger Sub nor any of their affiliates or associates being, or at any time during the three years preceding the date of the merger agreement having been, an interested stockholder of the Company under Section 203 of the DGCL;
- regulation as a public utility holding company, public utility or public service company;
- the absence of certain agreements or compensation or equity arrangements;
- no competing business;
- Parent s financial statements; and
- acknowledgement as to the absence of any representations and warranties with respect to any estimates, projections, forecasts, forward-looking statements or business plans provided by the Company.

The representations and warranties in the merger agreement of each of the Company, Parent and Merger Sub will not survive the consummation of the merger or the termination of the merger agreement pursuant to its terms.

Conduct of Our Business Pending the Merger

Under the merger agreement, we have agreed that, subject to certain exceptions in the merger agreement and disclosure schedules we delivered in connection with the merger agreement or as required by law, between the date of the merger agreement and the earliest of the acceleration time and the termination of the merger agreement, unless Parent gives its prior written approval (which cannot be unreasonably withheld, delayed or conditioned), we and our subsidiaries will cause our businesses to be conducted in the ordinary course and will use our reasonable best efforts to preserve our business organizations intact and maintain existing relations and goodwill with governmental entities, customers, suppliers, employees and business associates.

Subject to applicable law, certain exceptions set forth in the merger agreement and disclosure schedules we delivered in connection with the merger agreement, we will not, and we will cause our subsidiaries not to, take any of the following actions without Parent s written approval (which cannot be unreasonably withheld, delayed or conditioned):

- amend the certificate of incorporation, bylaws or comparable governing documents;

issue, sell, pledge, transfer or otherwise encumber any equity interests of the Company or our subsidiaries (with customary exceptions and with exceptions for the top-up option and rights agreement);

declare, set aside or pay any dividends or other distributions (other than any dividends from any wholly owned subsidiary of the Company to the Company or to another such subsidiary of the Company and any dividends or distributions issued in accordance with the rights agreement);

split, combine, subdivide or reclassify any of the Company s equity interests;

repurchase, redeem or otherwise acquire any of the Company s equity interests (with certain exceptions, including the exercise of Company stock options and the acquisition of rights in accordance with the rights agreement);

incur any indebtedness, except for (i) advances of credit incurred under the Company s existing credit facilities not to exceed $2.5 million, (ii) letters of credit issued under the Company s credit agreement

(a) in the ordinary course of business consistent with past practices for non-trading activities but not to exceed $25 million, (b) in connection with sales or purchases of derivative products, physical electricity products or fuel commodities for the Company s assets in the ordinary course of business consistent with past practice or (c) to support trading positions in place as of December 15, 2010;

make or authorize capital expenditures in excess of $5 million in the aggregate not (i) already in the Company s business plan, (ii) required by law or (iii) in response to a casualty loss or property damage;

change any material accounting policies or principles;

waive, release, settle or compromise any pending or threatened action, litigation, claim or arbitration or other proceedings before a governmental entity (i) for more than $2.5 million individually or $5 million in the aggregate, (ii) that would entail the incurrence of any liability of the Company in excess of such amount or obligations that would impose any material restrictions on the business or operations of the Company or its subsidiaries or (iii) that is stockholder litigation related to the merger agreement and the transactions contemplated thereby;

acquire interests or assets outside the ordinary course of business consistent with past practice for consideration in excess of $1 million individually or $5 million in the aggregate;

sell, transfer or otherwise dispose of any entity, business, assets, rights or properties of the Company or any of our subsidiaries in excess of $1 million individually, or $5 million in the aggregate;

(i) except to the extent required by written agreements existing on December 15, 2010, grant or announce any stock option, equity or incentive awards or increase the salaries, bonuses or other compensation and benefits payable by the Company or any of its subsidiaries to any employees, officers, directors or individual independent contractors, (ii) except to the extent required by written agreements existing on December 15, 2010, pay any pension, retirement allowance, termination or severance pay, bonus or other employee benefits not required by any existing plan of the Company or take any action to accelerate vesting of any right to compensation or benefits, (iii) except to the extent required by written agreements existing on December 15, 2010, enter into or amend any employment, consulting, bonus, severance, retention, retirement or other similar agreement, (iv) change any actuarial or other assumptions used to calculate funding obligations with respect to any benefit plans or change the manner in which contributions to such plans are made or the basis on which such contributions are determined, (v) change the accrual rate for the Company s short-term incentive plans from the rate reflected in the Company s financial statements, (vi) forgive any loans to directors, officers or employees of the Company or any of its subsidiaries or (vii) adopt, amend or terminate any existing Company plan or benefit arrangement if such action would result in a material cost to the Company or any of its subsidiaries;

adopt or enter into a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries;

merge or consolidate the Company or any of its subsidiaries with and into any other person;

grant any liens other than certain permitted liens and except in connection with certain indebtedness;

hire any employee or individual independent contractor with total expected annual base salary, including commissions, in excess of $100,000, other than to fill vacancies arising in the ordinary course of business at annual base salary levels not in excess of 120% of

prevailing market rates, or without consulting Parent in advance, terminating any such employee or independent contractor;

other than in the ordinary course of business consistent with past practice, make any material tax election, file any material amended tax return, settle or compromise any material tax liability, enter into any closing agreement with respect to any material tax or agree to an extension or waiver of the statute of limitations applicable to the assessment or collection of any material tax;

- except in the ordinary course of business, enter into any material contracts, terminate, materially amend, or waive any material rights or material default under any material contract;
- enter into any contracts with a term extending beyond December 31, 2013 with respect to Dynegy Moss Landing, LLC, Dynegy Morro Bay, LLC, Dynegy Oakland, LLC and Casco Bay Energy Company, LLC;
- fail to maintain in full force and effect material insurance policies covering the Company and our subsidiaries in a form and amount consistent with past practice;
- permit any letters of credit to be issued other than certain letters of credit issued by certain financial institutions under the Company s credit agreement;
- take any action which would reasonably be expected to result in any of the conditions to the offer or the merger not being satisfied or delaying the satisfaction of any such conditions, or that would reasonably be expected to prevent, delay, impair or interfere with Parent s ability to consummate the offer or Parent s, Merger Sub s or our ability to consummate the merger; or
- agree, authorize or commit to do any of the foregoing.

Solicitation of Acquisition Proposals

Except as permitted by the terms of the merger agreement described below, we have agreed in the merger agreement that the board will not withhold, withdraw, qualify or modify (or publicly propose or resolve to do so), in a manner adverse to Parent or Merger Sub, the Company recommendation, or approve or recommend (or publicly propose to do so), an acquisition proposal, or cause or permit the Company to enter into any alternative acquisition agreement relating to any acquisition proposal.

From December 15, 2010 until 11:59 p.m. (Eastern time) on January 24, 2010, which we refer to as the go-shop period, we are permitted to:

- initiate, solicit and encourage any inquiry or the making of acquisition proposals from third parties, including by providing third parties non-public information pursuant to acceptable confidentiality agreements; and
- engage or enter into, continue or otherwise participate in discussions or negotiations with any person with respect to any acquisition proposal.

From and after 12:00 a.m. on January 25, 2011, which we refer to as the no-shop period start date, we are required to immediately cease any discussions or negotiations with any persons that may be ongoing with respect to any acquisition proposals. At any time from and after the no-shop period start date and until the earlier of the effective time of the merger or the termination of the merger agreement, we, our subsidiaries and our representatives may not:

- initiate, solicit or knowingly facilitate or encourage any inquiry or the making of any proposal or offer with respect to or that constitutes an acquisition proposal;

engage in, enter into continue or otherwise participate in discussions or negotiations with any person with respect to any acquisition proposal;

provide any non-public information concerning the Company to any person relating to any acquisition proposal;

enter into any agreement or agreement in principle with respect to any acquisition proposal; or

otherwise knowingly facilitate any effort or attempt to make an acquisition proposal.

However, at any time from and after the no-shop period start date and prior to the earlier of the completion of the offer and the time our stockholders adopt the merger agreement, if the Company receives a written acquisition proposal from any person that did not result from a material breach of the preceding paragraph:

- we may contact such person to clarify the terms and conditions of such proposal;
- we may engage in discussions or negotiations with such person, and furnish to such third party requested non-public information concerning the Company and its subsidiaries pursuant to an acceptable confidentiality agreement, if our board or any committee thereof (x) prior to taking any such actions, determines in good faith after consultation with outside legal counsel that failure to take such action could be inconsistent with the directors fiduciary duties, and (y) determines in good faith after consultation with its financial advisor that such acquisition proposal either constitutes a superior proposal or could reasonably be expected to result in a superior proposal; and
- our board or any committee thereof may authorize, approve, adopt, recommend or otherwise declare advisable an acquisition proposal or propose to do any of the foregoing (publicly or otherwise), if (i) the board determines in good faith (after consultation with its financial advisor) that such acquisition proposal is a superior proposal, and (ii) the Company has complied with its obligations in relation to a change of recommendation in connection with a superior proposal as described below.

At any time before the earlier of the date the merger agreement is adopted by our stockholders and the date the offer is consummated, we may terminate the merger agreement and enter into an alternative acquisition agreement with respect to a superior proposal, so long as we comply with certain terms of the merger agreement, including paying a termination fee to Parent. (See Termination Fees beginning on page [ ].) In addition, at any time prior to the earlier of the date the merger agreement is adopted by the stockholders and the date the offer is completed, the board or any committee thereof may effect a change of recommendation if it determines in good faith, after consultation with outside counsel, that the failure to do so could be inconsistent with its fiduciary obligations under applicable law. However, prior to effecting a change of recommendation in connection with a superior proposal or terminating the merger agreement in order to enter into an alternative acquisition agreement with respect to a superior proposal:

- we must notify Parent at least 48 hours in advance of our intention to effect a change of recommendation in respect of a superior proposal or to terminate the merger agreement in respect of a superior proposal, specifying the identity of the person making such superior proposal and the material terms of such superior proposal and attaching the most current version of the applicable agreement relating to that superior proposal;
- after providing such notice and prior to taking any such action, we must negotiate with Parent in good faith (to the extent Parent desires to negotiate) during such 48-hour period to make revisions to the terms of the merger agreement as would permit the board not to take any such action with respect to such a superior proposal; and
- the board must have considered in good faith any changes to the merger agreement, offered in writing by Parent in a manner that would form a contract if accepted by the Company and must have determined that the superior proposal would still constitute a superior proposal if such changes were given effect.

Nothing in the provisions of the merger agreement relating to acquisition proposals prevents us from complying with our disclosure obligations under U.S. federal or state law with regard to an acquisition proposal, including taking and disclosing to our stockholders a position contemplated by Rules 14d-9 and 14e-2(a) under the Exchange Act or making any similar communication to our stockholders, or making any stop-look-and-listen or similar communication of the type contemplated by Rule 14d-9(f) under the Exchange Act to our stockholders; provided, that any such disclosure (including a stop, look and listen communication or similar communication of the type contemplated by Rule 14d-9(f) under the Exchange Act) will be deemed to be a change of the Company recommendation unless the board expressly reaffirms its recommendation at least two

business days prior to the earlier of the expiration date (if the offer has not been terminated) and the date of the stockholders meeting. In addition, the Company will not be permitted to recommend that its stockholders tender any securities in connection with any tender or exchange offer (or otherwise approve, endorse or recommend any acquisition proposal), unless in each case, in connection therewith, the board or any committee thereof effects a change of recommendation.

In this proxy statement, references to an acquisition proposal mean (i) any proposal or offer with respect to a merger, consolidation, business combination or similar transaction involving the Company or any of our significant subsidiaries or (ii) any acquisition by any person or group of persons resulting in, or proposal or offer to acquire by tender offer, share exchange or in any manner which if consummated would result in, any person or group of persons becoming the beneficial owner of, directly or indirectly, in one or a series of related transactions, (A) more than 20% of the outstanding shares or of the total voting power of the equity securities of the Company, (B) assets that during the most recently completed 12 month period for which financial information is available generated more than 20% of the consolidated total revenues of the Company and our subsidiaries, taken as a whole, or (C) assets constituting more than 20% of consolidated total assets, measured either by book value or fair market value (including, equity securities of our subsidiaries), of the Company and our subsidiaries, taken as a whole, other than the transactions contemplated in the merger agreement

In this proxy statement, references to a superior proposal mean any acquisition proposal (with the percentages set forth in the definition of such term changed from 20% to 50%) that the board has determined in its good faith judgment (i) is reasonably likely to be consummated in accordance with its terms, taking into account all material legal, regulatory and financial aspects of the proposal (including the financing thereof) and the person making the proposal (including the determination that the person making the proposal has available to it or can reasonably be expected to be able to obtain funds on customary terms and that are sufficient to consummate the acquisition proposal) and (ii) if consummated, would result in a transaction more favorable to our stockholders from a financial point of view than the transactions contemplated by the merger agreement (including any stockholders, if any, who would remain our stockholders following completion of the transactions contemplated by such acquisition proposal).

Action by Written Consent

Following the completion of the offer, when Parent, Merger Sub and its affiliates collectively own at least a majority of the outstanding shares of our common stock, Parent may notify us that Parent, Merger Sub and their affiliates elect to adopt the merger agreement by executing an action by written consent, which we refer to as the stockholder consent, as the holders of a majority of the outstanding shares of our common stock pursuant to the DGCL, and direct us to, in accordance with and subject to the requirements of applicable law:

- as promptly as practicable, duly set a record date for an action by written consent of the stockholders of the Company for the purpose of adopting the merger agreement;

- as promptly as practicable after the execution and delivery of the stockholder consent, file an information statement relating to such consent with the SEC in preliminary form and cause such information statement to be printed and mailed to the stockholders as promptly as practicable after the date the SEC staff advises that it has no further comments thereon or that the Company may commence mailing such information statement; and

- as promptly as practicable after we are legally permitted to do so, complete the actions approved in the stockholder consent.

Stockholders Meeting

If adoption of the merger agreement by the stockholders is required under applicable law and Parent has not notified us of its intention to proceed by stockholder consent as described above, we have the right after February 8, 2011 to take (and Parent and Merger Sub have the right after the later of February 8, 2011 and the

date that all of the conditions in the merger agreement relating to the HSR Act and other regulatory approvals are satisfied or waived, to request in writing that we, and upon receipt of such written request, we shall as promptly as practicable take) action necessary to duly call, give notice of, convene and hold a meeting of holders of shares of our common stock as promptly as practicable after the date of mailing of the applicable proxy statement, to consider and vote upon the adoption of the merger agreement.

Short Form Merger

If following the consummation of the offer and the exercise, if any, of the top-up option, Parent and Merger Sub and their affiliates hold of record, in the aggregate, at least 90% of the outstanding shares, the parties to the merger agreement will take all necessary and appropriate action to cause the merger to become effective as soon as possible after the consummation of the offer without a stockholders meeting in accordance with the DGCL.

Filings; Other Actions; Notification

We and Parent will cooperate with each other and use (and cause our respective affiliates to use) our respective reasonable best efforts to take or cause to be taken all actions and do or cause to be done all things reasonably necessary, proper or advisable to satisfy the conditions to closing described under The Merger Conditions to the Merger beginning on page [ ] and to consummate the transactions contemplated by the merger agreement as soon as practicable, including preparing and filing as promptly as practicable the regulatory filings described under The Merger Regulatory Approvals beginning on page [ ] and to obtain as promptly as practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party or any governmental entity in order to consummate the transactions contemplated by the merger agreement.

We and Parent have agreed, subject to certain exceptions, to:

- furnish the other, upon request, with all information concerning itself, its affiliates, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with any statement, filing, notice or application made by or on behalf of Parent, the Company or their respective affiliates in connection with the transactions contemplated by the merger agreement;

- keep the other reasonably apprised of the status of matters relating to completion of the transactions contemplated in the merger agreement, and neither the Company nor Parent will permit any of its affiliates, officers or any other representatives to participate in any meeting with any governmental entity in respect of any filing, investigation or other inquiry with respect to the transactions contemplated by the merger agreement unless it consults with the other party in advance and, to the extent permitted by that governmental entity, gives the other party the opportunity to attend and participate;

- promptly provide each federal, state, local or foreign court or governmental entity with jurisdiction over any required governmental approval any non-privileged information and documents that they reasonably request or that are necessary, proper or advisable to permit completion of the transactions contemplated by the merger agreement;

- use reasonable best efforts to obtain promptly all required governmental approvals with respect to the transactions contemplated by the merger agreement and avoid the entry or enactment of any permanent, preliminary or temporary injunction or other order, decree, decision, determination, judgment, investigation or law that would delay in any material respect, restrain, prevent, enjoin or otherwise prohibit completion of the transactions contemplated by the merger agreement, including the proffer and agreement by Parent of its willingness to sell or otherwise dispose of, or hold separate pending such disposition, and promptly to effect the sale, disposal and holding separate of, such assets, categories of assets or businesses or other segments of us or Parent or our respective subsidiaries or affiliates if such action is reasonably necessary or advisable to avoid, prevent, eliminate or remove the actual, anticipated, or threatened commencement of any investigation or proceeding in any forum or

issuance or enactment of any order, decree, decision, determination, judgment or law that would delay in any material respect, restrain, prevent, enjoin or otherwise prohibit consummation of the transactions contemplated by the merger agreement by any governmental entity; and

if any injunction, decision, order, judgment, determination, decree or law is entered, issued or enacted or becomes reasonably foreseeable to be entered, issued or enacted in any proceeding, review or inquiry that would make completion of the transactions contemplated by the merger agreement in accordance with the terms of the merger agreement unlawful or that would delay, restrain, prevent, enjoin or otherwise prohibit consummation of the transactions contemplated by the merger agreement, use reasonable best efforts to take all steps necessary to resist, vacate, modify, reverse, suspend, prevent, eliminate, avoid or remove such actual, anticipated or threatened injunction, decision, order, judgment, determination, decree or enactment so as to permit the completion on a schedule as close as possible to that contemplated by the merger agreement.

Parent has also agreed to refrain from entering into any agreement, arrangement or other understanding to acquire any assets or properties that would reasonably be expected to prevent or materially delay the receipt of all governmental approvals required to consummate the transactions contemplated by the merger agreement. Parent has also agreed to refrain, and to not permit any of its affiliates (used as defined in the FPA and the regulations of FERC promulgated thereunder) to acquire any securities of any other person or any assets or any other such business would be reasonably expected to materially impede the ability of Parent and Merger Sub to consummate the transactions contemplated by the merger agreement.

Company Cooperation with Refinancing

Prior to the closing of the merger, we will use our reasonable efforts, at Parent s sole expense, to assist parent in refinancing all or any portion of the indebtedness of the Company existing on the date of the merger agreement. No such refinancing is a condition to the offer or the merger. Parent will indemnify and hold harmless the Company, its subsidiaries and its representatives in connection therewith.

Company Financing

Parent has agreed that from and after the consummation of the offer, it will provide or cause to be provided sufficient funding, in an amount up to $1.0 billion in the aggregate, to the Company and its subsidiaries to (a) permit them to operate their respective business and operations in the ordinary course of business consistent with past practice and (b) to the extent requested by the Company, to repay any outstanding indebtedness of the Company and its subsidiaries that is due and payable in connection with the consummation of the offer.

Employee Benefit Matters

Parent has agreed for the sole benefit of the Company that it will, and will cause the surviving corporation after the completion of the merger to:

from the acceleration time until the first anniversary of the effective time of the merger, provide our employees and the employees of our subsidiaries (in each case, other than those subject to collective bargaining agreements) who continue employment with Parent, the surviving corporation or any subsidiary of the surviving corporation, which we refer to as affected employees, with total annual cash compensation opportunities and benefits that, taken together, are substantially comparable in the aggregate to those total annual cash compensation opportunities and benefits provided by the Company and its subsidiaries immediately prior to the acceleration time;

following the acceleration time, comply with the provisions of each of our change in control severance plans;

cause any employee benefit plan in which affected employees are entitled to participate to credit all service by such employees for purposes of eligibility, vesting and benefit accrual (other than for benefit

accruals under defined benefit pension plans) to the extent such service was credited under one of our comparable employee benefit plans;

cause any welfare benefit plan in which affected employees are entitled to participate to (i) waive any pre-existing condition limitations, exclusions or waiting period requirements to the extent such limitations, exclusions and waiting periods were satisfied or inapplicable under our comparable plans or the comparable plans of our subsidiaries and (ii) give credit for amounts paid by such affected employees for any co-payments, deductibles and other out-of-pocket expenses prior to the effective time of the merger under the terms of any corresponding Company plan in satisfying any applicable co-payment, deductible or out-of-pocket requirements for the plan year in which the effective time of the merger occurs under any welfare benefit plan in which the affected employee participates on and after the effective time of the merger;

honor obligations with the unions representing bargaining unit employees of the Company or its affiliates, including all contractual obligations under applicable collective bargaining agreements (subject to future bargaining between the unions and the Company or the Company s affiliates); and

for all employees who continue employment with us or our subsidiaries, Parent, the surviving corporation or any of their subsidiaries through the earlier of March 15, 2011 and the date on which the Company otherwise pays annual bonuses and incentive payments in the ordinary course of business, pay bonuses and incentive payments to such employees on such earlier date in accordance with the Company s short-term incentive plan and historical past practices; provided, that Parent will ensure that the aggregate annual bonuses and incentive payments made to all such employees, measured as a group, in respect of the 2010 calendar year are no less than the aggregate amount accrued therefor as of December 31, 2010 for such employees.

Conditions to the Merger

The respective obligations of the Company, Parent and Merger Sub to effect the merger are subject to the satisfaction or waiver of the following conditions:

if required by applicable law, the merger agreement must have been duly adopted by holders of a majority of the issued and outstanding shares of common stock entitled to vote thereon in accordance with applicable law and the certificate of incorporation and bylaws of the Company;

no order (whether temporary, preliminary or permanent) by any governmental entity of competent jurisdiction prohibiting, restraining, enjoining or rendering illegal the consummation of the merger has been issued and is in effect, and the consummation of the merger and the other transactions contemplated by the merger agreement are not prohibited or illegal under any applicable law; and

unless the offer shall have terminated, Parent has accepted for payment shares validly tendered and not validly withdrawn pursuant to the offer.

Solely to the extent the offer has not been terminated, the obligations of Parent and Merger Sub to effect the merger are also subject to the satisfaction or waiver by Parent at and/or prior to the effective time of the merger of the following conditions:

our representations and warranties regarding:

our capitalization, our corporate power and authority, our approval of the merger agreement and the rights agreement must be true and correct in all respects, subject to such inaccuracies with regard to capitalization as are *de minimis* relative to that

section as a whole;

the absence of a Company material adverse effect (as described below) must be true and correct; and

our other representations and warranties set forth in the merger agreement, and disregarding all qualifications and exceptions relating to materiality or Company material adverse effect, must be

true and correct except where the failure to be true and correct would not reasonably be expected to have, individually or in the aggregate, a Company material adverse effect;

the Company has performed in all material respects its obligations under the merger agreement at or prior to the date of the closing of the merger;

the Company has delivered to Parent a certificate signed by a senior executive officer of the Company certifying that all of the above conditions with respect to the representations and warranties and performance of the obligations of the Company have been satisfied; and

the waiting period applicable to the consummation of the merger under the HSR Act has terminated or has expired, the approval of FERC under Section 203 of the FPA has been received, and the approval, or a determination that no approval is required, of the NYPSC pursuant to the New York Public Service Law has been received.

Solely to the extent the offer shall not have been completed, our obligation to effect the merger is subject to the satisfaction or waiver by us at or prior to the effective time of the merger of the following conditions:

the representations and warranties of Parent set forth in the merger agreement must be true and correct in all material respects, except where the failure of such representations and warranties to be so true and correct does not materially and adversely affect the ability of Parent or Merger Sub to consummate the merger and the other transactions contemplated by the merger agreement;

each of Parent and Merger Sub has performed in all material respects its obligations under the merger agreement at or prior to the date of the closing of the merger;

Parent has delivered to the Company a certificate signed by a senior executive officer of Parent certifying that all of the above conditions with respect to the representations and warranties and performance of the obligations of Parent and Merger Sub have been satisfied; and

the waiting period applicable to the consummation of the merger under the HSR Act has terminated or has expired, the approval of FERC under Section 203 of the FPA has been received, and the approval, or a determination that no approval is required, of the NYPSC pursuant to the New York Public Service Law has been received.

Termination

We and Parent may, by mutual written consent, terminate the merger agreement and abandon the merger and the offer at any time prior to the effective time of the merger, whether before or after the adoption of the merger agreement by our stockholders.

The merger agreement may also be terminated and the offer and the merger abandoned as follows:

by either Parent or the Company at any time prior to the effective time of the merger, if:

subject to certain limitations, the merger has not been consummated by the termination date, provided, that if on the termination date any of the conditions to closing of the merger are not fulfilled or waived but remain capable of being satisfied, then either of Parent or the Company may extend the termination date from February 28, 2011 to April 30, 2011 unless the offer has been consummated by the termination date, in which case no such termination right is available;

our stockholders meeting has been held and completed and our stockholders have not adopted the merger agreement at such meeting or any adjournment or postponement of such meeting, unless the offer has been consummated, in which case no such termination right is available; or

an order permanently restraining, enjoining or otherwise prohibiting or making illegal the consummation of the offer or the merger has become final and non-appealable.

However, none of the termination rights described in the preceding three bullet points will be available to any party whose failure to fulfill any obligation or other breach under the merger agreement has been the primary cause of, or the primary factor that resulted in, the failure of any condition to the offer or a condition to the consummation of the merger to have been satisfied on or before the termination date.

- by the Company, if:

  - at any time prior to the earlier of the completion of the offer and the time that the Company s stockholders adopt the merger agreement, (i) the board authorizes the Company, subject to complying with the terms of the merger agreement described under Solicitation of Acquisition Proposals beginning on page [ ], to enter into an alternative acquisition agreement with respect to a superior proposal, (ii) immediately prior to or concurrently with the termination of the merger agreement we enter into an alternative acquisition agreement with respect to a superior proposal and (iii) immediately prior to or concurrently with such termination, we pay Parent or its designee the termination fee discussed under The Merger Agreement Termination Fees beginning on page [ ];

  - there has been a breach of a representation, warranty, covenant or agreement made by Parent or Merger Sub in the merger agreement or any such representation and warranty becomes untrue after the date of the merger agreement, which inaccuracy or breach would give rise to the failure of the condition to the closing of the merger relating to the accuracy of the representations and warranties of Parent or compliance by Parent and Merger Sub with their obligations under the merger agreement, and such breach or inaccuracy cannot be cured, or if curable, is not cured prior to the earlier of (i) 30 calendar days after written notice is given by us to Parent and (ii) two business days prior to the termination date (provided, that we will not have this right to terminate if we are then in material breach of the merger agreement and do not cure such breach within 10 days of notice of such breach from Parent);

  - (a) all of the conditions of the offer have been satisfied or waived before the expiration date of the offer and Parent fails to consummate the offer promptly thereafter or (b) (x) the offer has been terminated in accordance with its terms, (y) the conditions to the obligations of Parent and Merger Sub to consummate the merger have been satisfied (other than those conditions that by their nature cannot be satisfied other than at the closing of the merger) and (z) Parent and Merger Sub fail to consummate the merger within the earlier of (i) two business days following the date on which the completion of the merger should have occurred under the merger agreement and (ii) one business day before the termination date, and we stood ready, willing and able to consummate the merger during such period; or

  - Parent terminates or makes any change to the offer in violation of the terms of the merger agreement in any material respect.

- by Parent, if:

  - the board (i) withholds, withdraws, qualifies or modifies its recommendation to our stockholders to tender their shares into the offer and to approve the proposal to adopt the merger agreement, which we refer to as the Company recommendation, or approves or recommends any acquisition proposal, which we refer to collectively as a change of recommendation or (ii) fails to include the Company recommendation in its proxy statement or on the Schedule 14D-9 relating to the offer;

  - there has been a breach of a representation, warranty, covenant or agreement made by the Company in the merger agreement or any such representation and warranty becomes untrue after the date of the merger agreement, which breach or inaccuracy would give rise to the failure of the condition to closing of the merger (if the offer has been terminated) or the conditions to the offer (if the offer has not been terminated), in each case, relating to the accuracy of the representations and warranties of the Company or compliance by it with its obligations under the merger agreement, and such breach or inaccuracy cannot be cured, or if curable, is not cured prior to the earlier of (i) 30 calendar days after written notice is given to us by Parent and

(ii) two business

days prior to the termination date (provided, that Parent will not have this right to terminate if it is then in material breach of the merger agreement and does not cure such breach within 10 days of notice of such breach from the Company), which we refer to as a Company breach termination event;

if a written environmental report prepared by a reputable, nationally recognized environmental consulting firm selected by Parent and reasonably acceptable to the Company concludes that the Company is subject to an obligation to comply with environmental laws as in effect and interpreted on the date of the merger agreement that will result in the Company incurring environmental capital expenditures between January 1, 2011 and December 31, 2013 plus environmental liabilities as accrued on the Company s September 30, 2010 balance sheet included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, such that individually or in the aggregate, such costs are more than $250 million in excess of the $395 million currently projected by the Company, and Parent shall have provided written notice to the Company of such determination on or before January 17, 2011, which we refer to as the environmental liability termination; or

if the aggregate Pension Benefit Guaranty Corporation termination liability as of December 31, 2010 for the Company s Title IV benefit plans as determined in accordance with Section 4044 of ERISA, and related regulations and certain assumptions set forth in Company disclosure letter delivered in connection with the merger agreement, less the aggregate fair market value of the assets in the trusts for the Company s Title IV benefit plans as of November 30, 2010, exceeds $250 million, and Parent has delivered written notice of such termination to the Company on or prior to January 17, 2011, which we refer to as the pension liability termination.

Termination of the Offer

The merger agreement provides that if the merger agreement is terminated:

by the Company in connection with a subsequent transaction (as discussed below under Parent Ownership and Vote beginning on page [ ]);

by mutual consent of the parties;

by the Company in connection with a breach of the representations, warranties or covenants under the merger agreement by Parent or Merger Sub;

by the Company in connection with the failure of Parent to promptly consummate the offer following the satisfaction of the conditions to the offer;

by the Company in connection with a termination or change to the offer by Parent in violation of the terms of the merger agreement in any material respect;

by Parent in connection with an environmental liability termination; or

by Parent in connection with a pension liability termination (we refer to any of the foregoing as a tender termination);

then Parent will, within one business day of that termination, terminate the offer. If the merger agreement has been adopted by the holders of a majority of the issued and outstanding shares of our common stock, then Parent will, within one business day of that termination, terminate the offer.

If the merger agreement is terminated pursuant to a tender termination prior to the purchase of shares in the offer, Parent will promptly return all tendered shares to the holders. If the offer is terminated as described above in connection with the adoption of the merger agreement, the parties will go forward with the merger subject to the terms and conditions of the merger agreement.

Continuing Offer

Unless the merger agreement (and as a result, the offer) is terminated pursuant to a tender termination, Parent will not be required to terminate the offer if:

- the offer has not been terminated prior to the date of termination of the merger agreement;
- the offer, as it may be extended, does not have an expiration date later than September 15, 2011;
- the only conditions to the obligations of Parent to accept for payment shares validly tendered and not withdrawn pursuant to the offer are (i) that the number of the outstanding shares that have been validly tendered and not properly withdrawn, together with any shares then owned by Parent, its subsidiaries and the support parties, equals at least a majority of the outstanding shares as of the expiration of the offer, (ii) the expiration or termination of applicable waiting periods under the HSR Act, the approval of FERC under Section 203 of the FPA and the approval, or a determination that no approval is required, of the NYPSC under the New York Public Service Law and (iii) the absence of an order by a governmental entity restraining the completion of such continuing offer (and Parent will not waive or amend the condition described in clause (i) in respect of such continuing offer or impose additional conditions);
- Parent provides the Company with an irrevocable commitment to comply with certain provisions of the definition of qualifying offer as defined in the rights agreement; and
- Parent has available to it sufficient funds to pay the aggregate offer price and other consideration required to be paid to satisfy its obligations under the preceding fourth bullet.

The board has no obligation to recommend that Company stockholders tender their shares in the continuing offer and can recommend against it.

Termination Fees

We are required to pay Parent a termination fee equal to $16.3 million, less expenses paid to Merger Sub or its designee in respect of certain expenses incurred by Parent, Merger Sub and their respective affiliates under the merger agreement as described below, if:

- before adoption of the merger agreement by our stockholders, the merger agreement is terminated as a result of the termination provisions described above relating to the failure of the merger to be consummated on or prior to the termination date or the failure of the stockholders to adopt the merger agreement at the stockholders meeting and, in either case, within 18 months of such termination the Company consummates an acquisition proposal (changing the references to 20% in the definition of acquisition proposal to 50%) with consideration to be paid to the stockholders (cash or otherwise) having an aggregate value of more than the $5.50 per share;
- Parent terminates the merger agreement due to the board having (i) made and not withdrawn a change of recommendation, (ii) approved or recommended to the Company stockholders an acquisition proposal or (iii) failed to include the Company recommendation in the proxy statement or the Schedule 14D-9 or if Parent or the Company otherwise terminates the merger agreement at a time when Parent had the right to terminate the merger agreement for one of the reasons described in this paragraph;
- the merger agreement is terminated by the Company in connection with the Company s entry into an alternative acquisition agreement with respect to a superior proposal; or

before adoption of the merger agreement by the Company stockholders, the merger agreement is terminated as a result of termination provisions described above relating to the failure of the merger to be consummated on or prior to the termination date or the failure of the stockholders to adopt the merger agreement at the stockholders meeting and, in either case, any person has made or publicly

announced a bona fide acquisition proposal after the date of the merger agreement but prior to such termination, and such acquisition proposal shall not have been publicly withdrawn without qualification in a manner that would reasonably be expected to adversely affect the receipt of the vote of the stockholders to adopt the merger agreement in any material respect at least 10 calendar days prior to, with respect to a termination in respect of the termination date described above, the date of termination, or at least five business days prior to, with respect to a termination in respect of the failure of the stockholders to adopt the merger agreement described above, the date of the meeting of the Company stockholders at which stockholder adoption of the merger agreement is to be considered and within 18 months of such termination the Company consummates an acquisition proposal (whether or not it is the same acquisition proposal that was so made or publicly announced) (changing the references to 20% in the definition of acquisition proposal to 50%).

The Company must also pay Merger Sub or its designee in respect of expenses incurred by Parent, Merger Sub and their respective affiliates in connection with the merger agreement and the transactions contemplated by the merger agreement and as consideration for entering into the merger agreement an amount equal to $5 million if the merger agreement is terminated because either (x) the stockholders do not adopt the merger agreement or (y) Parent terminates the merger agreement pursuant to a Company breach termination event.

Expenses

The surviving corporation will pay all charges and expenses, including those of the paying agent, in connection with the exchange and payment procedures and payment for the shares. Except as describe above under Termination Fees beginning on page [ ], whether or not the offer or the merger is consummated, subject to certain exceptions, all other costs and expenses incurred in connection with the merger agreement and the offer or the merger and the other transactions contemplated by the merger agreement will be paid by the party incurring such expense.

Remedies

The parties are entitled to an injunction, specific performance and other equitable relief to prevent breaches of the merger agreement and to enforce specifically the terms of the merger agreement in addition to any other remedy to which they are entitled at law or in equity. Without limitation of the foregoing, prior to the consummation of the merger, the Company shall be entitled to specific performance to prevent or cure breaches of the merger agreement by Parent or Merger Sub and/or to enforce specifically the terms and provisions of the merger agreement, including to cause Parent and/or Merger Sub to consummate the transactions contemplated by the merger agreement, including to consummate the offer and/or to effect the closing of the merger.

Indemnification; Directors and Officers Insurance

From and after the acceleration time, the surviving corporation will indemnify and hold harmless (and Parent will advance expenses to) our and our subsidiaries present and former officers and directors against any costs, expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, arising out of or related to such officer s or director s service as a director or officer of the Company or its subsidiaries (or services performed at our or our subsidiaries request) at or prior to the effective time of the merger, if such indemnified party acted in good faith and in a manner such indemnified party reasonably believed to be in or not opposed to the best interest of the Company or its subsidiaries and, with respect to any criminal proceeding, such indemnified party had no reasonable cause to believe such indemnified party s conduct was unlawful (including in connection with the merger agreement or the transactions contemplated thereby and actions to enforce such indemnification or advancement rights) to the fullest extent permitted by law.

We are required to (and if we are unable to do so, Parent will cause the surviving corporation to) obtain a six-year tail insurance policy with respect to the currently existing officers and directors liability insurance

policy and fiduciary liability insurance policy. Such policy must be obtained from an insurance carrier with the same or better credit rating as our insurance carrier as of the date of the merger agreement with respect to directors and officers liability insurance and fiduciary liability insurance and must have terms, conditions, retentions and limits of liability that are at least as favorable to the insureds as our existing policies with respect to any matter claimed against our and our subsidiaries present and former officers and directors serving in such capacity that existed or occurred at or prior to the effective time of the merger. This obligation is subject to a cap of 300% of the annual premium amount we are currently paying for such insurance. However, prior to our obtaining and paying for such insurance policies, we have agreed to consult with Parent regarding obtaining such policies from an insurer with a claims rating at least equal to that of our current provider of such insurance and we have agreed to permit Parent s insurance advisor to participate in the process of negotiating such insurance. We have agreed to provide five business days prior notice to Parent before purchasing any such insurance and, if Parent s insurance advisor can provide the Company comparable but less expensive insurance, the Company will acquire such less expensive insurance.

If we or the surviving corporation fail to purchase such policies, then Parent has agreed to cause the surviving corporation to continue to maintain the current policies in place or to use reasonable best efforts to purchase comparable policies, in each case, for the six-year period following the effective time of the merger. Parent s or the surviving corporation s obligation to provide this insurance will be capped at 300% of the annual premium amount we are currently paying for such insurance. If the annual premium amount for such coverage exceeds the cap, the surviving corporation must obtain a policy with the greatest coverage available for a cost not exceeding the amount of the cap.

Following the effective time of the merger, the present and former directors and officers of the Company will have the right to enforce the provisions of the merger agreement relating to their indemnification.

Access to the Company

Subject to certain exceptions and applicable law, we will afford Parent and its authorized representatives reasonable access to the Company and will furnish Parent information concerning our business, properties, facilities, operations and personnel as may reasonably be requested.

Modification or Amendment

The parties to the merger agreement may modify or amend the merger agreement by written agreement executed and delivered by duly authorized officers of the respective parties. After the consummation of the offer but prior to the effective time, the merger agreement may not be amended in a manner that would adversely affect the rights of our stockholders to receive the per share merger consideration. If such amendment or waiver is made after the holders of a majority of the outstanding shares of common stock have voted in favor of adoption of the merger agreement, and applicable law or the rules and regulations of NYSE require further approval of our stockholders, the effectiveness of such amendment or waiver shall be subject to the approval of the holders of a majority of the issued and outstanding common stock.

Stockholder Litigation

In the event that any stockholder litigation related to the merger agreement, the offer, the merger or the other transactions contemplated by the merger agreement is brought, or, to the knowledge of the Company, threatened in writing, against the Company and/or the members of the board prior to the effective time of the merger, the Company will promptly notify Parent and will keep Parent reasonably informed with respect to the status thereof. The Company will reasonably consult with Parent with respect to the defense or settlement of any stockholder litigation against the Company and/or its directors relating to the transactions contemplated by the offer or the merger agreement, and no settlement of such litigation will be agreed to without Parent s prior written consent, in its sole discretion.

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Parent Ownership and Vote

Under the merger agreement, Parent has agreed that from the date of the merger agreement until the voting termination date (as defined below), neither Parent nor any of the support parties will directly or indirectly (i) sell, assign, transfer, tender, pledge or encumber or otherwise dispose of any shares beneficially owned by them as of the date of the merger agreement to a third party, (ii) deposit any such shares into a voting trust or enter into a voting agreement or arrangement with respect to such shares or, subject to the following paragraph, grant any proxy, written consent or power of attorney with respect to such shares that is inconsistent with the terms of the merger agreement, (iii) enter into any contract, option or other arrangement or undertaking with respect to the transfer of such shares to a third party or (iv) transfer, acquire or agree, offer, seek or propose to acquire any shares, or equity interests, debt securities, notes or indebtedness of the Company or one of its subsidiaries or other right to acquire such ownership, including through any swap agreement or other security, contract rights or derivative position at a price related to the value of the shares or such equity interests or at a value determined with reference to or derived from the value of the shares or such equity interests or that provides to the holder an opportunity to profit from any increase in the value of the shares or such equity interests of the Company or any of its subsidiaries.

In addition, during the same period, Parent agreed to, and agreed to cause the support parties to, vote, consent or tender shares of our common stock (a) in favor of the adoption of the merger agreement at any meeting of our stockholders and at all adjournments and postponements of such meeting and (b) if the merger agreement is terminated in connection with a superior proposal (as defined in Solicitation of Acquisition Proposals beginning on page [ ]), in favor of the adoption of the agreement relating to that superior proposal and/or into any tender offer contemplated thereby, but if and only if that superior proposal meets the following requirements (we refer to a superior proposal that meets such requirements as a subsequent transaction):

- the superior proposal is an all-cash offer for all outstanding shares;
- the superior proposal requires the person making the superior proposal to pay a termination fee of at least $100 million to the Company in circumstances no less favorable than those applicable to the payment of the termination fee by Denali Parent in the prior merger agreement;
- the superior proposal is:
  - from a person who has a positive net worth of $1.2 billion and has unencumbered cash, cash equivalents and readily marketable securities in an amount equal to or greater than the purchase price set forth in the superior proposal; or
  - supported by a guarantee of the termination fee described above by a parent, general partner or manager entity who satisfies the net worth and unencumbered asset tests described above, or supported by the deposit of the amount of the termination fee described above into an escrow account pursuant to an escrow agreement on terms acceptable to Parent;
- the superior proposal contains conditions to the obligations of the person making the superior proposal to consummate the superior proposal that are no more favorable to such person than the conditions to the obligations of Parent to effect the transactions contemplated by the merger agreement; and
- the superior proposal includes a release by the proposing person and its affiliates of all rights and claims available under Section 16(b) of the Exchange Act arising out of such superior proposal against Parent, Merger Sub and any of their affiliates, and an agreement to return any payments related to such rights and claims paid notwithstanding the foregoing release.

Parent and the support parties also agreed, until the earlier of the acceleration time and the termination of the merger agreement, to vote against any proposal made by a Company stockholder (whether or not such proposal is included in the Company s proxy statement or consent statement) to be considered and voted upon at a meeting our stockholders or any other action sought to be taken by a Company stockholder in lieu of such a meeting if such vote is recommended by the board.

Parent and its affiliates also agreed not to exercise any appraisal rights in connection with the offer, the merger or a subsequent transaction.

The voting termination date means the earliest to occur of the following: (i) the effective time of the merger, (ii) the date of the termination of the merger agreement other than in connection with a subsequent transaction or (iii) if the merger agreement is terminated in connection with a subsequent transaction, the first to occur of the date that the transactions contemplated by the alternative acquisition agreement in respect of such subsequent transaction are consummated, such alternative acquisition agreement is terminated, or the board withholds, withdraws, modifies or qualifies its recommendation of such subsequent transaction.

The support parties have agreed in the support agreement to comply with the obligations applicable to Parent and its affiliates in the merger agreement described in this Parent Ownership and Vote .

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MARKET PRICE OF THE SHARES

The shares are listed for trading on the NYSE under the symbol DYN . The table below shows, for the periods indicated, the closing price range of the shares, as reported by Bloomberg L.P. On May 21, 2010, the Company s stockholders approved a reverse stock split of outstanding common stock at a ratio of 1-for-5. This reverse stock split was effected on May 25, 2010.

	Common Stock Price		Post-Reverse Stock Split Equivalent	
	High	Low	High	Low
2009				
Quarter ended March 31	$ 2.69	$ 1.04	$ 13.45	$ 5.20
Quarter ended June 30	$ 2.47	$ 1.45	$ 12.35	$ 7.25
Quarter ended September 30	$ 2.55	$ 1.78	$ 12.75	$ 8.90
Quarter ended December 31	$ 2.63	$ 1.81	$ 13.15	$ 9.05
2010				
Quarter ended March 31	$ 1.99	$ 1.22	$ 9.95	$ 6.10
Quarter ended June 30	$ 6.80	$ 3.85		
Quarter ended September 30	$ 5.10	$ 2.78		
Quarter ending December 31	$ 5.89	$ 4.44		
2011				
Quarter ended March 31 (through January 5, 2011)	$ 5.71	$ 5.64	$	$
Quarter ended June 30				
Quarter ended September 30				
Quarter ending December 31				

The closing price of the shares on the NYSE on December 14, 2010, the last trading day prior to the public announcement of the execution of the merger agreement, was $5.45 per share. On [ ], 2011, the most recent practicable date before this proxy statement was mailed to our stockholders, the closing price for the shares on the NYSE was $[ ] per share. You are encouraged to obtain current market quotations for the shares in connection with voting your shares of common stock.

The Company has not paid a dividend on the shares since 2002, and the Company does not foresee a declaration of dividends on the shares in the near term, particularly given the dividend restrictions in the Company s current financing arrangements. Further, the terms of the merger agreement provide that, from the date of the merger agreement until the effective time of the merger, we may not declare, set aside, establish a record date for or pay any dividends on the shares without the consent of Parent.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number of shares beneficially owned as of January 5, 2011, except as otherwise noted, by: (i) each director of the Company; (ii) our named executive officers, consisting of Mr. Williamson, Ms. Nichols, Mr. Blodgett, Mr. Lednicky and Mr. Cook; (iii) all of our current directors and officers as a group; and (iv) each person or entity the Company knows to beneficially own more than 5% of the outstanding shares:

	Number of Shares Beneficially Owned(1)	Percent of Class(1)(2)
Directors**		
David W. Biegler(3)	37,125	*
Victor E. Grijalva(3)	30,681	*
Patricia A. Hammick(3)	40,125	*
Howard B. Sheppard(3)	27,751	*
William L. Trubeck(3)	37,325	*
Named Executive Officers**		
Bruce A. Williamson(4)	1,475,823	1.2%
Holli C. Nichols(5)	282,622	*
J. Kevin Blodgett(6)	184,104	*
Lynn A. Lednicky(7)	239,404	*
Charles C. Cook(8)	168,813	*
All Directors and Officers as a group (10 persons)	2,523,773	2.1%
Other		
Seneca Capital Investments, L.P.(9) 590 Madison Avenue, 28th Floor New York, NY 10022	11,226,500	9.3%
Icahn Capital LP(10) 767 Fifth Avenue, 47th Floor, New York, NY 10153	18,042,212	14.9%
Donald Smith & Co., Inc.(11) 152 W. 57th Street, 22nd Floor, New York, NY 10019	8,410,038	6.9%

* Percentage ownership of less than one percent.

** The address of all our directors and named executive officers is the Company s headquarters at 1000 Louisiana Street, Suite 5800, Houston, TX 77002.

(1) The number of shares are those beneficially owned, as determined under the rules of the SEC, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and any shares which the person has the right to acquire within 60 days of January 5, 2011 through the exercise of any option, warrant or right, regardless of whether such arrangement is currently in the money, through conversion of any security or pursuant to the automatic termination of a power of attorney or revocation of a trust, discretionary account or similar arrangement. Except as otherwise indicated, each person and entity has the sole voting and investment power with respect to the shares set forth in the table.

(2) Based upon 121,059,184 shares issued and outstanding at January 5, 2011.

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(3) Amounts shown include the following number of shares payable upon termination of service as a director, at the election of the director, with respect to certain Company phantom stock units awarded under the Director Deferred Compensation Plan: 35,125 shares payable to Messrs. Biegler and Trubeck and Ms. Hammick; 24,751 shares payable to Mr. Sheppard; and 27,681 shares payable to Mr. Grijalva. The amounts shown do not include certain stock units held by Ms. Hammick through our Director Deferred Compensation Plan which are payable, upon retirement, exclusively in cash and not in shares. For Mr. Sheppard, amount shown includes 3,000 shares held in a family trust.

(4) Amount shown includes 1,147,820 shares issuable upon the exercise of Company stock options held by Mr. Williamson and 21,390 and 111,111 shares which vest on March 6, 2011 and March 3, 2013, respectively. Amount shown also includes approximately 5,699 shares held by the Trustee of the Dynegy Inc. 401(k) Savings Plan, or the Dynegy 401(k) Plan, for the account of Mr. Williamson, based on the market value of units held by Mr. Williamson in the Dynegy 401(k) Plan s Dynegy stock fund divided by the closing price of our common stock as of January 5, 2011. The amount shown does not include 318,584 Company phantom stock units held by Mr. Williamson through our Dynegy Inc. 2009 Phantom Stock Plan, or the Phantom Stock Plan, that are payable exclusively in cash and not in shares.

(5) Amount shown includes 230,554 shares issuable upon the exercise of Company stock options held by Ms. Nichols and 5,347 and 29,166 shares of Company restricted stock which vest on March 6, 2011 and March 3, 2013, respectively. Amount shown also includes approximately 6,434 shares held by the Trustee of the Dynegy 401(k) Plan for the account of Ms. Nichols, based on the market value of units held by Ms. Nichols in the Dynegy 401(k) Plan s Dynegy stock fund divided by the closing price of our common stock as of January 5, 2011. The amount shown does not include 79,646 Company phantom stock units held by Ms. Nichols through our Phantom Stock Plan that are payable exclusively in cash and not in shares.

(6) Amount shown includes 148,099 shares issuable upon the exercise of employee stock options held by Mr. Blodgett and 3,977 and 21,875 shares of Company restricted stock which vest on March 6, 2011 and March 3, 2013, respectively. Amount shown also includes approximately 5,529 shares held by the Trustee of the Dynegy 401(k) Plan for the account of Mr. Blodgett, based on the market value of units held by Mr. Blodgett in the Dynegy 401(k) Plan s Dynegy stock fund divided by the closing price of our shares as of January 5, 2011. The amount shown does not include 59,236 Company phantom stock units held by Mr. Blodgett through our Phantom Stock Plan that are payable exclusively in cash and not in shares.

(7) Amount shown includes 196,769 shares issuable upon the exercise of Company stock options held by Mr. Lednicky and 3,977 and 21,875 shares of Company restricted stock which vest on March 6, 2011 and March 3, 2013, respectively. Amount shown also includes approximately 5,977 shares held by the Trustee of the Dynegy 401(k) Plan for the account of Mr. Lednicky, based on the market value of units held by Mr. Lednicky in the Dynegy 401(k) Plan s Dynegy stock fund divided by the closing price of our shares as of January 5, 2011. The amount shown does not include 59,236 Company phantom stock units held by Mr. Lednicky through our Phantom Stock Plan that are payable exclusively in cash and not in shares.

(8) Amount shown includes 134,607 shares issuable upon the exercise of Company stock options held by Mr. Cook and 5,715 and 21,146 shares of Company restricted stock which vest on March 6, 2011 and March 3, 2013, respectively. Amount shown also includes approximately 4,038 shares held by the Trustee of the Dynegy 401(k) Plan for the account of Mr. Cook, based on the market value of units held by Mr. Cook in the Dynegy 401(k) Plan s Dynegy stock fund divided by the closing price of our shares as of January 5, 2011. The amount shown does not include 55,752 Company phantom stock units held by Mr. Cook through our Phantom Stock Plan that are payable exclusively in cash and not in shares.

(9) Based on Schedule 13D/A (the Seneca 13D) filed with the SEC on November 22, 2010 on behalf of (i) Seneca Capital International Master Fund, L.P., a Cayman Islands exempted limited partnership (International Fund), (ii) Seneca Capital, L.P., a Delaware limited partnership (U.S. Fund), (iii) Seneca Capital Investments, L.P., a Delaware limited partnership (Seneca LP), (iv) Seneca Capital Investments, LLC, a Delaware limited liability company (Seneca LLC), (v) Seneca Capital International GP, LLC, a Delaware limited liability company (Seneca International GP), (vi) Seneca Capital Advisors, LLC, a Delaware limited liability company (Seneca Advisors), and (vii) Douglas A. Hirsch (together with each of the foregoing, the Seneca Reporting Persons). Such filing indicated that (1) International Fund had

shared voting and dispositive power with respect to 7,712,100 shares, (2) U.S. Fund had shared voting and dispositive power with respect to 3,514,400 shares, (3) Seneca LP had shared voting and dispositive power with respect to 11,226,500 shares, (4) Seneca LLC had shared voting and dispositive power with respect to 11,226,500 shares, (5) Seneca International GP had shared voting and dispositive power with respect to 7,712,100 shares, (6) Seneca Advisors had shared voting and dispositive power with respect to 3,514,400 shares and (7) Mr. Hirsch had shared voting and dispositive power with respect to 11,226,500 shares. The Seneca 13D included the following language: shares reported herein as being held by International Fund and U.S. Fund (the shares) may be deemed to be beneficially owned, within the meaning of Rule 13d-3 under the Act, by Seneca LP, Seneca LLC and Mr. Hirsch. Seneca LP serves as the investment manager for each of Seneca International and U.S. Fund. Seneca LLC is the general partner of Seneca LP. Seneca International GP is the general partner of International Fund, and Seneca Advisors is the general partner of U.S. Fund. Mr. Hirsch is the managing member of each of Seneca LLC, Seneca International GP and Seneca Advisors. Each of Seneca LP, Seneca LLC, Seneca International GP, Seneca Advisors and Mr. Hirsch disclaims beneficial ownership of the shares except to the extent of its or his pecuniary interest therein, and the filing of this Schedule 13D shall not be deemed an admission of beneficial ownership of such shares for any purpose. As of January 2, 2011, International Fund and U.S. Fund held European-style call options, providing the right to purchase 2,331,400 and 1,059,600 shares, respectively, at an exercise price of $0.01 per share, by delivery notice of exercise as of April 15, 2011. Such options are not exercisable within sixty days of the filing date of the Seneca 13D, and therefore the shares to which they relate are not currently deemed beneficially owned by the Seneca Reporting Persons.

(10) Based on Schedule 13D filed with the SEC on November 15, 2010, Schedule 13D/A filed with the SEC on December 23, 2010 and Form 4 filed with the SEC on November 17, 2010 (the Icahn Form 4), each on behalf of High River Limited Partnership (High River), Hopper Investments LLC (Hopper), Barberry Corp. (Barberry), Icahn Partners Master Fund LP (Icahn Master), Icahn Partners Master Fund II LP (Icahn Master II), Icahn Partners Master Fund III LP (Icahn Master III), Icahn Offshore LP (Icahn Offshore), Icahn Partners LP (Icahn Partners), Icahn Onshore LP (Icahn Onshore), Icahn Capital LP (Icahn Capital), IPH GP LLC (IPH), Icahn Enterprises Holdings L.P. (Icahn Enterprises Holdings), Icahn Enterprises G.P. Inc. (Icahn Enterprises GP), Beckton Corp. (Beckton), and Carl C. Icahn, a citizen of the United States of America (collectively, the Icahn Reporting Persons): Barberry is the sole member of Hopper, which is the general partner of High River. Icahn Offshore is the general partner of each of Icahn Master, Icahn Master II and Icahn Master III. Icahn Onshore is the general partner of Icahn Partners. Icahn Capital is the general partner of each of Icahn Offshore and Icahn Onshore. Icahn Enterprises Holdings is the sole member of IPH, which is the general partner of Icahn Capital. Beckton is the sole stockholder of Icahn Enterprises GP, which is the general partner of Icahn Enterprises Holdings. Carl C. Icahn is the sole stockholder of each of Barberry and Beckton. As such, Mr. Icahn is in a position indirectly to determine the investment and voting decisions made by each of the Icahn Reporting Persons. In addition, Mr. Icahn is the indirect holder of approximately 92.4% of the outstanding depositary units representing limited partnership interests in Icahn Enterprises L.P. (Icahn Enterprises). Icahn Enterprises GP is the general partner of Icahn Enterprises, which is the sole limited partner of Icahn Enterprises Holdings. The Icahn Reporting Persons beneficially own, in the aggregate, 18,042,212 shares (including the 6,042,212 shares underlying call and put options), representing approximately 14.9% of the Issuer s outstanding shares. High River directly beneficially owns 3,608,441 shares (including 1,208,442 call options), Icahn Partners directly beneficially owns 5,510,709 shares (including 1,857,034 call options), Icahn Master directly beneficially owns 6,238,314 shares (including 2,092,971 call options), Icahn Master II directly beneficially owns 1,805,714 shares (including 590,137 call options), Icahn Master III directly beneficially owns 879,034 shares (including 293,628 Call Options), Hopper indirectly beneficially owns 3,608,411 shares (including 1,208,442 call options), Barberry indirectly beneficially owns 3,608,411 shares (including 1,208,442 call options), Icahn Offshore indirectly beneficially owns 8,923,062 shares (including 2,976,736 call options), Icahn Onshore indirectly beneficially owns 5,510,709 (including 1,857,034 call options), Icahn Capital indirectly beneficially owns 14,433,771 shares (including 4,833,770 call options), IPH indirectly beneficially owns 14,433,771 shares (including 4,833,770 call options), Icahn Enterprises Holdings indirectly beneficially owns 14,433,771 shares (including 4,833,770 call options),

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Icahn Enterprises G.P. indirectly beneficially owns 14,433,771 shares (including 4,833,770 call options), Beckton indirectly beneficially owns 14,433,771 shares (including 4,833,770 call options), and Carl C. Icahn indirectly beneficially owns 18,042,212 shares (including 6,042,212 call options). The Icahn Form 4 included the following language: Each of Barberry and Beckton is 100 percent owned by Carl C. Icahn. As such, Mr. Icahn is in a position indirectly to determine the investment and voting decisions made by each of High River, Icahn Partners, Icahn Master, Icahn Master II and Icahn Master III. Each of Hopper, Barberry and Mr. Icahn may be deemed to indirectly beneficially own (as that term is defined in Rule 13d-3 under the Act) the shares (including Options) which High River owns. Each of Hopper, Barberry and Mr. Icahn disclaims beneficial ownership of such shares (including Options) except to the extent of their pecuniary interest therein. Each of Icahn Onshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn may be deemed to indirectly beneficially own (as that term is defined in Rule 13d-3 under the Act) the shares (including Options) which Icahn Partners owns. Each of Icahn Onshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn disclaims beneficial ownership of such shares (including Options) except to the extent of their pecuniary interest therein. Each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn may be deemed to indirectly beneficially own (as that term is defined in Rule 13d-3 under the Act) the shares (including Options) which each of Icahn Master, Icahn Master II and Icahn Master III owns. Each of Icahn Offshore, Icahn Capital, IPH, Icahn Enterprises Holdings, Icahn Enterprises GP, Beckton and Mr. Icahn disclaims beneficial ownership of such shares (including Options) except to the extent of their pecuniary interest therein. High River directly beneficially owns 1,208,442 call options (the Call Options), Icahn Partners directly beneficially owns 1,857,034 Call Options, Icahn Master directly beneficially owns 2,092,971 Call Options, Icahn Master II directly beneficially owns 590,137 Call Options, and Icahn Master III directly beneficially owns 293,628 Call Options. High River directly wrote 1,208,442 European-style put options (the Put Options, and together with the Call Options, the Options), Icahn Partners directly wrote 1,857,034 Put Options, Icahn Master directly wrote 2,092,971 Put Options, Icahn Master II directly wrote 590,137 Put Options, and Icahn Master III directly wrote 293,628 Put Options. The Call Options reference an aggregate of 6,042,212 shares of common stock of Dynegy Inc. and have an exercise price of $2.90, and expire on November 10, 2012. The Put Options have an exercise price of $2.90, reference an aggregate of 6,042,212 underlying shares and expire on November 10, 2012. The Put Options provide that they settle in cash.

(11) Based on its report on Schedule 13F, as filed November 15, 2010, reporting for the quarter ended September 30, 2010.

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APPRAISAL RIGHTS

Under the DGCL, if you do not wish to accept the per share merger consideration provided for in the merger agreement, you have the right to seek appraisal of your shares of our common stock and to receive payment in cash for the fair value of your shares of our common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, as determined by the Delaware Court of Chancery, together with interest, if any, to be paid upon the amount determined to be fair value. The fair value of your shares of our common stock as determined by the Delaware Court of Chancery may be more or less than, or the same as, the $5.50 per share that you are otherwise entitled to receive under the terms of the merger agreement. These rights are known as appraisal rights. The Company s stockholders who elect to exercise appraisal rights must not vote in favor of the proposal to adopt the merger agreement and must comply with the provisions of Section 262 of the DGCL, in order to perfect their rights. Also, if you tender your shares in the offer and such shares are accepted for payment by Parent prior to completion of the merger, you will not be entitled to appraisal rights for such shares. Strict compliance with the statutory procedures in Section 262 is required. Failure to follow precisely any of the statutory requirements will result in the loss of your appraisal rights.

This section is intended as a brief summary of the material provisions of the Delaware statutory procedures that a stockholder must follow in order to seek and perfect appraisal rights. This summary, however, is not a complete statement of all applicable requirements, and is qualified in its entirety by reference to Section 262 of the DGCL, the full text of which appears in **Annex F** to this proxy statement. The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that stockholders exercise their appraisal rights under Section 262.

Section 262 provides that where a merger agreement is to be submitted for adoption at a meeting of stockholders, the stockholders must be notified that appraisal rights will be available not less than 20 days before the meeting to vote on the merger agreement. A copy of Section 262 must be included with such notice. This proxy statement constitutes the Company s notice to our stockholders that appraisal rights are available in connection with the merger, in compliance with the requirements of Section 262. If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 contained in **Annex F**. Failure to comply timely and properly with the requirements of Section 262 will result in the loss of your appraisal rights under the DGCL.

If you elect to demand appraisal of your shares of our common stock, you must satisfy each of the following conditions: You must deliver to the Company a written demand for appraisal of your shares of our common stock before the vote is taken on the proposal to adopt the merger agreement, which must reasonably inform us of the identity of the holder of record of the shares of our common stock and that the stockholder intends thereby to demand appraisal of his, her or its shares of our common stock; and you must not vote or submit a proxy in favor of the proposal to adopt the merger agreement.

If you fail to comply with either of these conditions and the merger is completed, you will be entitled to receive payment for your shares of our common stock as provided for in the merger agreement, but you will have no appraisal rights with respect to your shares of our common stock. A holder of shares of our common stock wishing to exercise appraisal rights must hold of record the shares of common stock on the date the written demand for appraisal is made and must continue to hold the shares of common stock of record through the effective time of the merger, because appraisal rights will be lost if the shares of common stock are transferred prior to the effective time of the merger. Voting against or failing to vote for the proposal to adopt the merger agreement by itself does not constitute a demand for appraisal within the meaning of Section 262. A proxy that is submitted and does not contain voting instructions will, unless revoked, be voted in favor of the proposal to adopt the merger agreement, and it will constitute a waiver of the stockholder s right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a stockholder who submits a proxy and who wishes to exercise appraisal rights must either submit a proxy containing instructions to vote against the proposal to adopt the merger agreement or abstain from voting on the proposal to adopt the merger agreement. The written demand for appraisal must be in addition to and separate from any proxy or vote on the proposal to adopt the merger agreement.

All demands for appraisal should be addressed to Dynegy Inc., Attention: Corporate Secretary, 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, and must be delivered before the vote is taken on the proposal to adopt the merger agreement at the special meeting, and should be executed by, or on behalf of, the record holder of the shares of our common stock. The demand must reasonably inform the Company of the identity of the stockholder and the intention of the stockholder to demand appraisal of his, her or its shares of our common stock.

To be effective, a demand for appraisal by a stockholder of Company common stock must be made by, or in the name of, the record stockholder, fully and correctly, as the stockholder s name appears on the stockholder s stock certificate(s) or in the transfer agent s records, in the case of uncertificated shares. The demand cannot be made by the beneficial owner if he or she does not also hold the shares of our common stock of record. The beneficial holder must, in such cases, have the registered owner, such as a bank, brokerage firm or other nominee, submit the required demand in respect of those shares of common stock. **If you hold your shares of our common stock through a bank, brokerage firm or other nominee and you wish to exercise appraisal rights, you should consult with your bank, brokerage firm or the other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.**

If shares of our common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made in that capacity. If the shares of our common stock are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner. A record owner, such as a bank, brokerage firm or other nominee, who holds shares of our common stock as a nominee for others, may exercise his or her right of appraisal with respect to the shares of our common stock held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares of our common stock as to which appraisal is sought. Where no number of shares of our common stock is expressly mentioned, the demand will be presumed to cover all shares of our common stock held in the name of the record owner.

Within 10 days after the effective time of the merger, the surviving corporation must give notice of the date that the merger has become effective to each of the Company s stockholders who has properly filed a written demand for appraisal and who did not vote in favor of the proposal to adopt the merger agreement. At any time within 60 days after the effective time of the merger, any stockholder who has not commenced an appraisal proceeding or joined a proceeding as a named party may withdraw such stockholder s demand for appraisal and accept the cash payment specified by the merger agreement for that stockholder s shares of our common stock by delivering to the surviving corporation a written withdrawal of the demand for appraisal. However, any such attempt to withdraw the demand for appraisal made more than 60 days after the effective time of the merger will require written approval of the surviving corporation. Unless the demand is properly withdrawn by the stockholder within 60 days after the effective date of the merger, no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, with such approval conditioned upon such terms as the Court deems just. If the surviving corporation does not approve a request to withdraw a demand for appraisal when that approval is required, or if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder will be entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be less than, equal to or more than the consideration offered pursuant to the merger agreement.

Within 120 days after the effective time of the merger, but not thereafter, either the surviving corporation or any stockholder who has complied with the requirements of Section 262 and is entitled to appraisal rights under Section 262 may commence an appraisal proceeding by filing a petition in the Delaware Court of Chancery demanding a determination of the value of the shares of our common stock held by all stockholders entitled to appraisal. Upon the filing of the petition by a stockholder, service of a copy of such petition will be made upon

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the surviving corporation. The surviving corporation has no obligation to file such a petition, and holders of our common stock should not assume that the surviving corporation will file a petition. Accordingly, the failure of a stockholder to file such a petition within the period specified could nullify the stockholder s previous written demand for appraisal. In addition, within 120 days after the effective time of the merger, any stockholder who has properly filed a written demand for appraisal and who did not vote in favor of the merger agreement, upon written request, will be entitled to receive from the surviving corporation, a statement setting forth the aggregate number of shares of our common stock not voted in favor of the merger agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares of our common stock. The statement must be mailed to the stockholder within 10 days after such written request has been received by the surviving corporation. A person who is the beneficial owner of shares of our common stock held either in a voting trust or by a nominee on behalf of such person may, in such person s own name, file a petition for appraisal or request from the surviving corporation such statement.

If a petition for appraisal is duly filed by a stockholder and a copy of the petition is delivered to the surviving corporation, then the surviving corporation will be obligated, within 20 days after receiving service of a copy of the petition, to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares of our common stock and with whom agreements as to the value of their shares of our common stock have not been reached. After notice to stockholders who have demanded appraisal, if such notice is ordered by the Delaware Court of Chancery, the Delaware Court of Chancery is empowered to conduct a hearing upon the petition and to determine those stockholders who have complied with Section 262 and who have become entitled to the appraisal rights provided by Section 262. The Delaware Court of Chancery may require stockholders who have demanded an appraisal for their shares of our common stock to submit their stock certificates to the Register in Chancery for notation of the pendency of the appraisal proceedings; and if any stockholder fails to comply with that direction, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

After determination of the stockholders entitled to appraisal of their shares of our common stock, the Delaware Court of Chancery through an appraisal proceeding will determine the fair value of the shares of our common stock as of the effective time of the merger after taking into account all relevant factors exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. When the fair value is determined, the Delaware Court of Chancery will direct the payment of the fair value of the shares together with interest, if any, upon surrender by those stockholders of the certificates representing their shares of our common stock. Unless the Court in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment will be compounded quarterly and will accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective time of the merger and the date of payment of the judgment.

You should be aware that an investment banking opinion as to fairness from a financial point of view is not necessarily an opinion as to fair value under Section 262. **Although we believe that the per share merger consideration is fair, no representation is made as to the outcome of an appraisal of fair value by the Delaware Court of Chancery and stockholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the per share merger consideration.** Moreover, we reserve the right to assert, in any appraisal proceeding, that, for purposes of Section 262, the fair value of a share of our common stock is less than the per share merger consideration. In determining fair value , the Delaware Court is required to take into account all relevant factors. In *Weinberger* v. *UOP, Inc.*, the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered and that [f]air price obviously requires consideration of all relevant factors involving the value of a company . The Delaware Supreme Court has stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be

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ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger . In *Cede & Co.* v. *Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value , but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court construed Section 262 to mean that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered .

Costs of the appraisal proceeding (which do not include attorneys fees or the fees and expenses of experts) may be determined by the Delaware Court of Chancery and imposed upon the surviving corporation and the stockholders participating in the appraisal proceeding by the Delaware Court of Chancery, as it deems equitable in the circumstances. Upon the application of a stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts used in the appraisal proceeding, to be charged pro rata against the value of all shares of our common stock entitled to appraisal. Any stockholder who demanded appraisal rights will not, after the effective time of the merger, be entitled to vote shares of our common stock subject to that demand for any purpose or to receive payments of dividends or any other distribution with respect to those shares of our common stock, other than with respect to payment as of a record date prior to the effective time of the merger. However, if no petition for appraisal is filed within 120 days after the effective time of the merger, or if the stockholder otherwise fails to perfect, successfully withdraws or loses such holder s right to appraisal, then the right of that stockholder to appraisal will cease and that stockholder will be entitled to receive the $5.50 per share cash payment (without interest) for his, her or its shares of our common stock pursuant to the merger agreement.

In view of the complexity of Section 262 of the DGCL, the Company s stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors.

DELISTING AND DEREGISTRATION OF THE SHARES

If the merger is completed, the shares will be delisted from the NYSE and deregistered under the Exchange Act and we will no longer file periodic reports with the SEC on account of the shares.

STOCKHOLDER PROPOSALS

If the merger is consummated, we will not have public stockholders and there will be no public participation in any future meeting of stockholders. However, if the merger is not completed, we expect to hold a 2011 annual meeting of stockholders next year. The deadline has passed for submitting stockholder proposals under Rule 14a-8 promulgated under the Exchange Act for inclusion in the Company s proxy statement and proxy, and for consideration at the next annual meeting of its stockholders. However, our bylaws establish an advance notice procedure with regard to certain matters, including stockholder proposals not included in the Company s proxy statement, to be brought before an annual meeting of stockholders. To be timely, a stockholder s notice must be submitted in writing to the secretary of the Company not later than the close of business on February 20, 2011 nor earlier than the close of business on January 21, 2011, regardless of the public announcement of the adjournment of that meeting to a later date; provided, however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder, to be timely, must be submitted not earlier than the close of business on the 120th day before such annual meeting and not later than the close of business on the later of (i) the 90th day before such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. Any director nomination must be accompanied in writing by all information relating to such person that is required under the federal securities

laws, including such person s written consent to be named in the proxy statement as a nominee and to serve as a director if elected. The nominating stockholder must also submit its name and address, as well as that of the beneficial owner if applicable, and the class and number of shares that are owned beneficially and of record by such stockholder and such beneficial owner. Finally, the nominating stockholder must discuss the nominee s qualifications to serve as a director as described in our Corporate Governance Guidelines.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the SEC website at www.sec.gov. You also may obtain free copies of the documents we file with the SEC, including this proxy statement, by going to the Investors page of our corporate website at www.dynegy.com. Our website address is provided as an inactive textual reference only. The information provided on our website, other than copies of the documents listed below that have been filed with the SEC, is not part of this proxy statement, and therefore is not incorporated herein by reference.

Statements contained in this proxy statement, or in any document incorporated by reference in this proxy statement regarding the contents of any contract or other document, are not necessarily complete and each such statement is qualified in its entirety by reference to that contract or other document filed as an exhibit with the SEC. The SEC allows us to incorporate by reference into this proxy statement documents we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this proxy statement, and later information that we file with the SEC will update and supersede that information. We incorporate by reference the documents listed below and any documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement and before the date of the special meeting.

- Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (filed with the SEC on February 25, 2010);

- Quarterly Reports on Form 10-Q for the fiscal quarter ended September 30, 2010 (filed with the SEC on November 9, 2010); for the fiscal quarter ended June 30, 2010 (filed with the SEC on August 6, 2010); and for the fiscal quarter ended March 31, 2010 (filed with the SEC on May 10, 2010);

- Current Reports on Form 8-K, as amended, filed with the SEC on December 30, 2010, December 15, 2010, November 30, 2010, November 24, 2010, November 17, 2010, November 15, 2010, November 12, 2010, November 9, 2010, November 8, 2010, November 5, 2010, November 2, 2010, November 1, 2010, October 27, 2010, October 26, 2010, October 22, 2010, October 19, 2010, October 6, 2010, October 5, 2010, September 29, 2010, September 23, 2010, September 17, 2010, September 9, 2010, August 25, 2010, August 24, 2010, August 19, 2010, August 13, 2010, August 6, 2010, May 25, 2010, May 10, 2010, March 5, 2010, February 25, 2010, February 2, 2010 and January 4, 2010; and

- Definitive Proxy Statement for our 2010 Annual Meeting filed with the SEC on April 2, 2010.

Notwithstanding the foregoing, information furnished under Items 2.02 and 7.01 of any Current Report on Form 8-K, including the related exhibits, is not incorporated by reference into this proxy statement.

Any person, including any beneficial owner, to whom this proxy statement is delivered may request copies of proxy statements and any of the documents incorporated by reference in this document or other information concerning us, without charge, by written or telephonic request directed to Dynegy Inc., Attn: Investor Relations, 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, Telephone 713-507-6466 (toll-free at 1-800-800-8220), on the Investors page of our corporate website at www.dynegy.com; by calling D.F. King at (800) 697-6975 (toll-free); or from the SEC through the SEC website at the address provided above. Documents incorporated by reference are available without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference into those documents.

THIS PROXY STATEMENT DOES NOT CONSTITUTE THE SOLICITATION OF A PROXY IN ANY JURISDICTION TO OR FROM ANY PERSON TO WHOM OR FROM WHOM IT IS UNLAWFUL TO MAKE SUCH PROXY SOLICITATION IN THAT JURISDICTION. YOU SHOULD RELY ONLY ON THE

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INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROXY STATEMENT TO VOTE YOUR SHARES OF COMMON STOCK AT THE SPECIAL MEETING. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS PROXY STATEMENT. THIS PROXY STATEMENT IS DATED [ ], 2011. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROXY STATEMENT IS ACCURATE AS OF ANY DATE OTHER THAN THAT DATE, AND THE MAILING OF THIS PROXY STATEMENT TO STOCKHOLDERS DOES NOT CREATE ANY IMPLICATION TO THE CONTRARY.

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ANNEX A

AGREEMENT AND PLAN OF MERGER

among

DYNEGY INC.,

IEH MERGER SUB LLC

and

IEP MERGER SUB INC.

Dated as of December 15, 2010

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (hereinafter called this *Agreement*), dated as of December 15, 2010, among Dynegy Inc., a Delaware corporation (the *Company*), IEH Merger Sub LLC, a Delaware limited liability company (*Parent*), and IEP Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Parent (*Merger Sub*, with the Company and Merger Sub sometimes being hereinafter collectively referred to as the *Constituent Corporations*).

RECITALS

WHEREAS, on the terms and subject to the conditions set forth herein, including Exhibit A, Parent has agreed to commence (within the meaning of Rule 14d-2 under the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, as amended (the *Exchange Act*)) a tender offer (as it may be amended from time to time in accordance under this Agreement, the *Offer*) to purchase all of the shares of common stock, par value $0.01 per share, of the Company (the *Common Stock*), including the associated rights (the *Rights* , and together with the shares of Common Stock, the *Shares*) issued pursuant to the Stockholder Protection Rights Agreement, dated as of November 22, 2010 and as amended on the date hereof (as it may be further amended from time to time, the *Rights Agreement*), between the Company and Mellon Investor Services LLC, as Rights Agent, that are issued and outstanding, at a price of $5.50 per Share in cash, net to the seller in cash but subject to any required withholding of Taxes (such price as it may be amended from time to time in accordance with this Agreement, the *Offer Price*);

WHEREAS, concurrently with the execution and delivery of this Agreement and as a condition to the willingness of the Company to enter into this Agreement, certain Affiliates of Parent have entered into a Support Agreement with the Company (the *Support Agreement*);

WHEREAS, concurrently with the execution and delivery of this Agreement, and as a condition to the willingness of the Company to enter into this Agreement, Icahn Enterprises Holdings L.P., a Delaware limited partnership (the *Guarantor*) is entering into a guarantee (the *Guarantee*) in favor of the Company pursuant to which the Guarantor is guaranteeing certain obligations of Parent and Merger Sub arising prior to or at the Effective Time (other than with respect to Section 7.11) in connection with this Agreement;

WHEREAS, the Board of Directors of the Company, acting upon the recommendation of a special committee of the Board of Directors of the Company consisting only of independent directors of the Company (the *Special Committee*), has, upon the terms and subject to the conditions set forth herein, (i) determined that the transactions contemplated by this Agreement, including the Offer and the merger of Merger Sub with and into the Company (the *Merger*), are fair to, and in the best interests of, the Company and its stockholders, (ii) approved and declared advisable this Agreement and the transactions contemplated hereby, including the Offer and the Merger, and (iii) recommended that the Company s stockholders accept the Offer, tender their Shares to Parent in the Offer and, to the extent applicable, adopt this Agreement;

WHEREAS, each of the sole member of Parent and the Board of Directors of Merger Sub has, upon the terms and subject to the conditions set forth in this Agreement, unanimously (i) determined that the transactions contemplated by this Agreement, including the Offer and the Merger, are fair to and in the best interests of it and its members or stockholders, as applicable, and (ii) approved and declared advisable this Agreement and the transactions contemplated hereby, including the Offer and the Merger; and

WHEREAS, the Company, Parent and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with this Agreement.

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NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

The Offer

1.1. The Offer.

(a) Commencement. Provided that this Agreement shall not have been terminated in accordance with Article IX, Parent shall, as promptly as practicable (and, in any event, by 5:00 p.m. (New York City time) on December 22, 2010) commence, within the meaning of Rule 14d-2 under the Exchange Act, the Offer to purchase all outstanding Shares at the Offer Price. The obligations of Parent to accept for payment and to pay for any Shares tendered pursuant to the Offer shall be subject to only those conditions set forth in Exhibit A (the *Tender Offer Conditions*). The Company agrees that no Shares held by the Company or any of its Subsidiaries (other than any Shares held on behalf of third parties) will be tendered pursuant to the Offer.

(b) Waiver of Tender Offer Conditions. Parent expressly reserves the right from time to time, in its sole discretion, to waive any Tender Offer Condition; provided that without the prior written consent of the Company, Parent shall not, (i) decrease the Offer Price or change the form of consideration payable in the Offer, (ii) decrease the number of Shares sought to be purchased in the Offer, (iii) amend, modify or waive satisfaction of the Minimum Condition or the Regulatory Condition (each, as defined in Exhibit A), (iv) impose additional conditions to the Offer or amend or modify any of the Tender Offer Conditions in a manner adverse to holders of Shares (for the avoidance of doubt, other than the Minimum Condition and the Regulatory Condition, which shall not be amended, modified or waived without the prior written consent of the Company), (v) accelerate the Expiration Date to any date earlier than January 25, 2011, (vi) make any change in the Offer that would require an extension or delay of the then-current Expiration Date (other than an increase in the Offer Price), (vii) amend any other term of the Offer in a manner adverse to holders of Shares or (viii) except as provided in Section 1.1(d), extend the then-current Expiration Date of the Offer.

(c) Securities Filings. On the date of commencement of the Offer, Parent shall (i) file or cause to be filed with the Securities and Exchange Commission (the *SEC*) a Tender Offer Statement on Schedule TO with respect to the Offer filed under cover of Schedule TO (together with all amendments and supplements thereto, the *Schedule TO*) and the related offer to purchase, letter of transmittal and summary advertisement and other ancillary Offer documents and instruments pursuant to which the Offer will be made (collectively, and including any supplements or amendments thereto, the *Offer Documents*) and (ii) cause the Offer Documents to be disseminated to the holders of Shares as and to the extent required by the applicable federal securities Laws and the rules and regulations of the SEC thereunder (collectively, the *Securities Laws*). The Company agrees to furnish to Parent all information concerning the Company required by the Securities Laws to be set forth in the Offer Documents. Parent, Merger Sub and the Company each agrees promptly to correct any information provided by it for use in the Offer Documents if and to the extent that it shall have become false or misleading in any material respect, and Parent shall take all steps necessary to cause the Schedule TO, as so corrected or supplemented, to be filed with the SEC and the Offer Documents, as so corrected or supplemented, to be disseminated to holders of Shares, in each case, as and to the extent required by the Securities Laws. Parent will provide the Company a reasonable opportunity to review and comment on the Offer Documents, and any amendments thereto, before they are filed with the SEC or disseminated to the holders of Shares. Parent shall respond as promptly as reasonably practicable to any comments received from the SEC with respect to the Offer Documents and provide copies of such comments to the Company promptly upon receipt and copies of proposed responses to the Company a reasonable time prior to filing or dissemination to allow for meaningful comment by the Company.

(d) Expiration and Extension of the Offer. The Offer shall initially be scheduled to expire at midnight (Eastern time) on the later of (x) the 20th business day following the commencement of the Offer and (y) January 25, 2011 (the initial expiration date, or such subsequent date to which the expiration of the Offer is extended pursuant to and in accordance with the terms of this Agreement, the *Expiration Date*), and Parent shall not terminate or withdraw the Offer other than in connection with the effective termination of this Agreement in accordance with Article IX or pursuant to Section 1.1(f). Notwithstanding the foregoing, Parent may, without receiving the consent of the Company, (i) extend the Expiration Date for any period required by the Securities Laws or the rules and regulations of the New York Stock Exchange (the *NYSE*) applicable to the Offer (it being agreed and understood that if Parent increases the Offer Price, it shall be required to extend the Expiration Date for the minimum period required under the Securities Laws) or (ii) elect to provide a subsequent offering period for the Offer in accordance with Rule 14d-11 under the Exchange Act; provided that, in accordance with Rule 14d-11 under the Exchange Act, Parent shall immediately accept for payment and promptly (and in any event within three (3) business days) pay for all Shares tendered during any such subsequent offering period. In addition, Parent shall, if requested by the Company, make available a subsequent offering period for the Offer in accordance with Rule 14d-11 under the Exchange Act; provided, that Parent shall not be required to make available such subsequent offering period in the event that, prior to the commencement of such subsequent offering period, Parent then holds of record more than 90% of the outstanding Shares. So long as this Agreement has not been terminated pursuant to Article IX or the Offer has not been terminated pursuant to Section 1.1(f) (and subject to each party s rights to terminate this Agreement pursuant to Article IX), if at any scheduled Expiration Date, the Tender Offer Conditions shall not have been satisfied or earlier waived, Parent shall extend the Offer and the Expiration Date to a date that is not more than five (5) business days after such previously scheduled Expiration Date; provided, however, that Parent shall not be required to extend the Offer and the Expiration Date to a date later than the Termination Date. Nothing contained herein shall limit or otherwise