DYNEGY INC /IL/
Form S-3
May 04, 2004

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As filed with the Securities and Exchange Commission on May 4, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

DYNEGY INC.
(Exact name of registrant as specified in its charter)

Illinois
(State or other jurisdiction of incorporation or organization)

74-2928353
(I.R.S. Employer Identification No.)

1000 Louisiana, Suite 5800
Houston, Texas 77002
(713) 507-6400
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Carol F. Graebner, Esq.
Executive Vice President and General Counsel
1000 Louisiana, Suite 5800
Houston, Texas 77002
(713) 507-6400
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Julien R. Smythe
Akin Gump Strauss Hauer & Feld LLP
1111 Louisiana Street, 44th Floor
Houston, Texas 77002
(713) 220-5800

DYNEGY HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

94-3248415
(I.R.S. Employer Identification No.)

1000 Louisiana, Suite 5800
Houston, Texas 77002
(713) 507-6400
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Carol F. Graebner, Esq.
Executive Vice President and General Counsel
1000 Louisiana, Suite 5800
Houston, Texas 77002
(713) 507-6400
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Julien R. Smythe
Akin Gump Strauss Hauer & Feld LLP
1111 Louisiana Street, 44th Floor
Houston, Texas 77002
(713) 220-5800

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
4.75% Convertible Subordinated Debentures due 2023	$225,000,000(1)	100.00%(4)	$225,000,000(4)	$28,507.50
Guarantee of 4.75% Convertible Subordinated Debentures due 2023	$225,000,000(3)			(3)
Junior Unsecured Subordinated Notes due 2016	$225,000,000(1)	100.00%(4)	$225,000,000(4)	$28,507.50
Series C Convertible Preferred Stock	8,000,000(2)	$50.00(5)	$400,000,000	$50,680.00
Class A common stock, no par value	123,802,551(6)			(6)

(1) Represents the aggregate principal amount of such securities issued by the registrants before the date of this registration statement.

(2) Represents the number of shares of such securities issued by the registrants before the date of this registration statement.

(3) Pursuant to Rule 457(n) under the Securities Act of 1933, as amended, no separate fee is payable in connection with the guarantee.

(4) Represents the actual issue price of the aggregate principal amount of the convertible debentures being registered and the aggregate principal amount of the junior notes being registered. Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act.

(5) The estimated maximum offering price of the preferred stock of $50 per share represents the per share liquidation value.

(6) Includes (a) 54,598,399 shares of Class A common stock issuable upon conversion of the convertible debentures based on an initial conversion price of $4.1210 per share and (b) 69,204,152 shares of Class A common stock that may be issuable upon conversion of the preferred stock based on an initial conversion price of $5.78 per share. No additional consideration will be received by the Registrants for these shares. Therefore, no registration fee is required pursuant to Rule 457(i) under the Securities Act. Pursuant to Rule 416 under the Securities Act, the amount of Class A common stock registered hereby includes an indeterminate number of additional shares of Class A common stock that may be issued upon conversion as a result of anti-dilution adjustment provisions of the convertible debentures and preferred stock.

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

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

Subject to Completion, dated May 4, 2004

PROSPECTUS

Dynegy Inc.

$225,000,000 4.75% Convertible Subordinated Debentures due 2023

$225,000,000 Junior Unsecured Subordinated Notes due 2016
8,000,000 Shares of Series C Convertible Preferred Stock
and
Class A Common Stock Issuable upon Conversion of the Debentures
and Series C Convertible Preferred Stock

Dynegy Holdings Inc.

Guarantee of 4.75% Convertible Subordinated Debentures due 2023

This prospectus relates to the resale by various selling securityholders of the following:

$225,000,000 4.75% Convertible Subordinated Debentures due 2023 and Related Guarantee. On August 11 and August 26, 2003, we issued and sold in private offerings $225,000,000 aggregate principal amount of our 4.75% Convertible Subordinated Debentures due 2023, which we refer to as the convertible debentures, to certain initial purchasers, which we refer to as the initial purchasers. The convertible debentures mature on August 15, 2023 and bear interest at the rate of 4.75% per year. The convertible debentures are convertible into shares of our Class A common stock, which we refer to as the Class A common stock, at an initial conversion price of $4.1210 per share. The convertible debentures are guaranteed on a senior unsecured basis by our subsidiary, Dynegy Holdings Inc., which we refer to as DHI.

$225,000,000 Junior Unsecured Subordinated Notes due 2016. On August 11, 2003, we issued and sold in a private offering to Chevron U.S.A. Inc., which we refer to as CUSA, $225,000,000 aggregate principal amount of our Junior Unsecured Subordinated Notes due 2016, which we refer to as the junior notes. The junior notes mature on February 1, 2016 and accrue interest at the rate of 9.00% per annum during the first two years and, if still outstanding, 13.75% per annum thereafter, in each case compounded semi-annually and, at our option, payable in kind by issuance of additional junior notes.

Series C Convertible Preferred Stock. On August 11, 2003, we issued and sold in a private offering to CUSA 8 million shares of our Series C Convertible Preferred Stock, which we refer to as the Series C preferred stock. The Series C preferred stock has no voting rights (other than as required by law) and must be redeemed by August 11, 2033. Dividends accrue, and are payable semi-annually, subject to deferral, on the Series C preferred stock at the rate of 5.5% per annum, subject to increase if shareholder approval of the conversion of the Series C preferred stock is not obtained, in cash. Upon receipt of shareholder approval, shares of the Series C preferred stock are convertible into shares of Class A common stock in specified circumstances at an initial conversion price of $5.78 per share.

Class A Common Stock. 123,802,551 shares of our Class A common stock are issuable upon conversion of the convertible debentures and Series C preferred stock.

The convertible debentures, junior notes, Series C preferred stock and Class A common stock, which we refer to collectively as the securities, that are offered for resale in this prospectus are offered for the accounts of their current holders, which we refer to as the selling securityholders. The selling securityholders may use this prospectus to resell their securities. We will not receive any of the proceeds from the resale by the selling securityholders of their securities.

We have not applied for listing of the convertible debentures, junior notes or Series C preferred stock on any securities exchange or for quotation through any automated quotation system. The convertible debentures are currently trading in the Private Offerings, Resale and Trading Through Automated Linkages (PORTAL) market of the National Association of Securities Dealers, Inc. However, any convertible debentures sold under this prospectus will not be eligible for trading in the PORTAL market.

Our Class A common stock is listed on the New York Stock Exchange under the symbol DYN. The last reported sales price of our Class A common stock on the New York Stock Exchange on April 30, 2004 was $3.96 per share.

Investing in our securities involves risks. See Risk Factors beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, which we refer to as the SEC. We filed the registration statement pursuant to the registration rights agreements we entered into with securityholders in connection with the original issuance of the unregistered convertible debentures, junior notes and Series C preferred stock to afford the holders of these securities the opportunity to resell their securities in public transactions rather than pursuant to exemptions from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, which we refer to as the Securities Act.

This prospectus does not contain all of the information included in the registration statement. For a complete understanding of the securities, you should refer to the registration statement relating to this prospectus, including its exhibits, and the information incorporated herein by reference. Any prospectus supplement that we file with the SEC may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading Where You Can Find More Information.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. This prospectus may only be used where it is legal to sell these securities. You should assume that the information in this prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition and results of operations may have changed since those dates. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities described in this prospectus or an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. This prospectus contains summaries of certain provisions contained in some of the documents described herein, but we refer you to the actual documents for complete information.

In this prospectus, we, us and our refer to Dynegy Inc. and not any of our subsidiaries unless the context requires otherwise.

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WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC s public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain further information regarding the operation of the SEC s public reference room by calling the SEC at 1-800-SEC-0330. Our filings are also available to the public on the SEC s website located at http://www.sec.gov. Our SEC filings are also available free of charge from our website at www.dynegy.com. Information contained on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus. You may also inspect our SEC reports, proxy statements and other information concerning us at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We are incorporating by reference into this prospectus information we file with the SEC, which means that we are disclosing important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this prospectus, unless we update or supersede that information by the information contained in this prospectus or the information we file subsequently that is incorporated by reference into this prospectus. We are incorporating by reference the following documents that we have filed with the SEC, other than any information in these documents that is deemed not to be filed with the SEC:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

- our Definitive Proxy Statement on Schedule 14A filed on April 8, 2004;

- our Current Reports on Form 8-K filed on January 6, 2004, January 21, 2004, January 29, 2004, February 3, 2004, February 4, 2004, February 11, 2004, March 17, 2004, March 24, 2004, March 25, 2004, March 31, 2004, April 2, 2004, April 27, 2004 and April 28, 2004; and

- the description of our common stock in Amendment No. 1 to our Form 8-A filed on January 16, 2004.

We also incorporate by reference into this prospectus any filings we make with the SEC (excluding those filings made under Items 9 or 12 of Form 8-K) under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, after the initial filing of the registration statement that contains this prospectus and before termination of this offering.

You may obtain without charge a copy of any of the documents we incorporate by reference, except for exhibits to such documents which are not specifically incorporated by reference into such documents, by contacting us at Dynegy Inc., 1000 Louisiana, Suite 5800, Houston, Texas 77002, Attention: Investor Relations. You may also telephone your request at (713) 507-6400.

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UNCERTAINTY OF FORWARD-LOOKING STATEMENTS AND INFORMATION

This prospectus and some or all of the documents incorporated by reference herein, including our Annual Report on Form 10-K for the year ended December 31, 2003, contain 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 prospectus, 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. They use words such as anticipate, estimate, project, forecast, plan, may, will, should, e other words of similar meaning.

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 that could cause our actual results to be materially different from the results referenced in the forward-looking statements. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements.

All forward-looking statements contained and incorporated by reference in this prospectus are qualified in their entirety by this cautionary statement as well as the risk factors and other cautionary information contained and incorporated by reference in this prospectus. Forward-looking statements speak only as of the date they are made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this prospectus, except as otherwise required by applicable law.

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SUMMARY

The following summary highlights selected information contained or incorporated by reference in this prospectus. The summary does not contain all of the information that may be important to you or that you should consider when making an investment decision. You should carefully read the summary together with the more detailed information that is contained and incorporated by reference in this prospectus.

The Company

We are an energy company with three operating asset-based businesses:

- power generation;
- natural gas liquids; and
- regulated energy delivery.

We have contracted to sell our regulated energy delivery business to Ameren Corporation for $2.3 billion and expect the sale to close before the end of 2004.

We provide electricity, natural gas, and natural gas liquids to customers throughout the United States. Through our energy businesses, we own and operate a diverse portfolio of assets, including power plants totaling more than 12,700 megawatts of net generating capacity, gas processing plants that process approximately 1.8 billion cubic feet of natural gas per day and nearly 38,000 miles of electric transmission and distribution lines.

We are a holding company and conduct substantially all of our business operations through our subsidiaries. We began operations in 1985 and became incorporated in Illinois in 1999 in anticipation of our February 2000 acquisition of Illinova Corporation. Our principal executive office is located at 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, and our telephone number at that office is (713) 507-6400.

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Summary of the Terms of the Convertible Debentures, Junior Notes and Series C Preferred Stock

For a more complete description of the terms of our convertible debentures, junior notes and Series C preferred stock, see Description of the Convertible Debentures, Description of the Junior Notes and Description of the Series C Preferred Stock, respectively.

Convertible Debentures

Issuer	Dynegy Inc.
Securities	$225,000,000 principal amount of 4.75% Convertible Subordinated Debentures due 2023.
Guarantee	The convertible debentures are guaranteed on a senior unsecured basis by our subsidiary, Dynegy Holdings Inc.
Interest	The convertible debentures bear interest at an annual rate of 4.75%. Interest is payable on February 15 and August 15 of each year.
Maturity Date	August 15, 2023.
Conversion Rights	The convertible debentures are convertible at any time before maturity into shares of our Class A common stock at a conversion price of $4.1210 per share, subject to specified adjustments. This is equivalent to a conversion rate of 242.6595 shares per $1,000 principal amount of convertible debentures. See Description of the Convertible Debentures Conversion of Convertible Debentures.
Conversion Rate Adjustment	The conversion price will be adjusted, in accordance with the convertible debentures indenture, to account for any distributions of assets, rights, options, warrants or evidences of debt to the holders of our Class A common stock. Before August 20, 2013, the conversion price will be adjusted for all cash distributions. The conversion price also will be adjusted to account for (i) cash distributions on or after August 20, 2013 and (ii) tender offer consideration, that in either case, when aggregated with all other such distributions in the preceding twelve months, exceed 5% of our market capitalization. The conversion price will also be subject to customary anti-dilution adjustments for stock splits, stock dividends, subdivisions and other similar events affecting our Class A common stock. See Description of the Convertible Debentures Conversion of Convertible Debentures.
Optional Redemption	We may redeem the convertible debentures on or after August 20, 2010 at 100% of principal amount, plus accrued and unpaid interest to, but excluding, the redemption date. See Description of the Convertible Debentures Optional Redemption by Dynegy.
Sinking Fund	None.
Change of Control	Upon any change of control, we may be required to purchase all of the convertible debentures at 100% of principal amount, plus accrued and unpaid interest to, but excluding, the purchase date. The repurchase price is payable in shares of our Class A common stock, or other applicable securities if we are not the surviving corporation of the change of control transaction or transactions,

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	valued at no less than 95% of the average closing prices of our Class A common stock or other applicable securities for the five trading days immediately preceding the second trading day before the repurchase date, subject to specified conditions. See Description of the Convertible Debentures Purchase of Convertible Debentures at Your Option Upon a Change of Control.
Repurchase at the Option of the Holders	Holders of convertible debentures may require us to repurchase their convertible debentures, in whole or in part, at 100% of principal amount, plus accrued and unpaid interest to, but excluding, the repurchase date, on August 15, 2013 and August 15, 2018. See Description of the Convertible Debentures Repurchase at the Option of the Holders.
Subordination	The convertible debentures are our general unsecured obligations. The convertible debentures are subordinated in right of payment to all of our existing and future senior debt. The convertible debentures are also effectively subordinated to the existing and future debt and other liabilities, including trade payables, of our subsidiaries other than DHI. As of December 31, 2003, we had approximately $5.6 billion that would constitute senior debt for purposes of the convertible debentures indenture. This amount excludes the $1.1 billion DHI revolving credit facility and the $188 million in letters of credit issued thereunder as of December 31, 2003. Neither we nor our subsidiaries are prohibited from incurring senior debt or other debt under the convertible debentures indenture. See Description of the Convertible Debentures Subordination.
Trading	The convertible debentures are currently trading in the Private Offerings, Resale and Trading Through Automated Linkages (PORTAL) market of the National Association of Securities Dealers, Inc. However, convertible debentures sold under this prospectus will not be eligible for trading in the PORTAL market.

Junior Notes

Issuer	Dynegy Inc.
Securities	$225,000,000 principal amount of Junior Unsecured Subordinated Notes due 2016.
Interest	The junior notes bear interest at an annual rate of 9.00% until (but excluding) August 11, 2005 and, if still outstanding, 13.75% thereafter. Interest on the junior notes is payable in kind by issuance of additional junior notes at our option. Interest is payable on February 1 and August 1 of each year.
Maturity Date	February 1, 2016.
Optional Redemption	We may redeem the junior notes at any time before maturity at 100% of principal amount, plus accrued and unpaid interest to, but excluding, the redemption date, unless CUSA has made the election to terminate the mandatory redemption provisions as described below. Upon the effectiveness of such election, which will be no earlier than 90 days following the date of such notice, the junior notes will be amended to provide that the we may not

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	redeem the junior notes at our option through August 10, 2010. After such date, we may redeem the outstanding principal amount of the junior notes, in whole or in part, at a redemption price equal to 106.875% until August 11, 2011, 104.579% until August 11, 2012, 102.292% until August 11, 2013, and 100.000% thereafter, plus accrued and unpaid interest to, but excluding, the redemption date. See Description of the Junior Notes Optional Redemption by Dynegy.
Mandatory Redemption	We must redeem the junior notes during the first two years (unless the holders of the junior notes elect otherwise) with (a) 100% of net cash proceeds from the issuances of qualified capital stock (as defined in Description of the Junior Notes Definitions) in excess of the first $250 million of qualified capital stock issued after August 11, 2003, (b) 50% of net cash proceeds from issuances of subordinated or convertible debt, mandatorily redeemable preferred stock or convertible equity (excluding refinancings thereof and any such securities issued to our wholly-owned subsidiaries), (c) 25% of net cash proceeds from asset sales (other than sales of Illinois Power assets or equity) up to $200 million in the aggregate from and after August 11, 2003 and (d) 75% of net cash proceeds from the sale of Illinois Power, provided that such net cash proceeds will not include any amounts used for the payment of any debt associated with Illinois Power in connection with the sale of Illinois Power or its assets. At any time after May 13, 2005, CUSA may exercise a one-time election to terminate the mandatory redemption provisions so long as CUSA holds at least a majority in aggregate principal amount of the junior notes then outstanding. See Description of the Junior Notes Mandatory Redemption.
Sinking Fund	None.
Change of Control	Upon any change of control, we may, subject to certain redemption restrictions, be required to purchase all of the junior notes at 100% of principal amount, plus accrued and unpaid interest to, but excluding, the purchase date. See Description of the Junior Notes Purchase of Junior Notes at Your Option Upon a Change of Control.
Limitations on Redemptions and Repurchases	All redemption and repurchase obligations are subject to restrictions in our and our subsidiaries current or future debt instruments (but not restrictions contained in intercompany debt instruments) and any applicable laws. To the extent any mandatory redemption or repurchase is blocked pursuant to these restrictions or laws, interest will accrue at an annual rate of 13.75% on the blocked amount.
Subordination	The junior notes are our general unsecured obligations. The junior notes are subordinated in right of payment to all of our existing and future senior and senior subordinated debt. The junior notes are also effectively subordinated to the existing and future debt and other liabilities of our subsidiaries. As of December 31, 2003, we had approximately $8.3 billion that would constitute senior and

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	senior subordinated indebtedness (as defined below) for purposes of the junior notes indenture. This amount (i) excludes the $1.1 billion DHI revolving credit facility and the $188 million in letters of credit issued thereunder as of December 31, 2003, but (ii) includes the $2.3 billion intercompany note payable to Illinova Corporation, our wholly owned subsidiary. Neither we nor our subsidiaries are prohibited from incurring senior and senior subordinated indebtedness or other indebtedness under the junior notes indenture. See Description of the Junior Notes Subordination.
Series C Preferred Stock	
Issuer	Dynegy Inc.
Securities	8,000,000 shares of Series C Convertible Preferred Stock with a $50 per share liquidation value.
Redemption Date	August 11, 2033. Upon redemption, the holders will be entitled to receive payment of the $50.00 liquidation value, plus accrued and unpaid dividends. The Series C preferred stock is subject to mandatory redemption upon maturity or upon our failure to make payments in cash in full of amounts due at the end of any dividend deferral period as described below.
Dividends; Liquidation	Dividends are payable at the rate of 5.5% per annum in cash semi-annually. At our election, we may defer dividend payments for up to ten consecutive semi-annual dividend payment periods. Upon the termination of any deferral period, all accrued and unpaid amounts are due in cash. If we make a deferred dividend payment in full when due, we may elect to begin a new dividend deferral period. During any deferral period or at any time when dividends are not being paid in cash, we are prohibited from paying any dividends or making other distributions on our common stock. In addition, from and after August 11, 2004, if we have not obtained approval from our shareholders under the rules of the New York Stock Exchange, which we refer to as the NYSE, and other applicable laws to issue the common stock issuable upon conversion of the Series C preferred stock, the dividend rate on the Series C preferred stock will increase to 10% per annum until we obtain such approval or we determine that such approval is not required under the NYSE rules and other applicable laws. We have included a proposal in the proxy statement for our 2004 annual shareholder meeting, to be held on May 20, 2004, to obtain shareholder approval for the conversion feature, and CUSA has agreed to vote its shares of Class B common stock in favor of such proposal. See Description of the Series C Preferred Stock Dividends and Description of the Series C Preferred Stock Deferral of Dividend Payments.
Voting	Other than as required by law, holders of Series C preferred stock have no voting rights. However, we may not take certain actions without the consent of the holders of the Series C preferred stock. See Description of the Series C Preferred Stock Voting Rights below.

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Conversion Rights	Shares of Series C preferred stock are not convertible until we obtain approval from our shareholders under the NYSE rules to issue the Class A common stock that may be issuable upon conversion of the Series C preferred stock. Upon receipt of such shareholder approval, shares of the Series C preferred stock are convertible at any time at the option of the holder into shares of Class A common stock so long as our Class A common stock during each of the 20 trading days immediately before the proposed conversion date is at least 100% of the conversion price. The initial conversion price of the Series C preferred stock is $5.78 per share, subject to specified adjustments. Accrued and unpaid dividends are not convertible into Class A common stock other than in connection with a mandatory conversion by us as described below. On or after the third anniversary of the Lock-Up Period (as defined below under Transfer Restrictions), we may cause the Series C preferred stock to convert at our option into shares of Class A common stock at any time the closing price of our Class A common stock exceeds 130% of the conversion price in effect on the conversion date for at least 20 trading days within any period of 30 consecutive trading days before the exercise of our conversion right. Upon such mandatory conversion, any accrued and unpaid dividends shall convert into shares of Class A common stock at the average of the market price of our Class A common stock during the five-day period immediately preceding the conversion date. Upon any conversion of the Series C preferred stock, we may deliver, in lieu of shares of Class A common stock, cash or a combination of cash and shares of Class A common stock. Additionally, any shares of Class A common stock acquired by CUSA or its affiliates automatically convert into shares of our Class B common stock. See Description of the Series C Preferred Stock Conversion Rights.
Conversion Rate Adjustment	The conversion price will be adjusted, in accordance with the Statement of Resolution establishing the Series C preferred stock, to account for distributions of non-cash assets, rights, options, warrants or evidences of indebtedness to the holders of our common stock. The conversion price will also be adjusted for all cash distributions, *provided however*, that no adjustment will be made for (x) any quarterly cash dividend if the dividend per share does not exceed the greater of (A) the amount per share of Class A common stock of the next preceding quarterly cash dividend (if the preceding quarterly dividend did not require any adjustment of the conversion price, as adjusted to reflect subdivisions or combinations of the Class A common stock), and (B) 10% of the average closing price per share on the ten trading days before the declaration of such dividend or distribution, and (y) any dividend or distribution in connection with the liquidation, dissolution or winding up of Dynegy, whether voluntary or involuntary. The conversion price will also be subject to customary anti-dilution adjustments for stock splits, stock dividends, subdivisions and other similar events affecting our Class A common

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	stock. See Description of the Series C Preferred Stock Conversion Rights Conversion Price Adjustments.
Optional Redemption	We may redeem the Series C preferred stock after August 11, 2013 for a redemption price equal to $50.00 per share plus all accrued and unpaid dividends.
Change of Control	Upon a change of control (as defined in the Statement of Resolution establishing the Series C preferred stock), we may be required at the option of the holder to purchase all of the Series C preferred stock at $50.00 per share plus all accrued and unpaid dividends. Description of the Series C Preferred Stock Purchase of Series C Preferred Stock at Your Option Upon a Change of Control.
Transfer Restrictions	CUSA may not transfer the shares of the Series C preferred stock (other than to affiliates) until the earlier of (a) February 11, 2005 and (b) 120 days following the consummation of one or more public or private sales of our qualified capital stock (as defined below in Description of the Series C Preferred Stock Definitions) resulting in gross proceeds to us of at least $250 million, which we refer to as the Lock-Up Period. Further, holders of Series C preferred stock are not permitted to transfer their shares, except in accordance with the Exchange Agreement that we have entered into with CUSA and applicable securities laws.
Issuance of Additional Stock	We may not issue additional shares of our Series C preferred stock. In addition, we may not designate or issue shares of our capital stock that are senior to the Series C preferred stock as to the right to receive dividends or assets upon a liquidation without the consent of the holders of a majority of the Series C preferred stock shares unless it is designated and/or issued in connection with (i) a bona fide transaction where the consideration paid for such shares consists primarily of cash or (ii) a board-approved acquisition of any business or entity by us where such senior stock comprises all or a portion of the purchase price thereof.
Trading	Our Class A common stock currently trades on the NYSE under the symbol DYN. We have not applied and do not intend to apply for the listing of the Series C preferred stock on any securities exchange.

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Ratio of Earnings to Fixed Charges

The following table presents the ratio of earnings to fixed charges for us and our consolidated subsidiaries for each of the periods indicated.

Years Ended December 31,

Pro-forma 2003	2003	2002	2001	2000	1999
N/A			1.27	2.27	1.57

For the purpose of computing this ratio, earnings consist of income from continuing operations before income taxes and fixed charges (excluding capitalized interest) less undistributed income from equity investees. Fixed charges consist of interest expense; amortization of deferred financing costs; interest capitalized during the year; and the portion of lease rental expense representative of the interest factor attributable to such leases. Due to the losses we incurred under this calculation during the twelve-month periods ended December 31, 2002 and 2003, the ratio coverage was less than 1:1. As such, we would have had to generate additional earnings of $1.42 billion and $657 million to achieve coverage of 1:1 for the ratio of earnings to fixed charges for 2002 and 2003, respectively. In addition, a pro-forma ratio of earnings to fixed charges is not required since the August 2003 refinancing does not affect the historical ratio for the year ended December 31, 2003 by more than 10%.

Ratio of Earnings to Fixed Charges and Preferred Dividends

The following table presents the ratio of earnings to fixed charges and preferred dividends for us and our consolidated subsidiaries for each of the periods indicated.

Years Ended December 31,

Pro-forma 2003	2003	2002	2001	2000	1999
			1.24	2.00	1.57

For the purpose of computing this ratio, earnings consist of income from continuing operations before income taxes and fixed charges (excluding capitalized interest) less undistributed income from equity investees. Fixed charges consist of interest expense; amortization of deferred financing costs; interest capitalized during the year; and the portion of lease rental expense representative of the interest factor attributable to such leases. Preferred dividends consist of the amount of pre-tax earnings required to pay the dividends on our outstanding preferred stock. Due to the losses we incurred under this calculation during the twelve-month periods ended December 31, 2002 and 2003, the ratio coverage was less than 1:1. As such, we would have had to generate additional earnings of $1.75 billion and $867 million to achieve coverage of 1:1 for the ratio of earnings to fixed charges and preferred dividends for 2002 and 2003, respectively. In addition, due to losses we incurred during the twelve-month period ended December 31, 2003 and after considering the incremental effects for interest charges and preferred dividends associated with our August 2003 refinancing, we would have had to generate additional earnings of approximately $695 million to achieve a coverage of 1:1 for the pro forma ratio of earnings to fixed charges and preferred dividends for 2003.

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RISK FACTORS

Before investing in our securities, you should carefully consider the risks described below as well as the other information contained in this prospectus and incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2003 and our other SEC filings identified above under the heading Where You Can Find More Information. The risks described in this prospectus and in the SEC filings we incorporate by reference herein are not the only risks relating to our business and securities. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business and securities. Any of these risks could materially adversely affect the value of our securities. In such case, you may lose all or part of your investment.

Your right to receive payment for the convertible debentures and junior notes is junior to certain of our existing and future indebtedness. Further, your right to receive payment for the convertible debentures is structurally subordinated to the existing and future indebtedness of our subsidiaries other than DHI, and your right to receive payment for the junior notes is structurally subordinated to the existing and future indebtedness of all of our subsidiaries.

The convertible debentures and junior notes are unsecured and subordinated in right of payment to all of our existing and future senior debt. As a result, in the event of insolvency, bankruptcy, receivership, liquidation, reorganization or similar proceeding or dissolution or winding up or any assignment for the benefit of creditors or marshalling of assets and liabilities, or upon acceleration of the convertible debentures due to an event of default under the convertible debentures indenture, and in specific other events, our assets will be available to pay obligations on the convertible debentures and junior notes only after all senior debt has been paid in full in cash or other payment satisfactory to the holders of senior debt. There may not be sufficient assets remaining to pay amounts due on any or all of the convertible debentures or junior notes then outstanding. The indentures governing the convertible debentures and junior notes do not prohibit or limit the incurrence of senior debt or the incurrence of other indebtedness and other liabilities by us. Our incurring additional indebtedness and other liabilities could adversely affect our ability to pay our obligations on the convertible debentures and junior notes. We anticipate that from time to time we and our subsidiaries will incur additional indebtedness, including senior debt.

In addition, all payments on the convertible debentures and junior notes may be blocked in the event of a payment default on designated senior debt or a non-payment default on designated senior debt where the maturity of such designated senior debt is accelerated, and, in the case of the convertible debentures, may be blocked for up to 179 consecutive days in the event of other non-payment defaults on senior debt.

In the event of a bankruptcy, liquidation or reorganization relating to us, holders of the convertible debentures and junior notes will participate with trade creditors and all other holders of subordinated indebtedness in the assets remaining after we have satisfied all of the senior debt. We may not have sufficient funds to pay all of our creditors, and holders of convertible debentures and junior notes may receive less, ratably, than the holders of senior debt.

The junior notes are not guaranteed and thus are structurally subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries. The convertible debentures are guaranteed only by DHI and not by any of our other direct or indirect subsidiaries. Consequently, the convertible debentures are structurally subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries other than DHI. Upon liquidation, holders of the junior notes will not receive any benefit from the assets of DHI and its subsidiaries until the convertible debentures are paid in full. Our right to receive any assets of our subsidiaries other than DHI upon their liquidation or reorganization, and your consequent right to participate in those assets, is effectively subordinated to the claims of our subsidiaries creditors, including trade creditors, except to the extent that we are recognized as a creditor of such subsidiary. Even if we are recognized as a creditor of one our subsidiaries, including DHI, our claims would still be effectively subordinate to any security interest in the assets of the subsidiary and any indebtedness of such subsidiary senior to that held by us.

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As of December 31, 2003, we had total consolidated debt of $7.0 billion, which consisted of the second priority senior secured notes and other debt including all borrowings under DHI s credit facility, secured credit facilities and operating leases of our subsidiaries. As of December 31, 2003, DHI had total consolidated debt of $4.6 billion, which consisted of the second priority senior secured notes, other senior notes of DHI and other debt including all borrowings under DHI s credit facility, other secured credit facilities and operating leases of DHI s subsidiaries.

The Series C preferred stock ranks junior to all of our and our subsidiaries liabilities.

In the event of our bankruptcy, liquidation or winding-up, our assets will be available to pay obligations on the Series C preferred stock only after all our indebtedness and other liabilities have been paid. In addition, the Series C preferred stock effectively ranks junior to all existing and future liabilities of our subsidiaries and the capital stock (other than common stock) of our subsidiaries held by third parties. The rights of holders of the Series C preferred stock to participate in the assets of our subsidiaries upon any liquidation or reorganization of any subsidiary will rank junior to the prior claims of that subsidiary s creditors and equity holders. As of December 31, 2003, we had total consolidated liabilities of $10.7 billion. There may not be sufficient assets remaining to pay amounts due on any or all of the Series C preferred stock then outstanding. Similarly, if you elect to have your Series C preferred stock redeemed upon a change of control, your right to payment will be subordinate to the rights of holders of the convertible debentures and junior notes that elect to be redeemed under similar redemption provisions.

In addition, even if the terms of the instruments governing our indebtedness allow us to pay cash dividends or to redeem the Series C preferred stock, we generally can make such payments under Illinois law only from our surplus (the excess of our total assets over the sum of our total liabilities plus the amount of our capital as determined by our board of directors) and we cannot assure you that we will have any surplus when we are required to make dividend payments on, or redeem, the Series C preferred stock. In such event, holders of Series C preferred stock would have no remedy. Moreover, without surplus, we generally cannot pay dividends in shares of our common stock.

The senior guarantee of the convertible debentures by DHI may be limited by fraudulent conveyance considerations.

The terms of the senior guarantee provide that it is limited and subject to automatic reduction to the extent necessary to prevent the guarantee from constituting a fraudulent conveyance. Our creditors or the creditors of DHI could challenge the senior guarantee as a fraudulent conveyance, and we cannot assure you that a court would not conclude that the senior guarantee constitutes a fraudulent conveyance. If a court declares the senior guarantee to be void, or if the senior guarantee must be limited or voided in accordance with its terms, then any claim that you may make against us for amounts payable on the convertible debentures would be subordinated to the debt of DHI, including trade payables.

We may be unable to repurchase the convertible debentures, junior notes and Series C preferred stock upon a change of control.

Upon a change of control, you may require us to repurchase all or a portion of your convertible debentures, junior notes and Series C preferred stock. If a change of control occurs, we may not have enough funds to pay the repurchase price for all tendered convertible debentures, junior notes and Series C preferred stock. Our current credit agreement and other agreements relating to our indebtedness contain, and any such agreements we enter into in the future may contain, provisions prohibiting or limiting redemption of the convertible debentures, junior notes and Series C preferred stock under certain circumstances, and prohibiting or limiting our repurchase of the convertible debentures, junior notes and Series C preferred stock upon a change of control or providing that a change of control constitutes an event of default under that agreement. If a change of control occurs when we are prohibited from purchasing or redeeming the convertible debentures, junior notes or Series C preferred stock, or limited in our ability to do so, we could seek the consent of our lenders to repurchase the convertible debentures, junior notes or Series C preferred stock. Our failure to repurchase tendered convertible debentures, junior notes or Series C preferred stock would constitute an event of default under the related indentures or statement of resolution, as applicable, and might constitute a default under the terms of our other indebtedness. If a change of control would constitute an event of default under our senior debt, the subordination provisions of the indentures or statement of resolution, as applicable, would restrict our ability to make payments on the convertible debentures, junior notes and Series C preferred stock, as applicable. The term change of control is limited to specified transactions and may not include other events that might adversely affect our financial condition. Our obligation to offer to repurchase the convertible debentures, junior notes and Series C preferred stock upon a change of control would not necessarily afford you protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction. See Description of the Convertible Debentures Purchase of Convertible Debentures at Your Option Upon a Change of Control, Description of the Junior Notes Purchase of Junior Notes at Your Option Upon a Change of Control and Description of the Series C Preferred Stock Purchase of Junior Notes at Your Option Upon a Change of Control.

In addition, even if the terms of the agreements governing our indebtedness and preferred stock allow us to redeem the preferred stock upon a change of control, we generally can make such payments under Illinois law only if, after giving effect to such redemption, our net assets (the excess of our total assets over the sum of our total liabilities plus the amount of our capital as determined by our board of directors) are (a) greater than zero and (b) greater than the maximum amount payable at the time of the redemption to all shareholders having preferential rights in liquidation.

The convertible debentures, junior notes and Series C preferred stock do not restrict our ability to incur additional debt or to take other actions that could negatively impact holders of the convertible debentures, junior notes and Series C preferred stock.

We are not restricted under the terms of the convertible debentures, junior notes and Series C preferred stock from incurring additional indebtedness, including secured debt or senior debt or subsidiary debt that would effectively be senior to the junior notes and the Series C preferred stock and, if incurred or guaranteed by subsidiaries other than DHI, the convertible debentures. In addition, the limited covenants applicable to the convertible debentures, junior notes and Series C preferred stock do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations. Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the convertible debentures, junior notes and Series C preferred stock could have the effect of diminishing our ability to make payments on the convertible debentures, junior notes and Series C preferred stock when due.

We cannot assure you that an active trading market will develop for the convertible debentures, junior notes or Series C preferred stock, which may adversely affect the market price.

The convertible debentures, junior notes and Series C preferred stock will not be listed on any securities exchange or included for quotation in any automated dealer system and will only be traded, if at all, on the over-the-counter market. We cannot assure you that a market for the convertible debentures, junior notes or Series C preferred stock will develop and continue or that the market price of the convertible debentures, junior notes and Series C preferred stock will not decline. Various factors, such as changes in prevailing interest rates or changes in perceptions of our creditworthiness, could cause the market price of the convertible debentures, junior notes and Series C preferred stock to fluctuate significantly. In addition, the liquidity of the trading market in the convertible debentures and Series C preferred stock and the market price quoted for the convertible debentures and Series C preferred stock may be adversely affected by changes in the overall market for convertible securities, changes in our prospects or financial performance or in the prospects of companies in our industry generally.

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Our stock price has been volatile historically and may continue to be volatile. The price of our Class A common stock, and therefore the price of the convertible debentures and Series C preferred stock, may fluctuate significantly, which may make it difficult for holders to resell the convertible debentures or Series C preferred stock or the shares of our Class A common stock issuable upon conversion of the convertible debentures or Series C preferred stock when desired or at attractive prices.

The trading price of our Class A common stock has been and may continue to be subject to wide fluctuations. The closing sale prices of our Class A common stock on the NYSE during 2002 ranged from $0.68 to $32.00 per share and during 2003 ranged from $1.29 to $5.23 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating or financial results, actions by various regulatory agencies, litigation, market perceptions of our financial reporting, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, news reports relating to us or trends in our industry or general economic conditions. The market price of the convertible debentures and the Series C preferred stock is expected to be significantly affected by the market price of our Class A common stock. This may result in greater volatility in the trading value of the convertible debentures and Series C preferred stock than typically would be expected for nonconvertible debt or equity securities that we may issue. In particular, decreases in the market price of our Class A common stock are likely to result in decreases in the trading value of the convertible debentures and Series C preferred stock.

Before conversion, holders of the convertible debentures and Series C preferred stock will not be entitled to any shareholder rights, but will be subject to all changes affecting our Class A common stock.

If you hold convertible debentures and Series C preferred stock, you will not be entitled to any rights with respect to shares of our Class A common stock, including voting rights and, for the convertible debentures, rights to receive dividends or distributions. However, you will be subject to all changes affecting our Class A common stock. Except for limited cases under the adjustments to the conversion price, you will only be entitled to rights that we may grant with respect to shares of our Class A common stock if and when we deliver shares to you upon your election to convert your convertible debentures or Series C preferred stock into shares. For example, if we seek approval for a potential merger from shareholders, or if an amendment is proposed to our articles of incorporation or by-laws which requires shareholder approval, holders of convertible debentures and Series C preferred stock may not vote on the merger or amendment but would be subject to the merger or the terms of the amendment if it is approved or adopted by our shareholders.

Provisions of the Illinois Business Corporation Act and our organizational documents may discourage an acquisition of us.

Our organizational documents and the Illinois Business Corporation Act, which we refer to as the IBCA, both contain provisions that will impede the removal of directors and may discourage a third party from making a proposal to acquire us. For example, our board may, without the consent of our shareholders, issue preferred stock with greater voting rights than the Class A common stock. The existence of these provisions may also have a negative impact on the price of our Class A common stock. See Description of Our Class A Common Stock Anti-Takeover Effects of Illinois Law for greater detail on the anti-takeover effects of the IBCA.

Shares eligible for public sale after this offering could adversely affect our stock price.

As of December 31, 2003, there were 3,762,837 shares of Class A common stock underlying vested stock options eligible for sale. We currently have on file registration statements on Form S-8 under the Securities Act covering the shares underlying these options. Also, this prospectus registers the potential issuance of up to 123,802,551 shares of Class A common stock upon conversion of the convertible debentures and Series C preferred stock. We cannot predict the effect, if any, that market sales of those shares of Class A common stock or the availability of those shares of Class A common stock for sale will have on the market price of our Class A common stock from time to time.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale by the selling securityholders of the convertible debentures (and the related guarantee), junior notes, Series C preferred stock or Class A common stock.

DESCRIPTION OF THE CONVERTIBLE DEBENTURES

On August 11, 2003, we issued and sold in a private offering $175,000,000 aggregate principal amount of our 4.75% Convertible Subordinated Debentures due 2023 to certain initial purchasers. In addition, the initial purchasers purchased $50 million in aggregate principal amount of convertible debentures on August 26, 2003 pursuant to the exercise of an option we granted to them in connection with the original purchase. We issued the convertible debentures under an indenture dated as of August 11, 2003 among us, DHI and Wilmington Trust Company, as trustee. The following summarizes some, but not all, provisions of the convertible debentures and the indenture relating to the convertible debentures. We urge you to read the indenture because it, and not this description, defines your rights as a holder of convertible debentures. The terms of the convertible debentures include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended. You can obtain a copy of the indenture and the certificate evidencing the convertible debentures by contacting us at the address or telephone number set forth above under the heading Where You Can Find More Information. All references to the indenture in this section refer to the indenture governing the convertible debentures.

Definitions

Unless the context requires otherwise, all terms defined in this section relate only to this section and not to any other part of this prospectus. Additionally, as used in this section the following terms have the meanings set forth below:

Change of Control means the occurrence of any of the following:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all (as defined below) of the properties or assets of us and our subsidiaries, taken as a whole, or DHI and its subsidiaries, taken as a whole, to any person (as that term is used in Section 13(d) of the Exchange Act);

(2) the adoption of a plan relating to the liquidation or dissolution of us or DHI other than (a) the consolidation with, merger into or transfer of all or part of the properties and assets of any restricted subsidiary of DHI to DHI or any other restricted subsidiary of DHI and (b) the merger of DHI with an affiliate solely for the purpose of reincorporating DHI or reforming DHI in another jurisdiction;

(3) (a) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person becomes the beneficial owner (as defined below), directly or indirectly, of more than 50% of our voting stock (as defined below), measured by voting power rather than number of shares or (b) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that CUSA or a Related Party (as defined below) of CUSA becomes the beneficial owner, directly or indirectly, of more than 66% of our voting stock, measured by voting power rather than number of shares;

(4) We consolidate with, or merge with or into, any person, or any person consolidates with, or merges with or into, us, in any such event pursuant to a transaction in which any of our outstanding voting stock or such other person is converted into or exchanged for cash, securities or other property, other than any such transaction where our voting stock outstanding immediately before such transaction is converted into or exchanged for voting stock (other than disqualified stock (as defined below)) of the surviving or transferee person constituting a majority of the outstanding shares of such voting stock of such surviving or transferee person (immediately after giving effect to such issuance); or

(5) the first day on which we cease to own, directly or indirectly, 100% of the outstanding equity interests (as defined below) of DHI.

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However, a Change of Control will not be deemed to have occurred if either:

the last sale price of our Class A common stock for any five trading days during the ten trading days immediately preceding the Change of Control is at least equal to 105% of the conversion price in effect on such day; or

in the case of a merger or consolidation, all of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters appraisal rights) in the merger or consolidation constituting the Change of Control consists of Class A common stock, American Depositary Shares or other certificates representing common equity interest traded on a U.S. national securities exchange or quoted on The Nasdaq Stock Market (or which will be so traded or quoted when issued or exchanged in connection with such Change of Control) and as a result of such transaction or transactions the convertible debentures become convertible solely into such Class A common stock or other certificates representing equity interests.

For purposes of this Change of Control definition:

Related Party means (1) any controlling stockholder or 80% (or more) owned subsidiary of CUSA, or (2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or persons beneficially holding an 80% or more controlling interest of which consist of CUSA and/or such other persons referred to in the immediately preceding clause (1).

Beneficial owner has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular person (as that term is used in Section 13(d)(3) of the Exchange Act), such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms *beneficially owns* and *beneficially owned* have a corresponding meaning.

Capital stock means (1) in the case of a corporation, corporate stock, (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests, and (4) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person, but excluding from all of the foregoing any debt securities convertible into capital stock, whether or not such debt securities include any right of participation with capital stock.

Disqualified stock means any capital stock (as defined above) that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the capital stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the capital stock, in whole or in part, on or before the date that is 91 days after the date on which the convertible debentures mature. Notwithstanding the preceding sentence, any capital stock that would constitute disqualified stock solely because the holders of the capital stock have the right to require us to repurchase such capital stock upon the occurrence of a Change of Control or an asset sale will not constitute disqualified stock. The amount of disqualified stock deemed to be outstanding at any time for purposes of the indenture will be the maximum amount that we and our subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such disqualified stock, exclusive of accrued dividends.

Equity interests means capital stock and all warrants, options or other rights to acquire capital stock (but excluding any debt security that is convertible into, or exchangeable for, capital stock).

Voting stock of any person as of any date means the capital stock of such person that is at the time entitled to vote in the election of the board of directors of such person.

All or substantially all will likely be interpreted under applicable state law and will be dependent upon particular facts and circumstances. There may be a degree of uncertainty in interpreting this phrase. As a result, we cannot predict how a court would interpret this phrase under applicable law if you elect to exercise your rights following the occurrence of a transaction which you believe constitutes a transfer of all or substantially all of our assets.

Designated senior debt means any and all indebtedness outstanding under our obligations under any particular senior debt, including our senior guarantees of the DHI credit facility and the DHI second priority senior secured notes due 2008, 2010 and 2013, having an aggregate principal amount in excess of $100,000,000 in which the instrument creating or evidencing the same or the assumption or guarantee thereof, or related agreements to which we are a party, expressly provides that such senior debt shall be designated senior debt for purposes of the indenture. The instrument, agreement or other document evidencing such designated senior debt may place limitations and conditions on the right of such senior debt to exercise the rights of designated senior debt.

Permitted junior securities means any payment or distribution in the form of equity securities or subordinated securities of us or any successor obligor that, in the case of any such subordinated securities, are subordinated in right of payment to all senior debt that may at the time be outstanding to at least the same extent as the convertible debentures are so subordinated.

Senior debt means:

- all indebtedness for money borrowed, for reimbursement of drawings under letters of credit and all hedging obligations unless the instrument under which such indebtedness is incurred expressly provides that it is on a parity with or subordinated in right of payment to the convertible debentures;
- all guarantees by us of indebtedness and obligations outstanding under DHI s credit facility and DHI s second priority senior secured notes due 2008, 2010 and 2013; and
- any deferrals, renewals, refinancings, replacements or extensions of any of the above.

Notwithstanding anything to the contrary in the preceding, senior debt does not include:

- any liability for federal, state, local or other taxes owed or owing by Dynegy;
- any of our intercompany indebtedness to any of our affiliates; or
- any trade payables.

A *trading day* is a day during which trading in securities generally occurs on NYSE (or, if the Class A common stock is not quoted on NYSE, on the principal other market on which the Class A common stock is then traded), other than a day on which a material suspension of or limitation on trading is imposed that affects either NYSE (or, if applicable, such other market) in its entirety or only the shares of our Class A common stock (because of movements in price exceeding limits permitted by the relevant market on which the shares are traded or otherwise) or on which NYSE (or, if applicable, such other market) cannot clear the transfer of our shares due to an event beyond our control.

The *volume weighted average price* of one share of our Class A common stock on any trading day (as defined above) will be the volume weighted average prices as displayed under the heading Bloomberg VWAP on Bloomberg Page DYN <equity> AQR in respect of the period from 9:30 a.m. to 4:00 p.m. (New York City time) on that trading day (or if such volume weighted average price is not available, the market value of one share of our Class A common stock on such trading day as we determine in good faith using a volume weighted method).

Brief Description of Convertible Debentures

The convertible debentures are our general unsecured obligations and are subordinated to all of our existing and future senior indebtedness and rank *pari passu* in right of payment to all of our existing and future subordinated indebtedness. The convertible debentures are convertible into shares of our Class A common stock as described below under Conversion of Convertible Debentures.

The convertible debentures are limited to $225,000,000 aggregate principal amount. The convertible debentures have been issued only in denominations of $1,000 or in multiples of $1,000. The convertible debentures mature on August 15, 2023, unless earlier (i) converted by you, (ii) purchased by us at your option either upon a Change of Control or exercise of your put rights under the indenture or (iii) redeemed by us in accordance with the indenture.

Neither we nor our subsidiaries are restricted from paying dividends, incurring debt, or issuing or repurchasing our securities under the indenture. In addition, there are no financial covenants in the indenture.

You are not protected under the indenture in the event of a highly leveraged transaction or a Change of Control of Dynegy, except to the extent described below under Purchase of Convertible Debentures at Your Option Upon a Change of Control.