

DYNEGY INC /IL/  
Form DEF 14A  
April 08, 2004

**SCHEDULE 14A**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

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

Check the appropriate box:

- 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 Rule 14a-12

## Dynegy Inc.

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(Name of Registrant as Specified In Its Charter)

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- No fee required.
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(1) Title of each class of securities to which transaction applies:

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

- (3) Filing Party:
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- (4) Date Filed:
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April 8, 2004

To our shareholders:

It is our pleasure to invite you to attend the 2004 annual meeting of shareholders of Dynegy Inc., which will be held on Thursday, May 20, 2004 at 10:00 a.m., local time, at the DoubleTree Houston Hotel Allen Center, 400 Dallas Street, Houston, Texas 77002.

Since last year's annual shareholder meeting, we have taken steps to strengthen our corporate governance and ethics structure in response to, and in many cases in advance of, the recently adopted rules and regulations of the SEC and NYSE. These steps include the adoption and publication of Corporate Governance Guidelines, affirmative independence determinations regarding the Board of Directors and the other matters described in the Corporate Governance section of the attached proxy statement. We hope you will take the time to review it.

This last year was one of significant change for Dynegy in other ways as well, and we are excited about our prospects for the future. At the annual meeting, in addition to acting on the matters described in the attached proxy statement, we plan to review our progress over the past year and discuss our strategy for the future. There will also be an opportunity to discuss other matters of interest to you as a shareholder.

It is important that your shares be represented and voted at the annual meeting. Please sign, date and mail the enclosed proxy card in the envelope provided, even if you plan to attend the meeting in person. You also may vote your shares by telephone or through the Internet as described on the enclosed proxy card. We look forward to seeing you in Houston on May 20.

Sincerely,

Daniel L. Dienstbier  
Chairman of the Board

Bruce A. Williamson  
President and Chief Executive Officer

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD THURSDAY, MAY 20, 2004**

To our shareholders:

NOTICE IS HEREBY GIVEN, that the 2004 annual meeting of shareholders of Dynegy Inc., an Illinois corporation, will be held on Thursday, May 20, 2004 at 10:00 a.m., local time, at the DoubleTree Houston Hotel Allen Center, 400 Dallas Street, Houston, Texas 77002 for the following purposes:

1. To elect eleven Class A common stock directors and two Class B common stock directors to serve until the 2005 annual meeting of shareholders;
2. To act upon a proposal to permit our Series C Convertible Preferred Stock due in 2033, which is held by a subsidiary of ChevronTexaco Corporation, our largest shareholder, to become convertible into our Class B common stock at a conversion price of \$5.78 per share, subject to specified adjustments;
3. To act upon a proposal to approve potential issuances of our Class B common stock upon the exercise of the preemptive rights previously granted to a subsidiary of ChevronTexaco Corporation, our largest shareholder, that may occur through May 2009;
4. To act upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as Dynegy's independent auditors for the fiscal year ending December 31, 2004;
5. If properly presented at the annual meeting, to act upon a shareholder proposal to amend our Bylaws to require that 75% of future equity compensation of senior executives be performance-based and that such compensation be fully disclosed to shareholders;
6. If properly presented at the annual meeting, to act upon a shareholder proposal urging the Compensation and Human Resources Committee, in developing future senior executive equity compensation plans, to utilize performance- and time-based restricted share programs in lieu of stock options; and
7. To act upon any other matters that may properly come before the meeting or any adjournment or postponement of the meeting.

The close of business on March 31, 2004 has been fixed as the record date for the determination of shareholders entitled to receive notice of and to vote at the annual meeting or any adjournment or postponement of the meeting.

You are cordially invited to attend the meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE. A SELF-ADDRESSED, POSTAGE-PAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. ALTERNATIVELY, YOU MAY VOTE YOUR SHARES BY TELEPHONE OR THROUGH THE INTERNET AS DESCRIBED ON THE ENCLOSED PROXY CARD.**

By Order of the Board of Directors,

J. Kevin Blodgett

*Group General Counsel Corporate*

*Finance & Securities and Secretary*

April 8, 2004

## DYNEGY INC.

1000 Louisiana, Suite 5800

Houston, Texas 77002

(713) 507-6400

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### PROXY STATEMENT

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### GENERAL INFORMATION

The Board of Directors of Dynegy Inc. is soliciting the enclosed proxy for use at the 2004 annual meeting of shareholders to be held on Thursday, May 20, 2004 at 10:00 a.m., local time, at the DoubleTree Houston Hotel Allen Center, 400 Dallas Street, Houston, Texas 77002, or at any adjournment or postponement of the meeting. This proxy statement, the Notice of Annual Meeting, the proxy card and our Annual Report to Shareholders for the year ended December 31, 2003, including financial statements, will be first mailed to shareholders on or about April 13, 2004. The Annual Report to Shareholders does not constitute part of the proxy soliciting material.

#### Quorum and Vote Required

**Quorum.** The presence of a majority of the votes of the shares of our Class A common stock and our Class B common stock, counted together, represented in person or by proxy at the annual meeting and entitled to vote on a matter, will constitute a quorum for consideration of that matter at the meeting. Abstentions and broker non-votes are counted in determining the number of shares represented in person or by proxy at the meeting. A broker non-vote occurs if a broker or other nominee who holds shares in street name for customers who are beneficial owners of those shares does not have discretionary authority with respect to the voting of the shares and has not received instructions with respect to a particular item from the customer. Broker non-votes as to a particular matter do not count toward the determination of the shares represented in person or by proxy and entitled to vote on that matter.

**Election of Directors.** There are thirteen persons nominated for election to serve as directors of Dynegy for a one-year term. In accordance with our Amended and Restated Articles of Incorporation, which we refer to as our Articles of Incorporation, of the thirteen director nominees, eleven are to be elected by the holders of our Class A common stock and two are to be elected by the holder of our Class B common stock. The affirmative vote of a majority of the votes of the shares of Class A common stock represented in person or by proxy and entitled to vote is required to elect a Class A common stock director. Under Illinois law, our Articles of Incorporation and our Amended and Restated Bylaws, which we refer to as our Bylaws, abstentions have the effect of votes against the election of the director nominees.

Under Illinois law and our Articles of Incorporation, holders of Class A common stock are entitled to cumulate their votes in the election of the Class A common stock directors. All holders of Class A common stock are entitled to eleven votes (the number of Class A common stock directors to be elected) for each of their shares for candidates nominated to serve as Class A common stock directors. Holders of Class A

common stock may:

cast their votes equally for all candidates;

cast all of their votes for any one candidate whose name has been placed in nomination prior to voting; or

distribute their votes among two or more candidates in any proportion.

The affirmative vote of a majority of the votes of the shares of Class B common stock represented in person or by proxy and entitled to vote is required to elect a Class B common stock director. Chevron U.S.A. Inc., a subsidiary of ChevronTexaco Corporation that we refer to as CUSA, as the holder of all our outstanding shares of Class B common stock, will be entitled to one vote for each share it holds in the election of the Class B common stock directors. Holders of our Class A common stock do not vote in the election of the Class B common stock directors.

Please read Proposal 1 Election of Directors for a discussion of our director nominees and the affirmative independence determinations made by the Board with respect to such director nominees.

***Approval of Convertibility of Series C Preferred Stock, Potential Issuances of Class B Common Stock under CUSA's Preemptive Rights and Ratification of Independent Auditors.*** Under our Articles of Incorporation, the holders of our Class A common stock and the holder of our Class B common stock are entitled to vote together as a single class on the approval of the convertibility of our Series C preferred stock, the potential issuance of Class B common stock under CUSA's preemptive rights and the ratification of auditors. The holders of our Class A common stock and Class B common stock are entitled to one vote for each share they hold. The affirmative vote of a majority of the shares of Class A common stock and Class B common stock, represented in person or by proxy and entitled to vote, is required to approve these matters. Under Illinois law, an abstention has the same legal effect as a vote against these proposals, but a broker non-vote is not counted for purposes of determining shares represented in person or by proxy and entitled to vote on these proposals. CUSA has agreed to vote its Class B common stock in favor of the convertibility of the Series C preferred stock, and we expect CUSA will similarly vote its shares of Class B common stock for the potential issuances of Class B common stock upon exercise of its preemptive rights.

***Shareholder Proposals.*** Under our Articles of Incorporation, the holders of our Class A common stock and the holder of our Class B common stock are entitled to vote together as a single class on the shareholder proposals, assuming such proposals are properly presented at the annual meeting, and are entitled to one vote for each share they hold. The affirmative vote of a majority of the votes of the shares present in person or by proxy at the meeting and entitled to vote on the shareholder proposals is necessary to approve any shareholder proposal, including the two described in this proxy statement. Under Illinois law, an abstention has the same legal effect as a vote against a shareholder proposal, but a broker non-vote is not counted for purposes of determining shares represented in person or by proxy and entitled to vote on a shareholder proposal.

#### **Record Date and Outstanding Shares**

The Board of Directors has fixed the close of business on March 31, 2004 as the record date for determining holders of outstanding shares of Class A common stock and Class B common stock entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting. As of the record date, there were outstanding 281,683,258 shares of Class A common stock and 96,891,014 shares of Class B common stock. Class A common stock and Class B common stock are the only classes of outstanding securities entitled to notice of and to vote at the meeting.

#### **Solicitation of Proxies**

We will bear the cost of soliciting proxies. Proxies may be solicited by mail or facsimile, or by our directors, officers or employees in person or by telephone. We have retained Mellon Investor Services LLC to assist in the solicitation of proxies for a fee of \$12,500. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of common stock.

Questions concerning the proposals to be acted upon at the annual meeting should be directed to our Secretary at (713) 507-6400. Additional copies of this proxy statement or the proxy card may be obtained from our Investor Relations Department at our principal executive office. The mailing address of this office is 1000 Louisiana, Suite 5800, Houston, Texas 77002, and the telephone number is (713) 507-6400.

#### **Revocation of Proxies**



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

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

sending written notice to our Secretary at the address provided at the beginning of this proxy statement; or

voting in person at the meeting.

In the absence of a revocation, shares represented by proxies will be voted at the meeting.

### **Voting by Telephone or Internet**

Shareholders of record can simplify their voting and reduce our costs by voting their shares by telephone or through the Internet. The telephone and Internet voting procedures are designed to authenticate shareholders' identities, allow shareholders to vote their shares and confirm that their instructions have been properly recorded. If your shares are held in the name of a bank or broker, the availability of telephone and Internet voting will depend upon the voting processes of the bank or broker. Accordingly, shareholders should follow the voting instructions on the form they receive from their bank or broker. If you choose to cumulate your votes other than equally for directors, you **MAY NOT** use telephone or Internet voting. Rather, you **MUST** vote by returning the enclosed proxy card in the envelope provided or by voting in person at the annual meeting.

Shareholders who elect to vote through the Internet may incur telecommunications and Internet access charges and other costs for which they are solely responsible. The telephone and Internet voting facilities for shareholders of record will close at 11:59 p.m., Eastern Daylight Time, on May 19, 2004. Instructions for voting by telephone or through the Internet are contained on the enclosed proxy card.

### **Voting by Mail**

Shareholders who elect to vote by mail are asked to sign, date and return the enclosed proxy card using the postage-paid envelope provided. The persons named as proxies on the proxy card were designated by the Board of Directors. Any proxy given pursuant to this solicitation and received prior to the meeting will be voted as specified in the proxy card. Unless you withhold authority to vote or instruct otherwise, proxies will be voted **FOR** the election of the nominees to the Board of Directors, equally or cumulatively as the proxies may determine; **FOR** approval of the convertibility of the Series C Convertible Preferred Stock due 2033; **FOR** the approval of potential issuances of Class B common stock upon exercise of CUSA's preemptive rights; **FOR** ratification of the appointment of PricewaterhouseCoopers LLP; **AGAINST** the shareholder proposal requiring an amendment to our Bylaws relating to performance-based equity compensation for executive officers; **AGAINST** the shareholder proposal recommending performance- and time-based restricted shares for executive officers; and in accordance with the judgment of the persons named on the proxy card on such other matters as may properly come before the meeting or any adjournment or postponement of the meeting.

### **Meeting Attendance**

Because of limited seating, only shareholders, their proxy holders and our guests may attend the meeting. If you plan to attend, you must be a shareholder of record as of March 31, 2004 or you must bring with you a brokerage statement or other evidence of beneficial ownership showing ownership of common stock on March 31, 2004. Directions to the meeting site are located on the back cover of this proxy statement. Complementary valet parking will be provided at the meeting site.

**Form 10-K**

Shareholders may obtain, without charge, a copy of our 2003 Annual Report on Form 10-K as filed with the SEC. For copies, please contact our Investor Relations Department at the address of our principal executive office: Dynegey Inc., 1000 Louisiana, Suite 5800, Houston, Texas 77002. The Form 10-K is also available to the public through the SEC's website at [www.sec.gov](http://www.sec.gov) and through our website at [www.dynegey.com](http://www.dynegey.com).

## CORPORATE GOVERNANCE

In November 2003, our Board of Directors unanimously adopted Corporate Governance Guidelines developed and recommended by the Corporate Governance and Nominating Committee. The Corporate Governance Guidelines are posted in the Corporate Governance section of our website at [www.dynegy.com](http://www.dynegy.com), together with the following documents:

Amended and Restated Bylaws

Code of Business Conduct and Ethics

Code of Ethics for Senior Financial Professionals

Shareholder Communications Policy

Complaint and Reporting Procedures for Accounting and Auditing Matters

Audit and Compliance Committee Charter

Compensation and Human Resources Committee Charter

Corporate Governance and Nominating Committee Charter

Risk, Environment and Operations Committee Charter

### **Corporate Governance Guidelines**

Our Corporate Governance Guidelines govern the qualifications and conduct of the Board of Directors. The Corporate Governance Guidelines address, among other things:

the independence and other qualifications of our Board members, with respect to which we require that at least a majority, and preferably 75%, of our Board members be independent of Dynegy and our management;

the regular meetings of our non-management directors;

the nomination of persons for election to the Board;

the evaluation of performance of the Board and its committees;

our expectation that Board members will attend all shareholder meetings;

the Chairman and CEO positions; and

the approval of the compensation of the CEO.

#### **Code of Business Conduct and Ethics**

Our Code of Business Conduct and Ethics applies to all directors, officers and employees of Dynegy. The key principles of this Code include acting legally and ethically, speaking up, getting advice and dealing fairly with our stakeholders.

#### **Code of Ethics for Senior Financial Professionals**

Our Code of Ethics for Senior Financial Professionals applies to our CEO, CFO, Controller and other designated senior financial professionals. The key principles of this Code include acting legally and ethically, promoting honest business conduct and providing timely and meaningful financial disclosures to our shareholders.

#### **Shareholder Communications Policy**

Our Shareholder Communications Policy provides a medium for shareholders to communicate with the Board of Directors. Under this Policy, shareholders may communicate with the Board of Directors or specific

Board members by sending a letter to Dynegy Inc., Shareholder Communications with the Board of Directors, Attn: Secretary, 1000 Louisiana, Suite 5800, Houston, Texas 77002.

### **Complaint and Reporting Procedures for Accounting and Auditing Matters**

Our Complaint and Reporting Procedures for Accounting and Auditing Matters provide for the (i) receipt, retention and treatment of complaints, reports and concerns regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission of complaints, reports and concerns by employees regarding questionable accounting or auditing matters, in each case relating to Dynegy. Complaints may be made through a toll-free Integrity Helpline telephone number operated by an independent third-party and a dedicated e-mail address. Complaints received are logged by our senior Ethics and Compliance Office executive, communicated to the chairman of our Audit and Compliance Committee and investigated, under the supervision of our Audit and Compliance Committee, by our internal audit department or Ethics and Compliance Office. In accordance with Section 806 of the Sarbanes-Oxley Act of 2002, these procedures prohibit us from taking adverse action against any person submitting a good faith complaint, report or concern.

### **Director Attendance at Annual Shareholders Meeting**

As described above, we have a policy to facilitate shareholder communications with the Board of Directors. Additionally, as detailed in our Corporate Governance Guidelines, Board members are expected to attend the annual shareholders meeting. All of the members of the Board of Directors then in office attended last year's annual shareholders meeting held on June 5, 2003.

### **Separation of Chairman and CEO; Lead Director**

Daniel L. Dienstbier, who has served as our non-executive Chairman of the Board since September 2002, will not stand for re-election at the annual meeting. In his capacity as non-executive Chairman of the Board, Mr. Dienstbier has, among other things, presided over our regular non-management director executive sessions. As discussed in our Corporate Governance Guidelines, the Board has no firm policy with respect to the separation of the Chairman and CEO positions. Rather, the Board believes that the interests of our shareholders are best served by a policy that enables the Board to make a determination regarding its Chairman based on Dynegy's needs at the time.

To that end, the Board has determined that Bruce A. Williamson, our current CEO and a director, will be elected to the position of Chairman following the annual meeting, assuming he is re-elected by our shareholders to serve as a director for another year. Concurrently, the Board intends to appoint Patricia A. Hammick, a current director, as Lead Director, assuming she is re-elected by our shareholders to serve as a director for another year. As Lead Director, Ms. Hammick would preside over the regular executive sessions of our non-management directors and have the other powers described in our Amended and Restated Bylaws, including the power to serve as a conduit to senior management between Board meetings and to consult with the Chairman regarding Board meeting agendas. The Board intends to pay Ms. Hammick an additional annual retainer of \$60,000 effective upon her election to the Lead Director position.

**Affirmative Determinations Regarding Director Independence and Other Matters**

The Board of Directors has determined each of the following directors and director nominees to be independent as such term is defined in the New York Stock Exchange ( NYSE ) Listed Company Standards:

Charles E. Bayless

David W. Biegler

Linda Walker Bynoe

Thomas D. Clark, Jr.

Daniel L. Dienstbier

Barry J. Galt

Patricia A. Hammick

George L. Mazanec

Robert C. Oelkers

Joe J. Stewart

William L. Trubeck

The Board of Directors has also determined that each member of the Audit and Compliance Committee, the Compensation and Human Resources Committee and the Corporate Governance and Nominating Committee meets the independence requirements applicable to those committees prescribed by the NYSE and the SEC. The Board of Directors has further determined that more than one of the members of the Audit and Compliance Committee, including its Chairman Robert C. Oelkers, is an audit committee financial expert as such term is defined in Item 401(h) of Regulation S-K promulgated by the SEC.

With the assistance of legal counsel to Dynegy, the Corporate Governance and Nominating Committee reviewed the answers to annual questionnaires completed by the directors and director nominees as well as the above-described legal standards for Board and committee member independence and the criteria applied to determine audit committee financial expert status. On the basis of this review, the Corporate Governance and Nominating Committee made its recommendation to the full Board and the Board made its independence and audit committee financial expert determinations after consideration of the Corporate Governance and Nominating Committee's recommendation and a review of the materials made available to the Corporate Governance and Nominating Committee.

**Director Nomination Process**

Dynegy's director nominees are approved by the Board after considering the recommendation of the Corporate Governance and Nominating Committee. A copy of the Corporate Governance and Nominating Committee's charter is available in the Corporate Governance section of our

website at [www.dynegy.com](http://www.dynegy.com).

The Board may be comprised of (i) up to three Class B directors, which directors are elected by the holder of the outstanding shares of Class B common stock pursuant to our Articles of Incorporation, and (ii) up to twelve Class A directors, which directors are elected by the holders of the outstanding shares of Class A common stock. With respect to nominations for Class B director, our Articles of Incorporation provide that the Board will nominate such individuals as may be specified by a majority vote of the then sitting Class B directors or, if there are no such directors, by holders of a majority of the Class B common stock. The Class B director nominees set forth in this proxy statement were specified by the unanimous vote of the current Class B directors.

Regarding nominations for Class A director, the Corporate Governance and Nominating Committee identifies nominees in various ways. The committee considers the current directors that have expressed interest in and that continue to satisfy the criteria for serving on the Board as set forth in our Corporate Governance Guidelines. Other nominees that may be proposed by current directors or members of management or by shareholders are likewise considered. From time to time, the committee engages a professional firm to identify and evaluate potential director nominees.



All director nominees, whether put forth by a shareholder or otherwise, are evaluated in accordance with the qualifications set forth in our Corporate Governance Guidelines. These guidelines require that directors possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of our shareholders at large. They must also have an inquisitive and objective perspective, practical wisdom, mature judgment and sufficient personal resources such that any director compensation to be received from Dynegy would not be sufficiently meaningful to impact their judgment in reviewing matters coming before the Board. Finally, they must be able to work compatibly with the other members of the Board and otherwise have the experience and skills necessary to enable them to serve as productive members of the Board. Directors also must be willing to devote sufficient time to carrying out their fiduciary duties and other responsibilities effectively and should be committed to serve on the Board for an extended period of time. For additional information, please read our Corporate Governance Guidelines.

Of the 13 director nominees set forth in this proxy statement and the accompanying proxy card, 12 are current directors standing for re-election. George L. Mazanec, the sole director nominee who is not a current director, was identified by a professional search firm and recommended by Daniel L. Dienstbier, our retiring non-executive Chairman of the Board. The search firm was paid a fee to assist the Corporate Governance and Nominating Committee in reviewing potential director candidates meeting the evaluation criteria described above.

For purposes of the 2005 annual shareholder meeting, the committee will consider any nominations received by the Secretary from a shareholder of record on or before December 10, 2004 (the 120<sup>th</sup> calendar day before the one-year anniversary date of the release of these proxy materials to shareholders). Any such 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 serving as a director if elected. The nominating shareholder must also submit its name and address, as well as that of the beneficial owner if applicable, and the class and number of shares of Dynegy common stock that are owned beneficially and of record by such shareholder and such beneficial owner. Finally, the nominating shareholder must discuss the nominee's qualifications to serve as a director as described in our Corporate Governance Guidelines.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

*Class A Common Stock Directors*

Eleven Class A common stock directors are to be elected at the annual meeting by the holders of Class A common stock to serve one-year terms. The affirmative vote of a majority of the shares of Class A common stock represented in person or by proxy and entitled to vote is required to elect a Class A common stock director. Under Illinois law, abstentions have the effect of votes against the election of the director nominees.

Under Illinois law and our Articles of Incorporation, holders of Class A common stock are entitled to cumulate their votes in the election of the Class A common stock directors. Each holder of Class A common stock is entitled to eleven votes (the number of Class A common stock directors to be elected) for each of such holder's shares. Holders of Class A common stock may:

cast their votes equally for all candidates;

cast all of their votes for any one candidate whose name has been placed in nomination prior to voting; or

distribute their votes among two or more candidates in any proportion.

If you choose to cumulate your votes other than equally, you **MAY NOT** use telephone or Internet voting. Rather, you **MUST** vote by signing, dating and returning the enclosed proxy card in the envelope provided or by attending the annual meeting and voting in person.

Unless you withhold authority to vote or instruct otherwise, the enclosed proxy will be voted **FOR** the election of the nominees listed below equally or cumulatively, as the proxies may determine. Although the Board of Directors does not contemplate that any of the nominees will be unable to serve, if such a situation arises prior to the annual meeting, the persons appointed in the enclosed proxy card will vote for the election of such other persons that may be nominated by the Board of Directors.

*Class B Common Stock Directors*

Two Class B common stock directors are to be elected at the annual meeting by the holder of our Class B common stock to serve one-year terms. The affirmative vote of a majority of the shares of Class B common stock represented in person or by proxy and entitled to vote is required to elect a Class B common stock director. Under our Articles of Incorporation, CUSA, as the sole holder of Class B common stock, is entitled to nominate and elect up to three Class B common stock directors.

*Director Information*

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All of the nominees for Class A common stock director and Class B common stock director, except for George L. Mazanec, are currently directors of Dynegy. The following table sets forth information regarding the names, ages and principal occupations of the current directors and director nominees, other directorships held by them in public companies and the length of their service as a director of Dynegy.

Directors and Nominees	Principal Occupation and Directorships	Age as of March 15, 2004	Director Since
<b>Class A Common Stock Directors</b>			
Daniel L. Dienstbier	Non-Executive Chairman of the Board of Dynegy	63	1995
Bruce A. Williamson	President and CEO of Dynegy	44	2002
Charles E. Bayless	Retired Chairman, President and Chief Executive Officer of Illinova Corporation; Director of True Pricing LLC, Patina Oil & Gas Corporation, Predict Power Inc. and Thermon Corporation	61	2000
David W. Biegler	Chairman of Estrella Energy; Director of Trinity Industries, Inc.	57	2003
Linda Walker Bynoe	President and Chief Executive Officer of Telemat Ltd; Director of CitiStreet Funds, Inc., Angelo & Maxie s, Inc., Fidelity Life Association and Simon Property Group, Inc.	51	2002
Thomas D. Clark, Jr.	Director, Center for Virtual Organizations and Commerce, E.J. Ourso College of Business Administration, Louisiana State University	63	2003
Barry J. Galt	Retired Chairman and Chief Executive Officer of Seagull Energy Corp.; Director of Trinity Industries, Inc., StanCorp Financial Group, Inc. and Abraxas Petroleum Corp.	70	2002
Patricia A. Hammick	Former Senior Vice President, Strategy and Communications of Columbia Energy Group; Consultant and Adjunct Professor at George Washington University; Director of Consol Energy, Inc.	57	2003
George L. Mazanec	Retired Advisor to the Chief Operating Officer of Duke Energy Corporation and Former Vice Chairman of PanEnergy Corporation; Director of National Fuel Gas Company, Northern Trust Bank of Texas, NA and AEGIS Insurance Services, Inc.	67	
Robert C. Oelkers	Retired Vice President and Comptroller of Texaco Inc.	59	2002
Joe J. Stewart	Retired President of BWX Technologies, Inc. and Past President and Chief Operating Officer of The Babcock & Wilcox Company; Retired Executive Vice President of McDermott International, Inc.	65	2000
William L. Trubeck	Executive Vice President, Western Group of Waste Management Inc.; Director of Yellow Roadway Corporation	57	2003
<b>Class B Common Stock Directors</b>			
Howard B. Sheppard	Assistant Treasurer, ChevronTexaco Corp.	58	2004
Raymond I. Wilcox	Vice President, ChevronTexaco Corp. and President, ChevronTexaco Exploration & Production Company	58	2003

Set forth below is additional biographical information with respect to our current directors and director nominees.

**Daniel L. Dienstbier** has served as non-executive Chairman of the Board of Dynegy since September 2002 and as a director of Dynegy since 1995. He served as interim CEO of Dynegy from May 2002 until Mr. Williamson's election in October 2002 and as President of Northern Natural Gas Company, which was a Dynegy subsidiary, from February 2002 until May 2002. Mr. Dienstbier has over thirty-five years of experience in the oil and gas industry. He served as President and Chief Operating Officer of American Oil & Gas Corp. from October 1993 through July 1994, President and Chief Operating Officer of Arkla, Inc. from July 1992 through October 1993, and President of Jule, Inc., a private company involved in energy consulting and joint venture investments in the pipeline, gathering and exploration and production industries, from February 1991 through June 1992. Previously, Mr. Dienstbier served as President and Chief Executive Officer of Dyco Petroleum Corp. and Executive Vice President of Diversified Energy from February 1989 through February 1991. In addition, he served as President of the Gas Pipeline Group of Enron Corp. from July 1985 through July 1988. Mr. Dienstbier is a former director of American Oil & Gas Corp., Arkla, Inc., Enron Corp. and Midwest Resources. He is also a former member of the Audit and Compliance Committee of Northern Border Partners, L.P.

**Bruce A. Williamson** has served as President, CEO and as a director of Dynegy since October 2002. Prior to joining Dynegy, Mr. Williamson served in various capacities with Duke Energy and its affiliates, most recently serving as President and Chief Executive Officer of Duke Energy Global Markets. In this capacity, he was responsible for all Duke Energy business units with global commodities and international business positions. Mr. Williamson joined PanEnergy Corporation in June 1995, which then merged with Duke Power in June 1997. Prior to the Duke-PanEnergy merger, he served as PanEnergy's Vice President of Finance. Before joining PanEnergy, he held positions of increasing responsibility at Shell Oil Company, advancing over a 14-year period to Assistant Treasurer.

**Charles E. Bayless** served as Chairman of Illinova and Illinois Power from August 1998 until his retirement in December 1999. Mr. Bayless served as Chief Executive Officer of Illinova and President of Illinois Power from July 1998 until September 1999. He was Chairman, President and Chief Executive Officer of UniSource Energy Corporation from 1992 to 1998. Mr. Bayless served as a Director of Illinova from 1998 until becoming one of our directors upon the closing of the Dynegy-Illinova merger in February 2000. Mr. Bayless also serves on the boards of directors of several energy and energy-related technology companies, including True Pricing LLC, Patina Oil & Gas Corporation, Predict Power Inc., and Thermon Corporation.

**David W. Biegler** was elected to the Board in April 2003. Since August 2003, he has served as Chairman of Estrella Energy, L.P., which was formed to engage in the acquisition, construction and management of natural gas industry assets, with an emphasis upon intrastate and regional interstate pipelines. From 1997 until 2001, he served as President and Chief Operating Officer of TXU Corporation, which engages in power generation and energy marketing and provides electric and natural gas utility services and other energy-related services. From 1993 to 1997, he served as Chairman, President and Chief Executive Officer of ENSERCH Corp. Mr. Biegler is also the retired Vice Chairman of TXU Corporation and current Chairman of Regency Gas Services, LLC. He currently serves as a Director of Trinity Industries, Inc. and Austin Industries, Inc. and as Chairman of the American Gas Foundation.

**Linda Walker Bynoe** was elected to the Board in September 2002. Ms. Bynoe has served as President and Chief Executive Officer of Telemat Ltd., a project management and consulting firm, since 1995 and previously as Chief Operating Officer since 1989. Ms. Bynoe also currently serves as a Director of CitiStreet Funds, Inc., Angelo & Maxie's, Inc., Fidelity Life Association and Simon Property Group, Inc. From 1978 to 1989, Ms. Bynoe held various positions with the Capital Markets division of Morgan Stanley, serving as Vice President from 1984 to 1989. Prior to 1976, Ms. Bynoe was a certified public accountant in the audit and tax division of Arthur Andersen & Co.

**Thomas D. Clark, Jr.** was elected to the Board in July 2003. Mr. Clark is the Edward G. Schlieder Distinguished Chair of Information Science and Director of the Center for Virtual Organizations and Commerce



at Louisiana State University. Mr. Clark also serves on the boards of Louisiana Tobacco Settlement Corp., several community organizations and four privately-held companies. Mr. Clark was previously Dean of the E.J. Ourso College of Business Administration at Louisiana State University. Prior to this position, he was the Gage Crocker Outstanding Professor at the Air Force Institute of Technology where he served in the School of Engineering. Mr. Clark also served as a decision analyst for the Assistant Secretary of the Air Force and was the functional manager of the USAF Maintenance Management Information System.

**Barry J. Galt** was elected to the Board in September 2002. Mr. Galt served as a director of Ocean Energy, Inc. from his retirement in 1999 until the acquisition of Ocean Energy by Devon Energy Corporation in April 2003. He served as Chairman and Chief Executive Officer of Seagull Energy Corporation, the predecessor to Ocean Energy, from 1983 through 1998 and as Vice Chairman of Seagull from January 1999 until May 1999. Prior to his employment by Seagull, Mr. Galt acted as President and Chief Operating Officer of The Williams Companies. Mr. Galt has also served as a director of Trinity Industries, Inc. since 1989, a director of StanCorp Financial Group, Inc. since 1989 and a director of Abraxas Petroleum Corp. since September 2003.

**Patricia A. Hammick** was elected to the Board in April 2003. She currently serves as a director and member of the audit committee of Consol Energy, Inc. She is also currently a consultant and adjunct professor in graduate studies at George Washington University. Ms. Hammick served as Senior Vice President, Strategy and Communications and a member of the management committee of Columbia Energy Group from 1998 through 2000 and was Vice President, Corporate Strategic Planning, for Columbia Energy Group from 1997 through 1998. From 1983 to 1996, she served as the Chief Operations Officer for the National Gas Supply Association in Washington, D.C., and held a management position with Gulf Oil Exploration and Production Company from 1979 through 1983. Prior to 1979, Ms. Hammick worked for the American Petroleum Institute, the Center for Naval Analysis and the Naval Weapons Center.

**George L. Mazanec** has served as a member of the board of directors of National Fuel Gas Company, a diversified energy company, since October 1996. Mr. Mazanec was Advisor to the Chief Operating Officer of Duke Energy Corporation from August 1997 to 2000, and Vice Chairman of PanEnergy Corporation from 1989 until October 1996. He previously served as a director of TEPPCO, LP from 1992 to 1997, as a director of Northern Border Pipeline Company Partnership from 1993 to 1998, and as a director of Westcoast Energy Inc. from 1996 to 2002. Mr. Mazanec is the former Chairman of the Management Committee of Maritimes & Northeast Pipeline, L.L.C. and currently serves as a director of the Northern Trust Bank of Texas, NA and AEGIS Insurance Services, Inc. He has also served as a Member of the Board of Trustees of DePauw University since 1996.

**Robert C. Oelkers** was elected to the Board in August 2002. He served as President of Texaco International Trader Inc. from April 1999 until his retirement in October 2001. Mr. Oelkers served as Vice President and Comptroller of Texaco Inc. from April 1994 until March 1999. Mr. Oelkers was employed by Texaco Inc. from 1966 until his retirement. Mr. Oelkers also served as a member of the Financial Accounting Standards Board's Advisory Committee from 1997 through 2000.

**Joe J. Stewart** served as President of BWX Technologies, Inc., Lynchburg, Virginia, and Executive Vice President of McDermott International, Inc., New Orleans, Louisiana, a diversified energy and environmental equipment and services company, from 1995 until his retirement in 1998. He was President and Chief Operating Officer of The Babcock & Wilcox Company and Executive Vice President of McDermott International, Inc. from 1993 to 1995 and Executive Vice President of the Power Generation Group of The Babcock and Wilcox Company from 1987 to 1993. Mr. Stewart also served as Vice President & Group Executive of McDermott Marine Construction, Europe Operations from 1984 to 1987, and was President of Babcock & Wilcox International from 1980 to 1984. Mr. Stewart served as a Director of Illinova from 1998 until the closing of the Dynegy-Illinova merger in February 2000.

**William L. Trubeck** was elected to the Board in April 2003. He has served as director and member of the audit committee of Yellow Roadway Corporation since April 2003 and Executive Vice President of Waste





Management Inc. s Western Group since April 2003. He previously served Waste Management as Executive Vice President, Operations Support, and Chief Administrative Officer from May 2002 until April 2003 and Executive Vice President and Chief Financial Officer from March 2001 until April 2002. He was Senior Vice President Finance and Chief Financial Officer of International Multifoods, Inc. from 1997 until March 2000, and President, Latin American Operations of International Multifoods, Inc. from 1998 until March 2000.

**Howard B. Sheppard** was appointed to the Board in March 2004. He has served as Assistant Treasurer of ChevronTexaco Corp. since October 2001 and previously served as Assistant Treasurer of Chevron Corp. from February 1988 until October 2001. Mr. Sheppard has been employed by ChevronTexaco and its affiliates since the merger of Gulf Oil Corporation with Chevron Corporation in 1985. Prior to the merger, he held positions of increasing responsibility at Gulf Oil Corporation, advancing over a 16-year period to Assistant Treasurer.

**Raymond I. Wilcox** was named President of ChevronTexaco Exploration and Production Company and Vice President of ChevronTexaco Corporation in January 2002. Previously, he served as Managing Director of ChevronTexaco s Nigeria/Mid-Africa strategic business unit, a position he assumed in October 2001. Mr. Wilcox also previously served as chairman and managing director of Chevron Nigeria Ltd. from January 2000 until October 2001, following his service as general manager of asset management for that entity beginning in 1999. Mr. Wilcox has been employed by ChevronTexaco and its affiliates since 1968.

The Board of Directors unanimously recommends that shareholders vote **FOR** the election of the nominees to the Board of Directors.

#### **Directors Meetings and Committees of the Board of Directors**

During 2003, our Board of Directors held twelve meetings. Each director attended at least 75% of the total number of meetings of the Board of Directors during the period for which he or she has been a director and at least 75% of the total number of meetings held by all committees of the Board on which he or she served during the period that he or she served. Under our Corporate Governance Guidelines, directors who are not members of a particular committee are entitled to attend meetings of each such committee. The Board of Directors has the following committees:

**Audit and Compliance Committee.** The Audit and Compliance Committee, which currently is comprised of Messrs. Oelkers (chairman), Bayless, Galt and Trubeck and Messes. Bynoe and Hammick, met fifteen times during 2003. The Audit and Compliance Committee assists the Board of Directors in its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent auditors qualifications and independence and the performance of our internal audit function and the independent auditors. Please read Audit and Compliance Committee Report for a discussion of the Audit and Compliance Committee s review of our 2003 audited financial statements.

**Executive Committee.** The Executive Committee, which currently is comprised of Messrs. Dienstbier (chairman), Bayless, Galt, Oelkers, Stewart, Sheppard and Williamson, met two times during 2003. The Executive Committee is comprised of the Chairman of the Board and/or Lead Director, the CEO, the Committee Chairpersons and one Class B director. This committee has the authority to review certain matters below the threshold for the full Board and is principally responsible for reviewing policies and programs designed to create a strong corporate image and for advising the Board on significant public affairs.

**Corporate Governance and Nominating Committee.** The Corporate Governance and Nominating Committee, which currently is comprised of Messrs. Bayless (chairman), Biegler, Clark and Oelkers and Ms. Hammick, met five times during 2003. The Corporate Governance and Nominating Committee is responsible for identifying director nominees, developing and reviewing our Corporate Governance Guidelines and

overseeing the evaluation of the Board and management.

**Compensation and Human Resources Committee.** The Compensation and Human Resources Committee, which currently is comprised of Messrs. Galt (chairman), Stewart and Trubeck and Ms. Bynoe, met five times during 2003. The Compensation and Human Resources Committee is responsible for reviewing and approving corporate goals and objectives relevant to compensation of the CEO and other related matters, making recommendations to the Board regarding non-CEO compensation and incentive plans and providing an annual compensation report. This committee also establishes our overall compensation strategy and reviews executive development and executive succession plans. Please read [Compensation and Human Resources Committee Report on Executive Compensation](#) for a discussion of our 2003 executive compensation.

**Risk, Environment and Operations Committee.** The Risk, Environment and Operations Committee, which currently is comprised of Messrs. Stewart (chairman), Biegler, Clark and Wilcox, met five times during 2003. The Risk, Environment and Operations Committee is responsible for reviewing our environmental and occupational health and safety programs and policies and our compliance with these programs and policies, reviewing our loss prevention policies and risk management programs, including our insurance coverage, and monitoring the operational performance trends of our major operating segments.

### Compensation of Directors

**General.** During 2003, each non-employee director other than the non-executive Chairman of the Board was paid an annual retainer of \$30,000 per year, plus \$2,000 per board meeting and \$1,000 per committee meeting attended. Chairpersons of the Audit and Compliance Committee and the Compensation and Human Resources Committee received chairpersons' fees of \$50,000 and \$25,000, respectively, while the chairpersons of the Corporate Governance and Nominating Committee and the Risk, Environment and Operations Committee received chairpersons' fees of \$10,000. Further, members of the Audit and Compliance Committee and the Compensation and Human Resources Committee received additional annual retainers of \$5,000 and \$2,500, respectively. The annual retainer, as well as meeting attendance and committee chairpersons' fees, are payable in cash and may be deferred in one or more investment options, including phantom stock units, at a particular director's election. Non-employee directors also receive annual phantom stock grants with a value of \$50,000, awarded quarterly in arrears based on the closing price of our Class A common stock on the last trading day of the quarter. Upon termination of one's service as a director, the shares of phantom stock become payable, at the director's election, in a lump sum payment or in monthly, quarterly or annual installment payments following such termination. The shares of phantom stock are payable in cash or in shares of Class A common stock. No annual stock option grants were made to non-executive directors in 2003 or are contemplated under our current compensation structure.

In addition, each director is entitled to reimbursement for his or her reasonable out-of-pocket expenses incurred in connection with travel to and from, and attendance at, meetings of the Board of Directors or its committees and related activities. Directors who are employees of Dynegy or employees of ChevronTexaco are not compensated for their services.

**Daniel L. Dienstbier Compensation Arrangements.** Mr. Dienstbier was elected non-executive Chairman of the Board on September 19, 2002, and has continued to serve as non-executive Chairman of the Board since Mr. Williamson's election on October 23, 2002. Pursuant to a services agreement relating to Mr. Dienstbier's service as non-executive Chairman of the Board, we paid him \$83,333 per month through January 31, 2003 and \$41,667 per month from February 1, 2003 through May 31, 2003.

Effective as of June 1, 2003, in his capacity as non-executive Chairman of the Board, Mr. Dienstbier is being paid an annual retainer of \$150,000. He otherwise is eligible to receive meeting fees and stock unit grants, but he is not entitled to additional director or related fees other than reasonable expense reimbursements.

In March 2004, we entered into a two-year consulting services agreement with Mr. Dienstbier effective as of May 20, 2004, the date of our annual shareholder meeting and upon which his service as a member of our Board will cease. His annual compensation pursuant to this agreement will be \$75,000 and will be paid in equal installments at the end of each quarter. Under this agreement, Mr. Dienstbier has agreed to advise Dynegy on all matters concerning its securities, ERISA and derivative litigation, and to provide other assistance on matters designated by management. Either party may terminate this agreement on 30 days prior written notice. If Dynegy terminates the agreement prior to its scheduled expiration, Mr. Dienstbier will be entitled to receive, on the 15<sup>th</sup> day following the 30-day notice period, a lump sum payment equal to all compensation he would have received under the agreement if the full term had been completed. Alternatively, if Mr. Dienstbier terminates the agreement in advance of the scheduled expiration, he will only be entitled to compensation earned on or before the termination date.

Please see [Corporate Governance](#) [Separation of Chairman and CEO](#); [Lead Director](#) above for a discussion of the Board's anticipated actions resulting from Mr. Dienstbier's decision not to stand for re-election at the annual meeting.

### **Certain Transactions and Other Matters**

For a description of certain transactions with management and others, certain business relationships, indebtedness of management and compliance with Section 16(a) of the Securities Exchange Act of 1934, see [Executive Compensation](#) [Employment Agreements](#), [Certain Relationships and Related Transactions](#) and [Section 16\(a\) Beneficial Ownership Reporting Compliance](#).

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**PRINCIPAL SHAREHOLDERS**

The following table sets forth certain information regarding beneficial ownership of our capital stock as of March 15, 2004, except as otherwise noted, by (i) each person who we know to own beneficially 5% or more of our Class A common stock or Class B common stock, (ii) each director or nominee for director, (iii) each current executive officer named in the Summary Compensation Table set forth below and (iv) all directors, nominees for director and current executive officers as a group. Share amounts and percentages shown for each individual or group in the table are adjusted to give effect to the exercise of all options exercisable by such individual or group within 60 days of March 15, 2004, regardless of whether such options are currently in the money.

	Number of Shares(1)		Percent of Class A Common Stock(2)
	Class A Common Stock	Class B Common Stock	
ChevronTexaco Corporation(3) Chevron U.S.A. Inc. 6001 Bollinger Canyon Road, Bldg. A4 San Ramon, CA 94583		96,891,014	25.7%(3)
Vanguard Fiduciary Trust Company(4) 500 Admiral Nelson Blvd. Malvern, PA 19355	14,554,317		5.2%
Bruce A. Williamson(5)		753,199	