

KGEN POWER CORPORATION
Four Oaks Place
1330 Post Oak Boulevard, Suite 1500
Houston, Texas 77056

November 11, 2009

To the Stockholders of KGen Power Corporation:

On behalf of the Board of Directors, we cordially invite you to attend the 2009 Annual Meeting of Stockholders of KGen Power Corporation. The Annual Meeting will be held on December 10, 2009, at 10:00 a.m., local time, at the offices of Fried, Frank, Harris, Shriver & Jacobson LLP, 375 Park Avenue, 36th Floor, New York, New York 10152.

A description of business to be conducted at the Annual Meeting is set forth in the attached Notice of Annual Meeting and Proxy Statement. Also enclosed is a copy of our fiscal year 2009 Annual Report to Stockholders.

It is important that your views be represented whether or not you are able to be present at the Annual Meeting. We urge you to vote on the Internet or by telephone using the number shown on your proxy card, or to complete, sign, date, and return the enclosed proxy card promptly in the accompanying postage-paid envelope.

To Vote by Internet and to Receive Materials Electronically

Read the Proxy Statement

Go to the website (www.proxyvote.com) that appears on your Proxy Card.
Enter the control number found in the shaded box on the front of your
Proxy Card and follow the simple instructions.

Choose to receive an e-mail notice when proxy statements and annual reports are
available for viewing over the Internet. You will cut down on bulky paper
mailings, help the environment, and lower expenses paid by your company.

The deadline for Internet and telephone voting is 11:59 p.m., Eastern Standard Time, on December 9, 2009. We encourage you to vote via the Internet using the control number that appears on the front of your Proxy Card and to choose to view future mailings electronically rather than receiving them on paper.

Sincerely,



Daniel Hudson
Chairman



Thomas B. White
President and Chief Executive Officer

KGEN POWER CORPORATION

NOTICE OF THE 2009 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on December 10, 2009

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of KGen Power Corporation will be held on December 10, 2009, at 10:00 a.m., local time, at the offices of Fried, Frank, Harris, Shriver & Jacobson LLP, 375 Park Avenue, 36th Floor, New York, New York 10152, for the following purposes:

1. To elect four directors to the Board of Directors, each to hold office until the 2010 Annual Meeting of Stockholders and until such director's respective successor shall have been duly elected and qualified;
2. To ratify the appointment by the Board of Directors of Deloitte & Touche LLP as the independent registered public accountants for the Company for the fiscal year ending June 30, 2010;
3. To approve the Company's stockholders rights plan; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

This Notice is accompanied by a form of proxy, a Proxy Statement and the Company's Annual Report to Stockholders for the fiscal year ended June 30, 2009 (the "Annual Report"). The foregoing items of business are more fully described in the Proxy Statement.

In accordance with the Company's Bylaws, the close of business on October 30, 2009 has been fixed as the Record Date for the determination of the stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. A list of stockholders entitled to notice of and to vote at the Annual Meeting will be available for examination by any stockholder, for any purpose germane to the meeting, at the offices of Fried, Frank, Harris, Shriver & Jacobson LLP, Attention: Stephen Onyango, Esq., One New York Plaza, New York, New York 10004, during ordinary business hours for the ten days immediately prior to the Annual Meeting. The stockholder list will also be available for inspection at the Annual Meeting by any stockholder present at the meeting.

By Order of the Board of Directors,



William R. Marlow
Secretary

Houston, Texas
November 11, 2009

IMPORTANT

Most stockholders have a choice of voting on the internet, by telephone, or by mail using a traditional proxy card. Please refer to the proxy card or other voting instructions included with these proxy materials for information on the voting methods available to you. If you vote by telephone or on the internet, you do not need to return your proxy card.

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PROXY STATEMENT FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS

General

The enclosed proxy is solicited on behalf of the Board of Directors of KGen Power Corporation (the “Company” or “KGen”) for use at the Annual Meeting of Stockholders to be held on December 10, 2009, at 10:00 a.m., local time, or at any adjournment thereof (the “Annual Meeting”). The Annual Meeting will be held at the offices of Fried, Frank, Harris, Shriver & Jacobson LLP, 375 Park Avenue, 36th Floor, New York, New York 10152. The purposes of the Annual Meeting are set forth in the attached Notice of Annual Meeting of Stockholders.

This Proxy Statement, the Notice of Annual Meeting of Stockholders, the form of proxy and the Annual Report are being mailed to stockholders on or about November 11, 2009.

Record Date and Share Ownership

Stockholders of record on the Company’s books at the close of business on October 30, 2009 (the “Record Date”) are entitled to vote at the Annual Meeting. At the Record Date, 55,967,477 shares of the Company’s Common Stock (the “Common Stock”) were issued and outstanding. For information concerning stock ownership by our directors and officers, see the section on “Security Ownership of Directors and Management” that follows.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person who gave the proxy at any time before its use by: (1) delivering to the Company a written notice of revocation prior to the voting of the proxy, (2) submitting a subsequent proxy by Internet or telephone or delivering to the Company a duly executed proxy bearing a later date, or (3) if you are a stockholder of record, attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

Voting and Solicitation

Each stockholder of record is entitled to one vote for each share of Common Stock held in his or her name on the Record Date on each matter submitted to a vote at the Annual Meeting. Cumulative voting is not permitted with respect to any proposal to be acted upon at the Annual Meeting.

If properly completed and received by the Company (whether by mail, telephone or Internet) before the Annual Meeting, any proxy representing shares of Common Stock entitled to be voted at the Annual Meeting and specifying how it is to be voted will be voted accordingly. Any such proxy, however, which fails to specify how it is to be voted on a proposal for which a specification may be made, will be voted on such proposal in accordance with the recommendation of the Board of Directors.

A quorum of stockholders is necessary to hold a valid Annual Meeting. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum. The approval of the proposals presented at the Annual Meeting, other than the election of directors, will require the affirmative vote of a majority of the total votes cast by holders of the outstanding shares of Common Stock entitled to vote and present in person or represented by proxy at the Annual Meeting.

A director nominee will be elected if he receives affirmative votes representing a majority of the votes cast at the meeting with respect to his election. Because each of the Board’s nominees is a current director

of the Company, any nominee who fails to be elected at the Annual Meeting will remain in office as a “holdover” director until the earlier of his resignation, removal or death or the election by the stockholders of a successor director. Votes will be counted by the inspector of election appointed for the meeting, who will separately count “For” and “Against” votes, abstentions and broker non-votes. A “broker non-vote” occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to the proposal and has not received instructions with respect to that proposal from the beneficial owner (despite voting on at least one other proposal for which it does have discretionary authority or for which it has received instructions). Abstentions and broker non-votes will be counted in determining whether a quorum is present. With respect to each of the proposals, abstentions and broker non-votes will not be counted in determining the number of votes necessary for approving the proposal.

When a stockholder signs or otherwise electronically or telephonically submits the proxy card, he or she appoints Thomas White, our Chief Executive Officer, and Steven McDowell, our Vice President, Mergers and Acquisitions and Finance, or each of them, as his or her representatives at the Annual Meeting. Thomas White or Steven McDowell will vote the shares, as instructed on the proxy card (whether by mail, telephone or Internet), at the Annual Meeting. In this manner, the shares will be voted whether or not the stockholder attends the Annual Meeting. Even if the stockholder plans to attend the Annual Meeting, he or she should complete, sign and return or otherwise electronically or telephonically submit the proxy card in advance of the Annual Meeting in the event of a change in plans.

The cost of soliciting proxies will be borne by the Company. In addition, the Company expects to reimburse brokerage firms and other persons representing beneficial owners of Common Stock for their expenses in forwarding solicitation material to such beneficial owners. Proxies may be solicited by mail and may be supplemented by telephone or personal solicitation by certain of the directors, officers and regular employees of the Company or, at the Company’s request, by a professional proxy solicitor. No additional compensation will be paid to directors, officers or regular employees for such services, but if professional proxy solicitors are used, such solicitors will be paid their customary fees by the Company.

Pursuant to Delaware law, the Board of Directors shall appoint an inspector to act at the Annual Meeting. The inspector shall carry out the duties imposed pursuant to Section 231 of the Delaware General Corporation Law, including the counting of votes.

Voting via the Internet or by Telephone

Most beneficial owners whose stock is held in street name receive voting instruction forms from their banks, brokers, or other agents.

A number of brokers and banks participate in a program provided through Broadridge Financial Solutions, Inc. that offers telephone and internet votes of proxies. If your shares are held in an account with a broker or bank participating in the Broadridge Financial Solutions, Inc. program, you may vote your proxy for those shares telephonically by calling the telephone number shown on the form received from your broker or bank, or via the Internet at Broadridge Financial Solutions, Inc.’s web site at <http://www.proxyvote.com>.

Dissenters’ Right of Appraisal

Under Delaware law, there are no statutory or contractual rights of appraisal or similar remedies available to stockholders who dissent from any matter to be acted upon at the Annual Meeting.

**PROPOSAL NO. 1:
ELECTION OF DIRECTORS**

Four directors are to be elected to the Board of Directors at the Annual Meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the four nominees of the Board of Directors named below, all of whom are presently directors of the Company and have served continuously since the month and year indicated opposite each such director's name in the following table, each to hold office for a term expiring at the next Annual Meeting of Stockholders of the Company and until such director's successor shall have been duly elected and qualified. In the event that any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies voted for that nominee will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director.

Nominees for the Board of Directors

The names of the nominees for director, their ages and certain other information about them are set forth below:

<u>Name of Nominee</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Daniel T. Hudson	43	Chairman of the Board; principal owner of Navasota Energy Partners LP and Montgomery Energy Partners LP; Managing Member and Chief Financial Officer of Navasota Holdings Texas Partners LP	February 2008
James P. Jenkins	61	Managing Director, Transaction Development, King Street Capital Management, L.P.	May 2008
Gerald J. Stalun	51	Managing Director and the global head of power at The TCW Group, Inc.'s Energy & Infrastructure Group	May 2008
Thomas B. White	53	President and Chief Executive Officer of the Company	April 2008

There is no family relationship between any director, executive officer or person nominated or chosen by the Company to become a director or executive officer of the Company.

The following information, which has been provided by the Company's director nominees, sets forth each such person's principal occupation, employment and business experience during the past five years, and the period during which such person served as a director of the Company.

Daniel T. Hudson

Mr. Hudson became a director in February 2008 and was elected Chairman of the Board in May 2008. Mr. Hudson is a principal owner of Navasota Energy Partners LP and Montgomery Energy Partners LP, as well as a member of the Board of Managers and Chief Financial Officer of the general partner of Navasota Holdings Texas Partners LP, a 1,650 MW ERCOT portfolio. He is responsible for M&A, capital formation/management from private equity, third party debt and equity-raising. During 20 years of industry experience, Mr. Hudson has focused on wholesale electric and gas markets. His background includes asset acquisition and divestiture strategies, implementation and financing at Navigant Consulting, Duke Energy North America and NRG Energy. Prior to joining Navigant, Mr. Hudson served as Managing Director of Acquisitions and Divestitures for Duke where he led the company's acquisition and divestiture program. Mr. Hudson received a BS in Mechanical Engineering from the University of Minnesota and an MBA from the University of St. Thomas.

James P. Jenkins

Mr. Jenkins became a director in May 2008. Mr. Jenkins is a Managing Director, Transaction Development at King Street Capital Management, L.P. In this capacity, Mr. Jenkins utilizes his senior

restructuring and investment banking skills in assisting the investment team, particularly in special situations, distressed and event-driven investments and investment opportunities being considered. Mr. Jenkins joined King Street in April 2007 after five years at Mellon HBV Alternative Strategies, where he was a Portfolio Manager and head of the distressed investing group. At Mellon HBV, Mr. Jenkins served on several official and unofficial creditor or equity committees, including Adelphia, Advanced Lighting, Delta Air Lines, Impath, Ormet, Outsourcing Services Group, Peregrine Systems and Solutia. Prior to Mellon HBV, Mr. Jenkins spent his entire career in investment banking. He ran the Investment Banking and Capital Markets group at Advest for two years. Prior to that, Mr. Jenkins spent 12 years at CS First Boston where he was a Managing Director in the Reorganization Group and the Leveraged Finance Group, and where he advised numerous debtors and creditor groups, both in and out of bankruptcy, including AK Steel, CalFed, Charter Companies creditors, Cleveland-Cliffs, GlenFed, Harvard Industries, Imo Industries, LTV creditors, Mcorp, Midway Airlines, Presidio Oil, Spreckels Industries and Terex. Prior to his time at CS First Boston, Mr. Jenkins spent 12 years at Lehman Brothers in general corporate finance, sovereign debt restructuring and corporate reorganization. Mr. Jenkins was formerly a director of several companies, including Frederick's of Hollywood, Interboro Insurance Company (Chairman), Outsourcing Services Group, Peregrine Systems (Chairman), The Robbins Company (Chairman) and Telespectrum Worldwide. Mr. Jenkins received both a BA in English in 1970 and an MBA in 1972 from Stanford University.

Gerald J. Stalun

Mr. Stalun became a director in May 2008. Mr. Stalun is a Managing Director and the global head of power at The TCW Group, Inc.'s Energy & Infrastructure Group (TCW EIG). TCW EIG currently has approximately \$7 billion of energy and infrastructure investments under management. Mr. Stalun has more than 20 years experience in the global power business, most recently as Head of Asset Based Investments for Arcapita, a leading private equity firm active in the sector. Previous positions in the industry include SVP of GE Financial Services, Managing Director and Executive Vice President of Duke Capital Partners and Managing Director and Co-Head of Power Project Finance for Bank of America. He has an MBA from the University of Chicago, is a Certified Public Accountant and attended the University of Illinois as an undergraduate. Previous board memberships include Bosque Power and Falcon Gas Storage.

Thomas B. White

Mr. White became a director in April 2008 and was named President and Chief Executive Officer in March 2009. From 2006 to March 2009, Mr. White was employed as a director by Stark Investments, a multi-strategy asset management firm. At Stark, Mr. White was responsible for the identification, evaluation, and closing on private equity type investments in physical energy assets and businesses, as well as supporting continuing asset management activities for investments made by Stark through the energy asset team and investment employed through other asset strategies including risk arbitrage and commodity hedging structures. From 2002 to 2006, Mr. White was employed by Marathon Capital, LLC, a boutique investment banking firm focusing on the power generation and renewable energy markets, where he was an officer and Managing Director from 2003 to 2006. At Marathon, Mr. White was the principal executive responsible for banking, origination and marketing activities which included the sourcing, evaluation, and closing of non-recourse financing structures for renewable and conventional energy assets and for managing financial consulting efforts with corporate clients in the acquisition and divestiture of energy assets and portfolios in these markets. From 1996 to 2002, Mr. White was employed by Duke Energy, where he was senior director, Development, for Duke Energy North America from 2001 to 2002 and Vice President, Industrial Services, for DukeSolutions, Inc. from 1997 to 2001. Mr. White received his Bachelor of Sciences in Mechanical Engineering from the University of Illinois and is a Registered Professional Engineer in the State of Illinois. From 2004 to 2007, Mr. White was a Registered Representative and held Series 7 and Series 63 Licenses.

The Board of Directors recommends a vote FOR each named nominee for director.

**PROPOSAL NO. 2:
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

The Board of Directors selected Deloitte & Touche LLP, independent registered public accountants, as the independent registered public accountants to audit the financial statements of the Company for the fiscal year ending June 30, 2010 and recommends that the stockholders ratify such selection. Ernst & Young LLP audited the Company's annual financial statements for the period from December 4, 2006 (Inception) to June 30, 2009 and for the fiscal year ended June 30, 2009. Ernst & Young LLP also audited the financial statements of KGen Partners LLC, the company that operated our assets prior to our acquisition of them for the fiscal years ended June 30, 2005 and 2006.

There were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Ernst & Young LLP, would have caused them to make reference thereto in Ernst & Young LLP's reports on the financial statements of the Company for such fiscal years. In addition, during that period, there were no "reportable events" (as defined in Item 304(a)(1)(v) of Regulation S-K). The decision to change the Company's principal independent accountants was made by the Board of Directors primarily for the purpose of reducing the Company's accounting expenses.

Stockholder ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accountants is not required by the Company's Bylaws or otherwise. However, the Board of Directors is submitting the selection of Deloitte & Touche LLP to audit the Company's financial statements for the year ending June 30, 2010 to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Board of Directors will reconsider whether or not to retain the firm. Even if the selection is ratified, the Board of Directors, in its discretion, may direct the appointment of different independent registered public accountants at any time if the Board of Directors determines that such a change would be in the best interests of the Company and its stockholders.

The Board of Directors recommends a vote FOR approval of this proposal. If not otherwise specified, proxies will be voted FOR approval.

**PROPOSAL NO. 3:
APPROVAL OF STOCKHOLDERS RIGHTS PLAN**

General

The Board of Directors is requesting that the Company's stockholders approve the Company's stockholders rights plan. The stockholders rights plan is contained in a Rights Agreement, dated as of July 6, 2009, between the Company and Mellon Investor Services LLC, as Rights Agent. A copy of the Rights Agreement is available on the Company's website at www.kgenpower.com.

Stockholder approval of the Rights Agreement was not required by the Company's Certificate of Incorporation or Bylaws. However, the Board of Directors is submitting the Company's stockholders rights plan to the stockholders for approval as a matter of good corporate governance. If the stockholders rights plan is voted upon at the Annual Meeting and not approved by the Company's stockholders as proposed, it will expire by its terms at the close of business on the date of the Annual Meeting.

Reasons for the Stockholders Rights Plan

The Board of Directors believes that maintaining the stockholders rights plan is in the best interests of stockholders for the following reasons:

- It could provide the Board of Directors with a means to protect stockholders from any attempt that might be made to accumulate a controlling share position in the Company, including a share position that would allow one stockholder or group of stockholders to prevent a sale transaction approved by the Board of Directors, without compensating all stockholders fairly for that control, and to ensure that all of stockholders receive fair and equal treatment in the event of an acquisition of the Company.
- It could provide the Board of Directors with greater flexibility to consider offers for the Company and enhance the Board's ability to negotiate with anyone seeking to control or acquire the Company.
- It could provide the Board of Directors adequate time to assess a takeover proposal in relation to the circumstances and prospects of the Company with a view to maximizing value for all stockholders, and could deter financially inadequate proposals or delay such proposals and thereby afford the Board of Directors time to locate and pursue alternative plans or strategies that maximize value for the Company's stockholders.
- It is not aimed at preventing an acquisition of the Company and does not prevent any person from making an offer to acquire the Company.
- It does not eliminate the responsibility of the Board of Directors to consider acquisition proposals in a manner consistent with their fiduciary duties to stockholders.
- It incorporates "stockholder friendly" features intended to reflect progressive corporate governance practices. These include the following:
 - a three-year term rather than the traditional ten-year term;
 - no feature that limits the ability of the Board of Directors (or any future board) to redeem, amend or terminate the stockholders rights plan at any time; and
 - a stockholder redemption feature under which, if the Board of Directors refuses to redeem the stockholders rights plan within ninety days after a "Qualified Offer" (as described below) for all of the Company's shares is commenced, holders of a majority of the Company's shares held by stockholders other than the offeror can act by written consent to terminate the stockholders

rights plan. See below under “Summary of the Company’s Stockholders Rights Plan—Redemption of the Rights.”

Summary of the Company’s Stockholders Rights Plan

The following is a summary of certain material terms of the Company’s stockholders rights plan as reflected in the Rights Agreement. This summary description does not purport to be complete and is qualified in its entirety by reference to the terms of the Rights Agreement, a copy of which is available on the Company’s website at www.kgenpower.com. We urge you to read the Rights Agreement in its entirety for a complete understanding of its terms.

The Rights

On June 30, 2009, the Board of Directors declared a dividend distribution of one purchase right (a “Right”) for each outstanding share of Common Stock payable to stockholders of record as of the close of business on July 6, 2009. Except in the circumstances described below, each Right, when it becomes exercisable, entitles the registered holder to purchase from the Company one one-thousandth of a share of our Series A Preferred Stock, \$0.01 par value (“Preferred Stock” and each one one-thousandth of a share of Preferred Stock, a “Unit”) at a price of \$25.00 per share (the “Purchase Price”). The Purchase Price is subject to customary anti-dilution adjustments. The rights of a holder of a Unit are substantially equivalent to the rights of a holder of a share of Common Stock.

Term

As noted above, if the rights plan is voted upon by the stockholders and not approved at the Annual Meeting, the Rights will expire at the close of business on the date of the Annual Meeting. If the rights plan is approved at the Annual Meeting, the Rights will expire on the close of business on July 6, 2012, or at any earlier time at which the Board of Directors redeems or terminates the Rights Agreement.

Events Causing Exercisability of the Rights

The Rights will become exercisable after the close of business on the earlier to occur of:

- the tenth calendar day after a public announcement that a person has become an “Acquiring Person” (described below under “—Acquiring Person”); or
- the tenth calendar day (or a later date determined by the Board of Directors) after the commencement by any person of a tender or exchange offer the consummation of which would result in a person becoming an Acquiring Person.

We refer to the date on which the rights become exercisable as the “Distribution Date.”

Until the Distribution Date, (i) the Rights will be evidenced by the Common Stock certificates, and Rights relating to shares of Common Stock not represented by certificates will be represented by notation on the records of the Company and (ii) the Rights will be transferable only in connection with a transfer of the underlying shares of Common Stock. Following the Distribution Date, the Rights Agent will, if requested to do so by the Company, mail separate certificates evidencing the Rights to holders of record of shares of the Common Stock as of the close of business on the Distribution Date, and those separate certificates alone will evidence the Rights from and after the Distribution Date.

Acquiring Person

An “Acquiring Person” is any person who becomes the “beneficial owner” of 15% or more of the shares of Common Stock then outstanding. The Rights Agreement defines “beneficial ownership” to include ownership of Common Stock referenced in derivative transactions and securities.

Each of the following persons will not be deemed to be an Acquiring Person, even if they have acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the shares of Common Stock then outstanding: (i) the Company, any subsidiary of the Company, any employee benefit plan or employee stock plan of the Company or any subsidiary of the Company, or any person organized, appointed, established or holding Common Stock for or pursuant to the terms of any such plan; (ii) any underwriter acting under an agreement with the Company; (iii) any person who becomes the beneficial owner of 15% or more of the shares of Common Stock then outstanding, with the prior approval of the Board of Directors (so long as the person's beneficial ownership level does not exceed the level approved by the Board of Directors); (iv) any person who becomes an Acquiring Person solely by virtue of a reduction in the number of outstanding shares of Common Stock, unless the person's beneficial ownership of shares of Common Stock thereafter increases by 1% or more, without the prior approval of the Board of Directors; and (v) any person who becomes an Acquiring Person inadvertently, in the judgment of the Board of Directors, and within fifteen business days after discovering that it would be an Acquiring Person (but for this exception) the person notifies the Board of Directors and as promptly as practicable (as determined by the Board of Directors) the person divests itself of beneficial ownership of a sufficient number of shares of Common Stock so that the person would not be an Acquiring Person (regardless of this exception).

Exercise of the Rights

If any person becomes an Acquiring Person, then each holder of record of a Right, other than the Acquiring Person, will thereafter have the right to receive, upon payment of the Purchase Price, that number of Units having a value (determined based on the market value of the Common Stock if the Units are not publicly held, listed or traded) at the time the person becomes an Acquiring Person equal to twice the Purchase Price. Any Rights that are or were at any time, on or after the Distribution Date, beneficially owned by an Acquiring Person will become null and void. After such an event, to the extent that insufficient Units are available for the exercise in full of the Rights, holders of Rights will receive upon exercise a number of Units to the extent available and then Common Stock or other securities of the Company, assets, or cash, in proportions determined by the Company, so that the aggregate value received is equal to twice the Purchase Price.

Exercise of Rights for Shares of an Acquiring Company

The Rights Agreement provides that, on or after a public announcement indicating that a person has become an Acquiring Person, if the Company is acquired in a merger or other business combination (in which any shares of Common Stock are changed into or exchanged for other securities or assets) or more than 30% of the assets or earning power of the Company and its subsidiaries (taken as a whole) are sold or transferred in one or a series of related transactions (in either case, other than pursuant to a definitive agreement executed by the Company prior to such announcement), proper provision will be made so that each registered holder of a Right will have the right to receive, upon payment of the Purchase Price, in lieu of Units, that number of shares of common stock of the acquiring company having a value at the time of that transaction equal to two times the Purchase Price.

Redemption of the Rights

At any time until the close of business on the earlier of (i) the Final Expiration Date or (ii) the tenth calendar day of a public announcement indicating that a person has become an Acquiring Person, or thereafter under certain circumstances, the Board of Directors may redeem the Rights in whole, but not in part, at a price of \$0.0001 per Right.

In addition, if the Company receives a "Qualified Offer", as described in the following paragraph, and the Board of Directors has not redeemed the outstanding Rights or exempted such offer from the terms of the Rights Agreement by the end of the ninety calendar-day period following the commencement of such

Qualified Offer, the Rights may be redeemed by way of stockholder action taken by written consent by the holders of record (or their duly authorized proxy) of at least a majority of the shares of Common Stock then outstanding (excluding shares of Common Stock beneficially owned by the person making the Qualified Offer and such person's affiliates and associates) authorizing the redemption of the Rights pursuant to the provisions of the Rights Agreement. The Company must receive the written notice not earlier than ninety calendar days following the commencement of a Qualified Offer, which has not been terminated prior thereto and continues to be a Qualified Offer.

A "Qualified Offer" is an offer determined by a majority of the independent members of the Board of Directors to have, among other characteristics, each of the following:

- the offer is a fully financed, all cash tender offer, or an exchange offer offering shares of common stock of the offeror, or a combination thereof, in each such case for all of the outstanding shares of Common Stock at the same per share consideration;
- the offer is conditioned on a minimum of at least a majority of the outstanding shares of the Common Stock not held by the person making such offer (and such person's affiliates and associates) being tendered and not withdrawn as of the offer's expiration date, which condition shall not be waivable, and must be subject only to other customary terms and conditions, which conditions shall not include any unsatisfied financing, funding or similar conditions;
- the Company must have received an irrevocable written commitment of the offeror that the offer will remain open (i) for at least 120 calendar days or (ii) until at least ten business days following a redemption of the Rights by the Board of Directors or by action of the stockholders, whichever is earlier;
- the Company shall have received an irrevocable written commitment of the offeror to consummate, as promptly as practicable upon successful completion of the offer, a second step transaction whereby all shares of Common Stock not tendered into the offer will be acquired at the same consideration per share actually paid pursuant to the offer, subject to stockholders' statutory appraisal rights, if any;
- the Company and its stockholders shall have received an irrevocable written commitment of the offeror that no amendments will be made to the offer to reduce the consideration being offered or to otherwise change the terms of the offer in a way that is adverse to a tendering stockholder; and
- if the offer includes non-cash consideration, (i) the non-cash portion of the consideration offered must consist solely of common stock of a person that is a publicly-held United States corporation, (ii) such common stock must be freely tradable and listed or admitted to trading on a national securities exchange, and (iii) no stockholder approval of the issuer of such common stock is required to issue such common stock, or, if such approval is required, such approval has already been obtained.

Exchange of Rights

At any time after a person becomes an Acquiring Person, the Board of Directors may exchange all or part of the outstanding Rights (other than those held by an Acquiring Person) for Units at an exchange rate of three Units (or, in the discretion of the Board of Directors for all or certain of the Rights as determined by the Board of Directors, three shares of Common Stock in lieu thereof or such lesser number of shares of Common Stock (but not less than one) as may be determined by the Board of Directors) for each Right. The Company will promptly give public notice of any exchange (although failure to give notice will not affect the validity of the exchange).

Amendments to the Rights Agreement

Until ten calendar days after the close of business on the day of a public announcement indicating that a person has become an Acquiring Person, or thereafter under certain circumstances, the Company may amend the Rights in any manner, without the approval of any holders of the Rights or shares of Common Stock. The Company may also amend the Rights Agreement after that ten calendar-day period to cure ambiguities, to correct defective or inconsistent provisions, to shorten or lengthen any time period under the Rights Agreement, or to change or supplement the provisions of the Rights Agreement in any manner that does not adversely affect the interests of holders of the Rights.

No Stockholder Rights Prior to Exercise

Until a Right is exercised, the holder, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends.

Anti-Takeover Effects

The Rights have anti-takeover effects. The Rights will cause substantial dilution to a person that attempts to acquire the Company without obtaining the approval of the Board of Directors, the redemption of the Rights, or an amendment to the Rights Agreement permitting the acquisition. However, the Rights generally should not interfere with any merger or other business combination approved by the Board of Directors.

The Board of Directors recommends a vote FOR approval of this proposal. If not otherwise specified, proxies will be voted FOR approval.

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

The table below reflects the number of shares beneficially owned by (a) each director of the Company, (b) each executive officer of the Company named in the Summary Compensation Table, and (c) all directors and officers as a group (including officers of the Company not reflected below). Unless otherwise noted, the information is stated as of October 30, 2009. There were 55,967,477 shares of Common Stock outstanding as of October 30, 2009.

<u>Officers/Directors</u>	<u>Shares Beneficially Owned(1)</u>
Daniel T. Hudson	101,321
James P. Jenkins	0(2)
Gerald J. Stalun	0(3)
Thomas B. White	0
James H. Sweeney	169,314
William R. Marlow	101,889
Charles L. Holland	101,788
W. Kevin Redmond	65,930
All officers/directors combined	598,072

Notes:

- (1) Shares beneficially owned include shares subject to options exercisable as of and within 60 days of October 30, 2009. The exercise prices for these options are included in the table set forth below under "Outstanding Equity Awards as of June 30, 2009". Each of the share numbers listed represented less than 1% of the outstanding shares of common stock.

- (2) Mr. Jenkins is a Managing Director of King Street Capital Management, L.P. (KSCM). Funds for which KSCM provides investment advisory services or is an investment manager, together, own 5,574,000 shares of common stock (9.96% of the outstanding shares of common stock). These funds hold an economic interest, but no voting rights, in an additional 589,900 shares of common stock (1.05% of the outstanding shares of common stock). Mr. Jenkins disclaims beneficial ownership of these shares.
- (3) Mr. Stalun is a Managing Director of Trust Company of the West (TCW). Funds and an investor for which TCW Asset Management Company, an affiliate of TCW, is the general partner or investment manager, together, own 5,714,286 shares of common stock (10.21% of the outstanding shares of common stock). Mr. Stalun disclaims beneficial ownership of these shares.

CORPORATE GOVERNANCE

Corporate Code of Conduct

We have adopted a code of conduct for each of our employees to follow. Our Board of Directors and management insist on integrity, honesty and ethical behavior in the workplace.

Independence of the Board of Directors

The Company has affirmatively determined that no member of the Board of Directors (other than Mr. White) has a relationship which, in the opinion of the Company, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director of the Company. Based on this determination, the Board of Directors considers all of its members, except Mr. White, to be independent.

In making this determination, the Company was aware that in 2006, Navasota Energy, of which Mr. Hudson is a Managing Member and Chief Financial Officer, purchased turbines for an aggregate of \$59.0 million from a subsidiary of KGen Partners LLC. KGen Partners LLC was acquired by the Company in February, 2007. This transaction occurred prior to the existence of the Company and its acquisition of KGen Partners LLC, and the relevant subsidiary was no longer a KGen Partners LLC subsidiary at the time of the Company's acquisition of KGen Partners LLC. Accordingly, the Board does not believe that this transaction would interfere with Mr. Hudson's exercise of independent judgment in carrying out his responsibilities as a director of the Company.

NAMED EXECUTIVE OFFICERS

The names, ages, and certain other information pertaining to the named executive officers of the Company listed in the Summary Compensation Table, and who were appointed by and serve at the discretion of the Board of Directors, are set forth below.

<u>Name</u>	<u>Age</u>	<u>Company Position</u>
Thomas B. White	53	President, Chief Executive Officer and Director
James H. Sweeney	51	Senior Vice President, Energy Management
William R. Marlow	42	General Counsel and Secretary
Charles L. Holland	67	Senior Vice President, Operations
W. Kevin Redmond	45	Chief Accounting Officer and Controller

Thomas B. White

Mr. White's biographical information is set forth above under "Proposal No. 1: Election of Directors—Nominees for the Board of Directors."

James H. Sweeney

Mr. Sweeney has been our Senior Vice President, Energy Management since our formation and held that position with our predecessor from June 2004. Prior to joining KGen, Mr. Sweeney was employed by American Electric Power as Vice President—M&A and Divestitures from 2002 to 2004, and as Vice President—Latin America from 1998 to 2002. From 1987 to 1998, Mr. Sweeney held various senior positions at LG&E Energy (formerly Hadson & Ultrasystems) including Vice President—Latin American Development. Mr. Sweeney has a BS in electrical engineering from Worcester Polytechnic Institute and an ME in power systems from Rensselaer Polytechnic Institute.

William R. Marlow

Mr. Marlow has been our General Counsel and Secretary since our formation and held that position with our predecessor from March 2005. Mr. Marlow was an attorney at Bracewell & Patterson LLP from 1992 to 2005 where he left as a partner in the Real Estate, Energy, and Finance practice group. Mr. Marlow holds a BBA from the University of Houston and a JD from The University of Texas School of Law.

Charles L. Holland

Mr. Holland is our Senior Vice President, Operations. Mr. Holland joined our predecessor as Vice President, Operations in October 2004. He was previously employed with Duke Energy from 1995 to 2004. Initially in his career with Duke Energy he held the position of Vice President, Asia Pacific, and was responsible for the development of power projects in that region. Immediately prior to joining the Company he was a Managing Director in the North American merchant power business unit with responsibility for managing the plants that the Company acquired from Duke Energy. Prior to 1995, Mr. Holland held a number of officer-level positions with companies involved in the development, design, construction, and operation of power generating facilities. Mr. Holland holds a BS degree in nuclear engineering from North Carolina State University.

W. Kevin Redmond

Mr. Redmond has been our Chief Accounting Officer & Controller since our formation. Mr. Redmond joined our predecessor as Controller in March 2005. He has over 15 years of experience working with energy related companies. He began his career working as an internal auditor for a national printing company. He subsequently joined Ernst & Young, LLP, an international accounting firm, and worked primarily in the Energy group focusing on power/energy clients during his four-year tenure. Mr. Redmond later joined Tractebel Power, Inc. (aka Suez Energy Generation) and ultimately became Vice President, Controller during his eight-year tenure from 1996 to 2004. He also worked with a local consulting firm, Sirius Solutions, from 2004 to 2005, providing Sarbanes Oxley implementation assistance to energy companies. Mr. Redmond has a BS degree from Texas A&M University and an MBA from University of Houston. He is a licensed Certified Public Accountant.

COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table sets forth information regarding compensation paid to our President and Chief Executive Officer and the next four most highly compensated executive officers for the fiscal year 2009. The Summary Compensation Table and the Outstanding Equity Awards Table should be viewed together to best understand the short- and long-term incentive components of our compensation.

For each named executive officer, the amounts shown in each column represent compensation earned or accrued in or in respect of the fiscal years indicated. Please note that, except as otherwise noted, all amounts reflected below are the total compensation paid to such individuals during the fiscal years 2007, 2008 and 2009, including compensation earned prior to KGen's acquisition of KGen Partners LLC in February 2007. The table below does not reflect (1) payments made in connection with the sale of KGen Partners LLC by its prior owners to certain officers pursuant to a profit sharing plan that was put in place by KGen Partners LLC's previous owners or (2) certain bonus compensation paid to a senior executive bonus plan that was discontinued prior to the Company's acquisition of KGen Partners LLC and (3) certain bonus compensation that was paid prior to the Company's Acquisition of KGen Partners LLC in connection with the sale of certain assets not acquired by the Company.

SUMMARY COMPENSATION TABLE

Named Executive Officer and Principal Position	Fiscal Year	Salary(2) (\$)	Bonus(3) (\$)	Options/ Restricted Stock Awards(4) (\$)	All Other Compensation(5) (\$)	Total (\$)
Thomas B. White, President, Chief Executive Officer and Director(1)	2009	125,593	0	120,000	52,753	298,346
James H. Sweeney, Senior Vice President	2009	318,000	100,000	0	50,512	468,512
	2008	336,745	340,588	0	67,698	745,031
	2007	292,000	300,000	1,224,637	112,786	1,929,423
William R. Marlow, General Counsel and Secretary	2009	300,000	100,000	0	44,147	444,147
	2008	300,000	321,735	0	62,423	684,158
	2007	240,000	340,000	835,529	52,498	1,468,027
Charles L. Holland, Senior Vice President, Operations(6)	2009	310,150	100,000	0	39,384	449,534
W. Kevin Redmond, Chief Accounting Officer and and Controller(6)	2009	232,000	100,000	0	47,341	379,341

- (1) Mr. White became President and Chief Executive Officer in March 2009.
- (2) As of October 30, 2009, the annual base salaries for Messrs. White, Sweeney, Marlow, Holland and Redmond were \$425,000, \$318,000, \$300,000, \$300,000 and \$232,000, respectively.
- (3) For Messrs. Sweeney and Marlow, the bonus amount for 2008 reflects (a) a \$300,000 year-end bonus, plus (b) \$40,588 and \$21,735 respectively, pursuant to a compensation program that has been terminated.
- (4) The assumptions underlying these valuations are discussed in the Company's Annual Report for the year ended June 30, 2009 in "Number 8—Financial Statements and Supplementary Data" under Note 9—"Share-Based Payments." In the case of Mr. White, the Company granted him 20,000 shares

of restricted stock units which vest ratably over three years. The amounts presented represent the aggregate grant date fair value of awards computed in accordance with FAS 123R. The compensation expense recognized in the Company's Annual Report under FAS 123R for each year as a result of the awards are as follows: for Mr. White, \$9,642 for 2009; for Mr. Sweeney, \$408,957 for 2009, \$407,840 for 2008 and \$158,666 for 2007; for Mr. Marlow, \$278,255 for 2009, \$279,018 for 2008 and \$108,253 for 2007; for Mr. Holland, \$248,493 for 2009, and for Mr. Redmond, \$183,891 for 2009.

(5) See table below for further detail.

(6) Neither Mr. Holland nor Mr. Redmond was a named executive officer for fiscal years 2007 and 2008.

ALL OTHER COMPENSATION FOR FISCAL YEAR 2009

Named Executive Officer	Term Life and Disability Premiums Paid by Company (\$)	Medical, Dental and Vision Premiums Paid by Company (\$)	Health Savings Accounts Contributions (\$)	Relocation Allowance (\$)	Tax Gross-Up on Relocation Allowance (\$)	401(k) Matching (\$)	Total (\$)
Thomas B. White	405	1,510	1,644	31,263	17,931	0	52,753
James H. Sweeney	2,678	9,003	5,875			32,957	50,512
William R. Marlow	2,431	9,003	5,875			26,838	44,147
Charles L. Holland	2,497	9,003	0			27,885	39,384
W. Kevin Redmond	2,576	13,443	5,875			25,447	47,341

The following table shows the number and value of stock options (exercisable and not), unvested restricted shares, and as-yet unearned or unvested performance shares held on June 30, 2009 by the named executive officers. All of these options were issued in connection with the Company's acquisition of KGen Partners LLC in February 2007. No new options were granted to employees of the Company in fiscal year 2009.

OUTSTANDING EQUITY AWARDS AS OF JUNE 30, 2009

Named Executive Officer	Option Awards				Stock Unit Awards
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Options Exercise Price (\$)	Options Expiration Date	Number of Units of Stock That Have Not Vested
Thomas B. White(1)	—	—	—	—	20,000
James H. Sweeney(2)	65,314	32,657	14.00	2/7/2017	—
	27,600	13,800	15.40	2/7/2017	
	27,600	13,800	16.80	2/7/2017	
	13,800	6,899	18.20	2/7/2017	
William R. Marlow(2)	34,314	17,155	14.00	2/7/2017	—
	22,730	11,364	15.40	2/7/2017	
	22,730	11,364	16.80	2/7/2017	
	11,365	5,682	18.20	2/7/2017	
Charles L. Holland(2)	38,763	19,380	14.00	2/7/2017	—
	17,210	8,604	15.40	2/7/2017	
	17,210	8,604	16.80	2/7/2017	
	8,605	4,302	18.20	2/7/2017	
W. Kevin Redmond(2)	21,620	10,808	14.00	2/7/2017	—
	15,424	7,711	15.40	2/7/2017	
	15,424	7,711	16.80	2/7/2017	
	7,712	3,856	18.20	2/7/2017	

(1) Mr. White's restricted stock units were granted in connection with entering into his employment agreement and vest ratably over three years on the anniversary of the grant date.

(2) Messrs. Sweeney, Marlow, Holland and Redmond received stock option grants in four tranches (grouped by exercise price) that each vest ratably over three years on the anniversary of the grant date.

OPTION EXERCISES FOR FISCAL YEAR 2009

No stock options were exercised during fiscal year 2009.

EMPLOYEE RETENTION PLAN AND AWARDS

On May 12, 2009, the Board of Directors adopted the KGen Power Management Inc. Employee Performance Bonus and Retention Plan for Senior Employees (the "Performance Bonus and Retention Plan") to reward the Company's senior employees in connection with sales of the Company's power generation facilities and upon a "change in control" (as defined in the Performance Bonus and Retention Plan) and to help retain services of those employees through the completion of any sale of a power generation facility or any change in control and during the transition of business following a change in control. The definition of "change in control" under the Performance Bonus and Retention Plan generally includes (i) the acquisition by any individual, entity or group of beneficial ownership of 50% or more of the Company's then outstanding voting stock or of the ability to elect 50% or more of our directors, except in several instances; (ii) the consummation of a merger, consolidation or reorganization, unless, in each case, the persons who beneficially own the Company's common stock immediately before that transaction beneficially own, directly or indirectly, immediately after the transaction, at least 50% of the Company's common stock or the common stock of any other corporation or other entity resulting from or surviving the transaction (or any entity which, as the result of the transaction, owns all or substantially all of the common stock or assets of the Company) in substantially the same proportion as their respective ownership of the Company's common stock immediately before that transaction; or (iii) a complete liquidation or dissolution of the Company.

Each of the named executive officers (other than Mr. White) participates in the Performance Bonus and Retention Plan. Each participant in the Performance Bonus and Retention Plan is entitled to receive a cash bonus upon the completion of a sale of any of the Company's power generation facilities. The amount of the bonus payable to each participant in connection with a sale of a power generation facility is determined based on a target bonus amount established for the participant and the sale price for that facility. Each participant in the Performance Bonus and Retention Plan is also entitled to receive in connection with a change in control a cash bonus amount specified for that participant. The facility sale bonuses are generally payable to the participants in a lump sum on the third business day after the consummation of the sale, so long as the participant remains employed by the Company until that time. The change in control bonus is generally payable in a lump sum on the 180th day after the consummation of the change in control, so long as the executive remains employed by the Company until that time. A participant is generally also entitled to receive these bonuses if the participant's employment is involuntarily terminated after the time a definitive facility sale or change in control agreement is entered into by the Company and the related facility sale or change in control is consummated within 36 months of the participant's termination. By agreeing to participate in the Performance Bonus and Retention Plan, the participants forfeited any rights they had under the KGen Power Management Inc. Employee Retention Plan.

Mr. White does not participate in the Performance Bonus and Retention Plan. He is entitled to receive bonus opportunities under his employment agreement, as described below under the section entitled "Employment and Severance Agreements."

EMPLOYMENT AND SEVERANCE AGREEMENTS

Each named executive officer is a party to an employment agreement that generally provides for the terms of his employment with the Company and, among other things, entitles the executive officer to certain termination benefits in the event of his involuntary termination.

Under the employment agreements for the named executive officers, these severance benefits vary, depending on the circumstances of the termination (i.e. whether by reason of the executive officer's death or disability, termination by the Company without "cause" or by the executive officer for "good reason," and for some of the executives, whether such termination occurred within the period beginning six months prior to the announcement of an anticipated "change in control" and ending six months following a "change in control" (the "CIC Window Period"). The terms "cause," "good reason" and "change in control" are defined in the executive officer's employment agreement and summarized below). In the event of the executive's death or disability, only payments of amounts due to, or accrued by, the executive officer at the time of the event will be made, including generally, base salary up to the date of death or termination for disability, the amount of any awarded but unpaid bonus, unused vacation days and any deferred compensation (the "Accrued Payments"). In addition, the executive would receive all medical, dental and vision benefits maintained for such executive as of the termination date for 12 months from termination, and the immediate vesting of all unvested options (or restricted stock units in the case of Mr. White). In the event of the executive's termination by us without cause or his resignation for good reason, generally in addition to the payments and benefits described above, he would also be entitled to a cash payment equal to one times the executive's annual base salary either in a lump sum or in installments over one year. In the event that an executive officer is terminated as a result of the Company's decision not to renew the term of his employment agreement, the executive would generally receive the same benefits as upon a termination by us without cause or his resignation for good reason, except that while Mr. White would receive immediate vesting of his restricted stock units, all unvested options held by the other executives would be forfeited.

However, if any of Messrs. Sweeney, Marlow, Holland or Redmond is terminated by us without cause, or if he resigns for good reason within the CIC Window Period, severance benefits under the change in control provisions of the employment agreement are triggered, which include the following benefits:

- Accrued Payments;
- a cash payment equal to one times the executive's annual base salary either in a lump sum or in installments over one year;
- a lump sum cash payment equal to the aggregate target annual bonus for the fiscal year during which such termination of employment occurs (determined as if all applicable goals and targets had been satisfied in full), prorated to the date of such executive's termination; and
- all medical, dental and vision benefits maintained for such executive as of the termination date for 24 months from termination.

For all of the named executive officers, any outstanding stock options, restricted stock awards, phantom stock and other equity-based awards previously granted to such employee shall immediately vest upon a "change in control," subject to the Board of Directors' discretion to require the cancellation of such stock options in exchange for a cash payment.

The definition of "cause" generally means the executive:

- is indicted or charged with a felony or other crime involving fraud or dishonesty (if acquitted or indictment dismissed, termination would be retroactively reinstated);
- commits an act of dishonesty that causes or reasonably is expected to cause material harm to the Company or its subsidiaries;
- materially breaches his employment agreement, which breach is not cured within 30 days of notice;
- breaches any written policies or procedures of the Company or its subsidiaries, which breach causes or is expected to cause material harm to the Company or its subsidiaries; or
- engages in intentional misconduct that causes material harm to the Company or its subsidiaries.

The definition of "good reason" generally means the occurrence, without the executive's prior written consent, of any of the following (subject to notice being given by the executive and the failure by the Company to remedy the event within 30 days):

- a material reduction in the nature or scope of the executive's duties from those contained in his employment agreement;
- a reduction in his base salary; or
- the relocation of his primary office to a location more than sixty (60) miles away from the current Company offices.

Mr. White's employment agreement also provides that, without the executive's prior written consent, the following additional circumstances (subject to notice being given by the executive and the failure by the Company to remedy the event within 30 days), will qualify as "good reason":

- a material reduction in title (except that the failure of stockholders of the Company to reelect him as director shall not constitute good reason); and
- a material reduction in benefits other than generally due to a reduction in benefits which is generally applicable to all other senior executives of the Company.

The definition of a “change in control” in employment agreements of all the named executive officers generally includes:

- the acquisition by any individual, entity or group of beneficial ownership of 50% or more of the Company’s then outstanding voting stock or of the ability to elect 50% or more of our directors, except in several instances;
- individuals who currently constitute the Board of Directors cease for any reason to constitute at least a majority of the Board of Directors, with several exceptions;
- the consummation of a merger, consolidation or reorganization, unless, in each case, the persons who beneficially own the common stock immediately before that transaction beneficially own, directly or indirectly, immediately after the transaction, at least 75% of the Company’s common stock or the common stock of any other corporation or other entity resulting from or surviving the transaction in substantially the same proportion as their respective ownership of the Company’s common stock immediately before that transaction;
- the stockholders approving a complete liquidation or dissolution of the Company; or
- a sale or other disposition of all or substantially all of the Company’s assets.

Mr. White’s employment agreement provides for certain additional benefits. Mr. White was entitled to certain relocation benefits in connection with his relocation to Houston, Texas, including out-of-pocket and travel expenses for the first 30 days of his employment, rent in an amount not to exceed \$2,000 a month for a period not to exceed 9 months, and up to \$15,000 moving expenses in connection with his permanent relocation. In connection with entering into his employment agreement, the Company also granted Mr. White 20,000 restricted stock units. These restricted stock units generally vest in equal installments over three years.

While Mr. White is not a participant in the Performance Bonus and Retention Plan as described above, Mr. White is entitled to incentive bonus payments under his employment agreement as follows:

- Mr. White is entitled to receive a cash bonus upon the completion of a sale of any of the Company’s power generation facilities, provided that he remains employed by the Company at that time. The amount of the bonus payable to Mr. White in connection with a sale of a power generation facility is determined based on a target bonus amount established and the sale price for that facility.
- Upon the consummation of a “sale of KGen” (as defined in his employment agreement), provided that he remains employed by the Company at that time Mr. White is entitled to receive a specified cash bonus amount (reduced by the aggregate amount of cash bonuses previously received by Mr. White in connection with facility sales) if the proceeds received by the Company’s stockholders in connection with the sale of KGen exceed a specified threshold amount and a significantly smaller cash bonus amount (reduced by the aggregate amount of cash bonuses previously received by Mr. White in connection with facility sales) if the proceeds received by the Company’s stockholders in connection with the sale of KGen do not exceed the specified threshold amount.

Mr. White is generally also entitled to receive these bonuses if his employment is involuntarily terminated after, or within sixty days before, the time a definitive facility sale or definitive agreement for the sale of KGen is entered into by the Company and the related facility sale or change in control is consummated within 24 months of his termination. “Sale of KGen” is defined in the same manner as “change in control” is defined under the Performance Bonus and Retention Plan as described above.

SEVERANCE PAYMENTS MADE TO FORMER EXECUTIVE OFFICERS

The employment of Richard A. McLean, our former Chief Executive Officer and Chief Financial Officer, and K. Daniel East, our Senior Vice President & Treasurer, with the Company was terminated on March 12, 2009 and July 1, 2009, respectively. Each was a party to an employment and severance agreement that provided for termination payments similar to those described above under the section entitled “Employment and Severance Agreements.” In full settlement of the Company’s obligations under these agreements with Messrs. McLean and East, the Company agreed to make cash severance payments equal to each executive’s base salary at the time of termination—\$450,000 for Mr. McLean and \$280,000 for Mr. East—in installment payments over a period of 12 months following termination. Each of Messrs. McLean and East will also receive health benefits for the 12-month period following his termination. In the event that the Company announces a change in control transaction prior to January 1, 2010, and the transaction is subsequently consummated, Mr. East would be entitled to receive certain enhanced severance and health benefits. Under the terms of Messrs. McLean and East’s agreements, all unvested options held by them vested upon their respective terminations. Under the terms of these options, the options will remain exercisable until 12 months following termination.

DIRECTOR COMPENSATION

None of the current directors, with the exception of Mr. Hudson, as described below, receive compensation for their services as directors of the Company. The directors of the Company are, however, reimbursed for out-of-pocket travel expenses incurred in connection with their attendance at Board meetings and other activities on behalf of the Company. Due to his level of responsibility and time committed to Company matters, Mr. Hudson, as the Chairman of the Board, receives \$200,000 annually in director fees as compensation for his services as Chairman. In addition, on May 28, 2008 the Board granted Mr. Hudson stock options to purchase 100,000 shares of common stock of the Company at a price of \$19.50 per share. These options vest one year from the date of grant, or, if sooner, in the event of death, disability, or the occurrence of a “change in control” of the Company. Consistent with prior Company practice, Mr. Hudson was granted 1,321 shares of stock for his service as director prior to May 2008, for which the Company recognized \$20,820 of compensation expense in fiscal year 2008.

AUDIT FEES AND ALL OTHER FEES

The aggregate fees billed for professional services rendered by the Company’s former independent registered public accountants, Ernst & Young LLP, for fiscal years 2008 and 2009 were \$886,362 and \$591,599, respectively.

Audit Fees. The aggregate fees paid to Ernst & Young LLP for its audit of the Company’s annual consolidated financial statements and internal controls over financial reporting, reviews of the quarterly consolidated financial statements included in quarterly reports, annual reports and the offering memorandum, and consultation concerning financial accounting and reporting standards for fiscal years 2008 and 2009 were \$798,332 and \$510,329, respectively.

Tax Fees. The aggregate fees related to professional services rendered for tax compliance fiscal years 2008 and 2009 were \$88,030 and \$81,270, respectively.

All Other Fees. No fees were billed by Ernst & Young LLP during fiscal years 2008 and 2009 other than fees for professional services reported above as audit fees and tax fees.

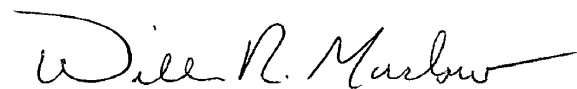
FORWARD LOOKING STATEMENTS

This Proxy Statement contains certain forward-looking statements, made pursuant to applicable securities laws, which involve risks and uncertainties as detailed from time to time in KGen’s disclosure documents, including its Annual Report.

These statements are based on certain assumptions made by KGen based on its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate under the circumstances. Actual results may differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including, but not limited to, the Company's non-investment grade credit rating; the timing and extent of changes in commodity prices, particularly natural gas; the liquidity and competitiveness of wholesale markets for electricity; economic slowdowns and cooler-than-expected weather during our peak operating months that can adversely affect consumption of electricity by businesses and consumers; uncertainties that actual costs may be higher than estimated; uncertainties that actual sources may be lower and actual uses may be higher than estimated; refusal by or inability of our current or potential counterparties or vendors to enter into transactions with us or fulfill their obligations to us; effectiveness of our risk management policies and procedures; our ability to obtain credit or capital in desired amounts and/or on favorable terms; our ability to operate our power plants efficiently, manage capital expenditures and costs tightly, and generate earnings and cash flow from our asset based businesses; the Company's exploration of value-enhancing alternatives; present and possible future claims, litigation and enforcement actions; effects of the application of regulations, including changes in regulations or the interpretation thereof; disruptions in the transmission and distribution of power; availability of fuel and fuel transportation; and catastrophic events such as fires, hurricanes, explosions, floods, lightning strikes, terrorist attacks or other similar occurrences to our facilities or to facilities upon which we depend. Although KGen believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur. For such statements, KGen claims the protection of applicable laws. Forward-looking statements represent the judgment of KGen's management as of the date of this proxy statement and KGen disclaims any intent and does not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required under applicable law.

OTHER STOCKHOLDER MATTERS

The Board of Directors knows of no other matters to be submitted at the Annual Meeting. If, however, any other business should properly come before the Annual Meeting, the persons named in the accompanying proxy will vote proxies as in their discretion they may deem appropriate, unless they are directed by proxy to do otherwise.



Secretary

November 11, 2009